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OPENING ADDRESS
BY MINISTER FOR FINANCE & CHAIRMAN MAS, DR RICHARD HU
AT THE OPENING CEREMONY
OF THE 13TH ASEAN INSURANCE COMMISSIONERS' MEETING
ON TUESDAY, 13 OCTOBER 1987 AT 10.30 AM
AT THE ORIENTAL HOTEL

It gives me great pleasure to be here this morning to officiate the opening of the 13th Meeting of the ASEAN Insurance Commissioners. Let me extend a warm welcome to the ASEAN Insurance Commissioners and members of their respective delegations to Singapore. I would also like to extend a warm welcome to members of the ASEAN Insurance Council who, I understand, are also holding their meeting in Singapore.

In today's highly interdependent world, one can hardly afford not to follow world developments. A global perspective has become a necessity. For my address this morning, I would, therefore, like to give a brief overview of the world economic environment, before proceeding to cover the ASEAN economy and Asean insurance cooperation.

World Economic Environment Slowing Down in World Growth

Economic growth has become increasingly difficult to achieve. In fact, in the last decade or so, world economic growth has declined. The average annual rate of growth was 3.9 per cent for the period 1976-80 but only 2.7 per cent for 1981-85.

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Substantial developments in the international economic and financial situation in 1986 and the early part of this year affected the momentum of growth. Positive developments for growth include the progress made in controlling inflation, rapid growth in many non-oil exporting developing countries, further decline in interest rates, new measures taken to coordinate the macro-economic policies of the key developed countries and to reach an acceptable pattern of exchange rates of key currencies which better reflect economic fundamentals. However, these were offset by slower growth in the developed countries, further decline in real commodity prices, widening of current account balances, growing protectionist pressures and measures, and further deterioration of the external financial situation of many developing countries.

The net result of these developments was a weakening of the momentum for growth in 1986. World output was down marginally, growing by 3.25 per cent. It was a mixed performance. The developed countries had a slower growth of 2.75 per cent, down from 3.25 per cent in 1985. The developing countries' growth was slightly higher at 4.0 per cent, but with divergent results between countries. Whereas the oil-exporting developing countries experienced a negative growth of 0.1 per cent, this was in sharp contrast to the strong and higher growth of 5.3 per cent attained by the larger non-oil exporting countries in Asia. This confirms yet again the widely-held view that the Asia-Pacific region offers the highest potential of growth for the future.

Outlook for Growth

The short-term outlook for world growth is clouded with uncertainties, and I do not propose to do any crystal-ball gazing. It is clear, however, that actual performance will depend heavily on the resolution and the

speed of resolution of a number of basic problems besetting the world economy today. These include the serious external imbalances in trade and balances of payments, the international debt crisis, the instability and uncertainty of the exchange rates of key currencies, high unemployment rates in many developed and developing countries, and the rising protectionism in international trade. I would like to highlight the first two problems: external imbalances and the international debt crisis.

External Imbalances and Threat of Protectionism

Uncoordinated fiscal and monetary policies of the key developed countries in 1980s have led to a widening of their current account imbalances. These have deteriorated to unsustainable amounts despite the sharp currency realignments undertaken since 1985. By 1986, the US current account deficit had worsened to an enormous US\$141.4 billion from US\$8.7 billion in 1982. On the other hand, Japan's current account surplus improved to US\$35.8 billion from US\$6.9 billion, and Germany's surplus to US\$35.4 billion from US\$4.1 billion, over the same period.

The obvious solution to the problem of persistent external imbalances looks simple enough: the US should take firm action to reduce its huge budget deficit, while Japan and Germany should reflate their economies by increasing domestic demand and importing more without igniting inflation. However, in practice, this requires political courage on the part of governments who have to seek re-elections once every four or five years. Such governments are inherently reluctant to take harsh but necessary economic measures like cutting the budget. Nevertheless, in this instance, the key developed countries have taken steps to enhance the coordination of their economic policies so as to reduce the imbalances and promote

a more sustainable pattern of growth. These are reflected in the Plaza Accord of 1985, the Tokyo Economic Declaration of 1986 and, more recently, the Louvre Accord of 1987. It is essential that all the countries concerned be fully committed to achieving the goals of these accords.

