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ÉTUDES TECHNIQUES

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In part one, we provide and comment data which indicate the recent evolution of the amount of saving forwarded through the insurance market to stress the importance of insurance companies in quantitative terms. Next, in part two, we propose a brief synthesis of the main changes which affect the organization of financial markets and the role of the various actors to figure out and stress further the role of the insurance companies.

Part one - Financial intermediation: insurance companies as major players

Insurance companies play an important role in collecting savings and financing the economy. Moreover, the evolution over the past few years of premiums collected indicates clearly that the proportion of funds forwarded through the insurance business is growing regularly.

The ten countries listed in Table 1 above represent about 50% of all premiums collected on OECD insurance markets; they are ranked according to the amount collected in 1990. As recorded in the last column, the progression per year in OECD for the period 1983 to 1990 is an average of 17.7%, much higher than the GNP rate of growth for the same period. Provided the proportion of savings included in premiums has not decreased[1], we can conclude that

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TABLE 1
GROSS PREMIUMS (MILLIONS OF US $) COLLECTED (1990) AND THEIR PROGRESSION

COUNTRY	LIFE	NON LIFE	TOTAL	PROGRESSION*
États-Unis	227,668	345,818	573,486	14.06%
Japon	188,679	69,624	258,303	20.81%
Royaume-Uni	60,712	40,885	101,597	17.21%
Allemagne	37,360	53,827	91,187	13.07%
France	38,384	40,005	78,389	17.42%
Italie	8,881	24,226	33,107	19.18%
Canada*	15,189	17,255	32,444	9.26%
Suisse	11,363	15,950	27,313	12.96%
Pays Bas	11,770	10,940	22,710	15.44%
Australie*	14,752	6,518	21,270	16.21%
Total OCDE*	1,320,944	673,653	1,994,597	17.73%

*: rate of progression per year, average for the period 1983-1990 (1984-1990 for the countries indicated with *).

Source: Insurance Statistics Yearbook, OECD 1993

the amount of savings collected by insurers and forwarded to the economy has followed the same trend which reveals their growing contribution. Table 2 hereafter shows the evolution of insurance penetration defined as the ratio of total premiums to GNP for each country. The progression of this indicator shows that the contribution of insurance is also increasing in relative terms.

In OECD the penetration ratio has increased by 1.96 over the period considered to stand at 7.76 in 1990. This global evolution hides, however, differences between countries. Countries generally considered as leading places, as far as financial intermediation is concerned, such as United States, United Kingdom and Japan display a higher penetration ratio in 1990 which corresponds to a sharp progression (over 3 points).

Even though the weight of insurance companies in the financing of the economy is still relatively modest, as compared to the weight of debt financing by banks and corporate saving, the evolution described above should however persist and lead to a situation where insurers will stand among the major players, as it is the case

TABLE 2
INSURANCE PENETRATION IN OCDE

COUNTRY	LIFE 1983	LIFE 1990	NON LIFE 1983	NON LIFE 1990	TOTAL 1983	TOTAL 1990	TOTAL variation
United States	3.55	3.96	3.25	6.41	6.8	10.37	3.57
Japan	4.08	6.38	1.38	2.14	5.46	8.52	3.06
U.Kingdom	3.7	6.23	3.57	4.19	7.27	10.42	3.15
Germany	2.05	2.3	3.4	3.47	5.45	5.77	0.32
France	1.13	3.1	2.9	2.82	4.03	5.92	1.89
Italy	0.24	0.66	1.65	1.95	1.89	2.61	0.72
Canada	2.03	2.58	2.86	2.23	4.89	4.81	-0.08
Switzerland	3.45	4.55	3.31	3.6	6.76	8.15	1.39
Netherland	2.46	4.03	2.99	3.33	5.45	7.36	1.91
Australia	2.11	5.02	2.23	1.96	4.34	6.98	2.64
OECD	3.06	3.84	2.74	3.92	5.8	7.76	1.96

Source: Insurance Statistics Yearbook. OECD 1993

already today in the mentioned-above leading countries. Moreover, if we focus on household saving, the amount tapped through the sale of insurance contracts represents as much as 50% of the total investment from households in most developed countries[2]. This is mainly due to the demographic trend and the related retirement issue which incite to save through an insurance scheme.

