TRENDS TOWARDS CONSOLIDATION OF GLOBAL AND LOCAL INSURERS IN THAILAND

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Abstract

The government of Thailand seems to be committed to full insurance liberalisation. This prospect is a stimulus to local insurers to reach international standards while they are still under the shield of a protected market. Full liberalisation is at least five years ahead, so the protective shield does allow time. But that is an illusion. The prospect of a liberalised market has already effected Thailand, and global insurers already have a strong presence.

Asia, including Thailand, is an attractive market for North American and European insurers. These insurers are consolidating in their homelands, to become global giants with sufficient capacity to underwrite the enormous risks produced by the complexity of modern life and the size of their global customers. Their Thai subsidiaries have also consolidated.

This increases the competition for local smaller insurers, still reeling from the consequences of the1997 economic collapse, and anxious about surviving liberalisation and the greater competition from consolidated foreign insurers. They therefore are also being proactive in seeking partners through a variety of means, including mergers, strategic alliances and joint ventures.

Many local insurers want to make an arrangement now whilst the umbrella of a protected market gives them some bargaining power. Interestingly, the least preferred choice of local insurers is consolidation: they would rather find a bank partner or a foreign partner. The reason is that these local insurers are family-owned firms. Thus consolidation among local insurers in Thailand is not happening, a similar experience to that in Malaysia and Singapore.

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Introduction

The effects of the economic crash which so troubled East Asia in 1997, are still felt. Income and assets were hard hit, and capitalisation became inadequate. Thailand is no longer in recession or reliant on IMF funding, but there are gloomy economic forecasts, partly due to the fear about the economy of the USA. There is also the turbulence in world markets because of rapid developments in information technology, which is compounded by the spread of liberalisation, these two forces producing rapid globalisation. Insurance is as affected as other goods and services, indirectly through globalisation of insurance customers, and directly through the removal of barriers to the ownership of insurance organisations.

In Thailand, the combination of the impact 1997, and liberalisation, has produced a rearrangement of the insurance market, through mergers or partnerships with other foreign insurers or with other financial institutions such as banks. This is also a reflection of the consolidation process which has been such a growing feature of Europe and North America for the past decade. Many Thai insurers have been actively seeking and finding partners to enable them to cope not only with their 1997 injuries and the increased competition which was caused by that, but also the challenge of even greater competition caused by the prospect of further liberalisation and the consolidation of insurers in Europe and USA who seek a greater share of the Thai insurance market.

The Consequences of the 1997 Economic Crash

After a decade of high economic growth, poor fundamentals combined with a current account deficit plunged the Thai economy into recession (Lokaphadhana, 2000). Thailand fell from being the fifth Asian tiger, and until June 2000 became subservient to IMF policies. The effect on insurers was drastic, with decreased income and liquidity, and asset depreciation.

Since then, because of inadequate capital capacity, most Thai insurers pass on the bulk, if not all their risks, to reinsurers (Kind, 2000). It is true that life insurance in Thailand has seen big growth in the last three years - because the consumer's rate of return from any other investment is abysmal, but general insurers are growing slowly, with many adverse prophecies for 2001. Insurers also face great pressures, because of fiercer market competition, an accelerating pace of consolidation, and unprecedented level of product innovation (Schanz, 2000).

The President of the General Insurance Association (GIA) has stated that the general insurance industry in Thailand needed at least 2 billion Baht to improve liquidity (Kind, 2000). Some insurers are alarmingly under-capitalised (as low as US$250,000). The Department of Insurance (part of the Ministry of Commerce) has proposed that a bill be introduced into parliament to correct the anomalous situation whereby any

increase in solvency requirements or capitalisation affects only insurers established after such an increase. The bill would make increases apply to all insurers, old and new.

In addition to the new capitalisation limit, the Department of Insurance will also outline incentives, including tax exemptions, to encourage mergers (Asia Insurance Review, January 2001, p24). However, the new limit is considered by some to be too low, as Life insurers need a minimum double that which the present law requires (Bangkok Post, 6 June 2001). This need for more capital is compounded by the competitive threat of liberalisation.

The Force of Liberalisation

It was only in 1997 that a World Trade Agreement was concluded on the liberalisation of insurance (by countries representing 95% of global trade in banking and insurance). This agreement was both an acknowledgement that much opening up of insurance markets had already occurred, and a spur to further liberalisation.

Insurance liberalisation is driven by 'push and pull' factors (Sigma, 2000). The 'push' comes from foreign insurers, who need to be where their international customers are; who seek growth in emerging economies as an alternative to saturated markets in industrialised countries; and who can achieve gains in efficiency through economies of scale. The 'pull' is from emerging economies, who need wider cover for new products and trade, need more capital to fund growth and meet solvency requirements, and need greater skills. Such countries often fear that liberalisation will result in foreigners dominating their domestic markets and will promote a greater foreign exchange outflow. This fear promotes the feeling that the insurance industry should remain locally owned for strategic reasons, and that some restrictions are necessary for consumer protection and to allow local insurers to develop.