The greatest risk posed by the external imbalances is the temptation for the governments concerned to adopt a myopic view and resort to trade protectionism. If this came about, it would be disastrous for world trade and growth. Any protectionistic approach is bound to invite retaliation from other countries. It will certainly encourage heavily-indebted countries to suspend their loan servicings since their efforts to improve their foreign exchange earnings through increased exports will be hampered and their ability to service their debts undermined. A vicious cycle of slower growth, more protectionism, greater retaliation and yet slower growth could be set in motion. It is therefore important to recognize that protectionism is only a symptom of slow growth and not a cure for it.

International Debt Crisis

The international debt crisis broke out in 1982 when Mexico declared its inability to service its debt. Total Third World debt then was US\$349 billion. By 1986, it has increased by about 30 per cent to US\$1,100 billion, representing 169 per cent of exports of goods and services. For countries with recent debt-servicing problems, this debt-exports ratio was even higher at 301 per cent. For such countries, the interest servicings and principal repayments have become a heavy strain on their foreign exchange earnings. Their debt service ratio has increased to 42 per cent. Moreover, a drastic change in capital flows has occurred. Private capital flows to capital-importing developing countries, which used to be their major source of

finance, is drying up. From US\$37 billion in 1981, such capital flows have decreased to only US\$10 billion in 1986. Many debtor countries are now faced with a net outflow of capital resources.

Five years have elapsed since the debt crisis broke out but the problem is far from being resolved. Many solutions have been proposed and a few tried. The main method used so far is the case-by-case approach under which loan reschedulings and new lendings are negotiated and agreed coupled with an IMF adjustment programme for the debtor country. More recent methods suggested include the 1985 Baker Plan and debt-to-equity swaps. The Baker plan focussed on growth rather than austerity measures and called for increased new lendings from official sources and commercial banks to promote growth and improve the debtor country's ability to repay. However, it has not received wide support. In this year's IMF/World Bank Meeting in Washington, the US Treasury Secretary, Mr James Baker again called for a new initiative to solve the debt problem. His latest proposal calls for a facility to compensate debtor countries for falling commodity prices, low exports, natural disasters or prolonged high interest rates.

The risk posed by the international debt crisis is the serious disruptions it could cause to the international trading and financial systems. Such disruptions would have dire consequences for the world economy. Both the debtor and creditor countries should appreciate the seriousness of the problem and cooperate in seeking new ways to resolve it on a permanent basis.

The Asean Economies

The Asean economies achieved good growth in the 1970s, averaging about seven per cent a year. It benefited from a rapid expansion of world trade under an open international trading system and the oil booms of the

1970s. However, conditions have proved more difficult in recent years with the slowing down in world trade and output. Oil and commodity prices were depressed by the sluggish growth in the key developed countries. Strong protectionist sentiments were growing in US and Europe. As a result of such developments, Asean's average growth rate declined to four per cent between 1980 to 1985. Most Asean countries suffered a recession in 1985 with the Asean economy as a whole growing by only 0.5 per cent. 1986 was not much better except for Thailand and Brunei. However, prospects for this year have improved.

Asean Economic Cooperation

The formation of Asean in 1967 has brought about the political stability necessary for the economic development of the Asean members. Asean economic cooperation has been slow but steady. The challenge now is to find new ways and means for greater cooperation. As you may be aware, the Asean Economic Ministers have met this year in Singapore to discuss and recommend new initiatives for Asean economic cooperation. Their proposals will be submitted to the Summit of the Asean Heads of State in December in Manila.