The above observations mostly refer to the Western world, Australia and Japan excepted, and we have not provided any comments concerning the emerging South-East Asian insurance markets. According to recent figures presented at the first ASEAN[3] Insurance Congress in Bangkok, in June 1994, insurance premiums are currently growing at a rate of around 20%, with much higher figures for certain lines of business. Considering various positive factors in this region, such as the introduction of compsulsory motor insurance, the emergence of more rigorous and severe liability systems, and the spectacular development of life insurance, the actual above-mentioned rate of growth is expected to increase. It is predicted that this region will catch up rapidly and, considering the saving-investment gap, that insurance companies will play an active role on the emerging Asian financial markets.

From the figures indicated and commented above, it is clear that thc role of insurance companies is far from negligible and has been progressively taking more importance. The reasons for this are well-known, higher severity of risks and more security demanded, development of private retirement and health care insurance schemes, leading to an increase of insurance expenditures which also means more precautionary saving. Considering these factors we can reasonably expect a continuation of the trend, and therefore a further reinforcement of the weight of insurance. However, a quantitative analysis is too restrictive, for some years we observe a redistribution of roles among financial institutions due to various reorganisations and deregulations which aim at more efficiency and a better adequacy between demand and supply of funds. A rapid analysis of the main characteristics of this evolution reinforces the previous observation as to the role of insurance.

Part two - Corporate funding: a new deal

Need for external funding

In quantitative terms, the need for external funds has increased significantly under the pressure of various elements which primarily relate to a more vigorous and effective competition resulting itself from market deregulation and growing international trade.

First, as a most expected direct consequence of competition, profit margins have been reduced and, with it, the cash available to self finance investment. Second, to enhance or just maintain their competitive advantage, companies have been obliged to embark in expensive investment programs. Not only companies had to follow the technological trend, which means acquiring new equipments as well as initiating R&D programs, but also the spectacular increase in the number of strategic alliances, cross border mergers and acquisitions, and other forms of direct foreign investment reveal their concern to assert a global presence, and serve the customer wherever he is.

A lower capacity to generate funds together with growing needs lead necessarily to a search for external funding. However, fundamental balances must be maintained with respect to financial othodoxy, and a qualitative analysis indicates clearly the trend as to the conditions under which external funds can be raised.

Risks must be shared

In the past, companies have been using credit extensively to finance their growth and benefit from a financial leverage. Anticipations were optimistic and negative real interest rates did prevail. Obviously, the situation has changed. The expected benefits from large investment programs are no longer perceived as so secure, moreover monetarist policies, which have been successfully implemented to stop inflation, have also resulted in high positive real interest rates. Today, despite all kind of pressures to have them down, these rates resist and remain significantly high even though inflation is no longer considered as a curse in most of OCDE countries. Anticipated returns unsafe associated with high interest rates both prohibit firms from increasing their debt equity ratio and further benefit from the leverage effect. As a consequence, the financial system tends to shift from a situation where credit is the main source of funding towards a new kind of organization through which business risks can be shared among various institutions. In this context, also considering recent misadventures occured in the banking community due to bad debts, which justify the strengthening of professional safety regulation (cook ratio) and tend to restrict credit activity, most banks are adapting their strategy. Providing a service, not just funds, is now a priority, and this justifies alliances and cooperation with those institutions, such as insurance companies, which can contribute to meet the funding needs of corporations.

The securitization process

In order to reduce the cost of funds, and as a consequence of a series of financial innovations, large companies tend now to raise funds directly from the financial markets. They issue all kind of securities to obtain liquidities instead of borrowing from banks. This again is a strong incentive for banks to move forward, since securitization obviously reduces their core market. But it also gives more weight to institutions, insurance firms and the like, which collect savings and directly supply liquidity on the market. Therefore, progressively the securitization process establishes a closer relationship between insurance companies and issuers. In some cases the insurance company even appears among the list of major shareholders so that a clear partnership exists. Considering the growth of the amount of savings which is forwarded through the insurance business (see table 1), there is no doubt that this kind of situation where insurers belong to the majority group of shareholders is likely to become a rule.

Notes

1 The total premium is composed of a saving part, the " pure premium ", held by the insurance company assigned to future compensation, and a loading to cover operating

expenses, commissions and taxes. Considering the increase in productivity obtained in the insurance business the proportion allocated to saving has most likely been increased.

2 It is difficult to indicate precise figures which could be used for comparison between countries because of differences in national accounting systems. As an indication, in France insurance is the leading financial investment of households with 58.7 % of their receivables in 1992.

3 Association of South East Asian Nations, including Brunei, Malaysia, Philipines, Singapore and Thailand.