Foreign insurers usually are most successful in the more complex insurance lines. Their typically large size, geographic spread of risk, in-depth knowledge of complex risks, and management efficiency have enabled them to compete successfully with local firms. With important exceptions, domestic firms dominate the less complex personal lines and life insurance. The main reason for this situation relates to high information and distribution costs associated with mass risks and restrictive regulations (Skipper, 1998). "Local insurers with a clear strategic focus should have a good chance of survival despite competition from foreign providers (Sigma, 2000, p45).

Local insurers must change to survive the challenge of liberalisation. The greatest degree of change is needed from those local insurers whose good results were produced without great effort in protected markets (Bugl,1996). Liberalisation "will result in mergers, acquisitions and some failures. Modern pricing, reserving, underwriting, marketing, and management techniques must be incorporated into opera-

tions in record time if existing insurers have any hope of competing successfully with new entrants" (Grace and Skipper, 1998, p124).

Liberalisation is sometimes seen as a plot by the developed nations to become even richer at the expense of the ill-prepared developing nations (Guyatt, 2001). "Asian insurers could be forgiven for thinking that US and European companies just want to conquer the world" (Whitear, 2001, p40). Kind (2000) calls it 'economic colonialism'.

The Liberalisation of Insurance in Thailand

The insurance sector in Thailand is being progressively liberalised. Possibly happening in 2001, the maximum permitted foreign ownership of a Thai insurer will be increased from 25% to 49%. Then, perhaps five years thereafter, the foreign ownership limit would be entirely removed: full liberalisation. Thailand's closed insurance market needs opening up to stop it remaining a lifelong infant: there is a compelling need to liberalise her insurance industry for her own good (Thanavaranit, 1998).

Not all are agreed on the speed of liberalisation (Lawrence, 2001). The Council of the 25th Asean Insurance Council Meeting, in 1999, stated that the pace of liberalisation was too fast. It needed to be gradual, slow, and steady, as domestic insurers needed more time to educate themselves on what it entailed (Asia Insurance Review, November 1999). This is not new: the same plea for more time was expressed at the 1994 Cairo Conference, and the 1986 Conference (de Castro, 1998).

Both the Life Assurance Association and the General Insurance Association of Thailand have called for delays in liberalisation. In June 2000 a meeting of the Thai General Insurance Association discussed how to cope with the greater competition which would result from liberalisation. The President said that in the early stages large Thai insurers could survive, but smaller companies must sharpen their competitive edge to survive (Srimalee (b), 2000). Meanwhile, the forces of globalisation roll on, one impetus being the consolidation of foreign insurers.

Worlwide Consolidation of Insurers

Mergers and takeovers have been affecting many insurers in Europe and North America. In the UK, for example, foreign invaders from France, Germany and Switzerland have been acquisitively buying more than half a dozen long-established companies. British insurers in defence merged with each other. Insurance consolidation has been happening on a large scale since the mid-90s due to the huge excess insurance capacity and falling demand for insurance protection because of alternative means of risk financing (Tay, 1997). Would-be world leaders in global insurance markets want to increase their capacity so as to take on the vast new huge risks

produced by modern technology and the mega-mergers among manufacturers in many industries.

This surge of Western consolidation, which also affected local subsidiaries in other countries, means that, "Consolidation and globalisation are coming together in the insurance industry"(Kulk,1998,p10). The consequences of this concentration process will be the evolution of a few large global players with worldwide portfolios, but also niche players in a regional, local or product sense. But the niches will constantly evolve and these players will face direct competitive pressure from the large international insurers who will also seek to be niche players across a wide range of niches (Kulk, 1998). The high level of consolidation, linked to globalisation, has led to a decrease by 10% in the last couple of years of insurance groups operating worldwide. One prediction is that the global market will be dominated by 8 to 10 insurers. These giants should be able to reap the benefits of economies of scale, and thus have relatively low costs.

There is pressure for consolidation in other countries because of the greater competition from the new giants. Swiss Re attributes the accelerating trend of consolidation in Asia to six driving forces: highly fragmented markets, vulnerable balance sheets, domestic insurers seeking to cope with the entry of foreign insurers, persuasion by some governments, the restructuring of family conglomerates, and the improvement in financial law (Sigma, 1999). More mergers and acquisitions, particularly in Asia, means that survival is a real issue, especially for mid-sized, undifferentiated regional players (Campbell, 2001).