Closer economic cooperation among Asean members should produce a more cohesive Asean and help enhance social and political stability in the region. This will make Asean a more attractive region for attracting a greater flow of investments and technology from the developed countries. Also, in an increasingly hostile economic environment, it is important and necessary that Asean take a united stand on international issues affecting the interest of its members. For example, they would want to support and set an example of an open and fair trading system. And they would want to join forces in protesting against any protectionist moves by the developed countries.

Asean Cooperation in Insurance

The Asean Insurance Commissioners have been meeting annually since 1975. Such meetings have provided a useful forum for them to exchange views and ideas on matters of regulatory concern as well as on insurance market development. The meetings have helped foster close ties between the Asean insurance supervisors and facilitated Asean insurance cooperation, including a strong desire to see a greater exchange of insurance business within Asean. Projects which have been put in place include the Asean Unified Forms of Insurance Statistics, the Mortality Studies of Assured Lives, and the Training Program for Insurance Officials.

I am happy to note the close rapport which has developed between the insurance supervisory authorities and the insurance industries in Asean which is reflected in the holding of a joint session in the Annual Meetings of the Asean Insurance Commissioners. This rapport is essential as the private sector has a key role to play in our efforts to promote greater Asean insurance cooperation.

Insurance Development and Growth Potential

Although the Asean insurance markets have achieved creditable growth over the last decade or so in line with general economic growth, the market size is still quite small. Total Asean insurance premiums in 1985 was only US\$2.8 billion or 0.5 per cent of total world insurance premiums. The Asean insurance industry is also at a relatively early stage of development with a low level of insurance coverage. For example, for life insurance, the ratio of sums insured in force to GNP for Asean in 1985 was only 19 per cent. This was far below Japan's 280 per cent, US's 150 per cent and UK's 110 per cent. The same is true of general insurance. The ratio of general insurance

premiums to GNP for Asean in 1985 was 0.9 per cent, compared to five per cent for US, three per cent for UK and two per cent for Japan. There is therefore great potential for further growth. This, together with the need for reinsurance covers offer good opportunities for greater cooperation among the Asean insurance markets.

Market Development and Supervision

To facilitate this, continuous efforts must be made to promote the sound development of the Asean insurance markets. The insurers must be adequately capitalized so as to provide good security. They must be properly managed by people of integrity with suitable experience and qualifications, ie. by professional managers. A prudent underwriting policy has to be pursued to ensure that the insurance products are adequately priced. Claims should be settled fairly and expeditiously. A crucial factor for successful development will be the quality of the people working in the insurance industry. Thus the need to invest in the education and training of the insurance personnel. To ensure that the interests of policyholders are fully protected, insurance supervision must be backed by effective insurance legislation.

Asean Reinsurance Pool

On Asean cooperation in the field of insurance, I am pleased to learn that a significant first step has, in fact, been taken when the Asean Reinsurance Pool was formed in 1982 with the encouragement of the Asean Insurance Commissioners and the Asean Insurance Council. The premium size involved is still not large, about US\$2.5m in 1986. However, the experiment has not only shown that Asean cooperation in insurance is a viable proposition, but has also been profitable to the participating insurers.

Proposed Asean Re Corporation

The meeting of the Asean Economic Ministers in Manila in 1986 called for new initiatives for Asean economic cooperation. I would like to commend the Asean Insurance Commissioners and the Asean Insurance Council for their quick response to the Economic Ministers' call and their decision to form the Asean Reinsurance Corporation. The formation of the Asean Reinsurance Corporation will represent a significant step forward for Asean cooperation in insurance. I hope that this will act as a catalyst for other forms of business exchange to take place among the Asean insurance markets. Other areas of cooperation should also be explored, such as the training and education of insurance personnel. Collectively, I am sure that there is much which the Asean insurers can cooperate and learn from each other's experience.

On this note, I would like to wish the Asean Insurance Commissioners success in their meeting. It is now my pleasure to declare open the Thirteenth Meeting of the Asean Insurance Commissioners.