Thai Consolidation and Globalisation

How is Thailand responding to the globalising forces of liberalisation and consolidation? The financial crisis of 1997 put a temporary stop to economic expansion in Thailand, and thus directly affected the premium income and asset values of Thai insurers. But this gave an impetus to globalisation because of the bargain prices of local companies. Many international insurers have long been present in Thailand, although with minority stakes because of the limits on foreign ownership, but the number is growing.

Many local Thai insurers have made, or are seeking, an arrangement with others (e.g. a strategic alliance or joint venture), whilst the protective umbrella gives them some bargaining power. This is a good proactive stance, rather than waiting to face the full competitive force of giants with fat purses, refined technology, superb systems, competent staff, vast experience in many countries, and a genuine dedication to quality service.

As in many Asian countries, family owned-and-managed insurance businesses are common in Thailand. They are finding it increasingly difficult to compete. A report

by Anderson Consulting in 2000 concluded their hierarchical systems will not be able to cope and they are reluctant to employ professional managers or empower employees, and they will quickly be supplanted by Western firms.(Phuanganok, 2000). The basis of this reluctance is probably cultural lack of trust, as fully described by Fukayama (1995).

The Thai insurance market is overcrowded, and with the economy still in trouble, "Conditions are ripe for experienced international operators to pick Thai partners with which to infiltrate the market. It will be survival of the fittest, with the big companies surviving because of their capital, underwriting skills and management" (Kind, 2000). There are 101 insurers now, and the market can really only justify 25.

Since the 1997 economic crisis, Thai life insurers have been looking for foreign strategic partners, to strengthen their financial and skills base, and to cope with increased competition in a national market which has huge potential for growth. They need information technology, marketing strategies, financial support, new products and networks.

A proposed bill to increase the capitalisation of insurers would have the effect of forcing weaker smaller insurers to seek mergers, encouraging family businesses to join forces with foreign partners, thus helping to consolidate a fragmented market (Soo, 2001). The Insurance Commissioner considers that the present number of 76 general insurers is too many, and that 30-35 would suffice (Bangkok Post, 2 June 2001).

The Deputy Minister of Commerce said in 2000 that Thai insurers needed to strengthen their competitiveness in order to survive liberalisation, and that Thai insurers were lagging behind in terms of information technology, financial resources, and human resource development. They must improve their efficiency, by increasing customer satisfaction, issuing new products, improving operational management skills, and developing human resource management (Pongvuttitham and Phuangkanok, 2000).

There is an exception to the need to find a partner, and this is because of a curious anomaly affecting American insurers in Thailand. Under the *Treaty of Amity and Economic Relations,* qualifying US firms are given the same advantages and legal flexibility as Thai firms. AIA in Thailand is thus allowed 100% American ownership: it has a 45% share of the life market. The *Alien Business Operations Act*, effective since March 2000, with tougher regulations on foreign businesses, specifically excludes these US firms, who thus continue to enjoy the *Treaty* privileges (Doyle, 2000).

Another exception is the biggest Thai-owned life insurer, *Thai Life.* It has launched a marketing concept which appeals to the Thai's sense of nationalism in a bid to surpass the foreign competition from Thailand's biggest life insurer AIA. *Thai Life* is family-owned, has an 18% share of the market, and is determined to remain independent (Srimalee, 2000a).

Insurers in Thailand With Foreign Partners

The list below shows Thai insurers with foreign partners, followed by comments on some of these partnerships. The actual shareholding percentage held by the foreign partner is not shown, because the published figures are not reliable. The present limit is 25%, but many foreign investors obtain majority control through the additional shares of nominees. Some insurers are still in seeking partners, or are involved in confidential negotiations. (There are other forms of partnerships, e.g. with local banks, but these are not within the topic of this paper).

The foreign partners are from USA, Europe, and from Australia, Japan and Singapore. China is represented, and this can only be the first of many more from this huge country whose gigantic potential financial strength will increasingly be felt in East Asia. What is noticeable is the great reluctance of Thai-owned insurers to merge among themselves, to consolidate. They prefer foreign partners. This is mainly due to them being family-owned firms, the family often owning a wider conglomerate. Family pride prefers the relative anonymity of foreign public companies if extra capital and other assets are needed, to the inevitable internal competition which would ensue if two family insurers merged.

Foreign Shareholders in Thai Insurance Companies

Company	Foreign Partner	
General Insurers		
Advance MLC	MLC, Australia	
AXA Insurance	AXA,	France
Bangkok	Deutsche Bank	Germany
Blue Cross	BUPA	UK
Buthadam	(negotiating)	
China	Chinese investors	China
CGU	CGNU	UK
Chubb	Chubb	USA
Guardian	AXA	France
Kamolsukosol	Mitsui	Japan
Muang Thai	Swiss Re	Switzerland
Nam Seng	HIH (in liquidation)	Australia
Narai International	Liberty	USA
Osotspa	Aetna	Italy
QBE	QBE	Australia
Royal Sun Alliance	Royal Sun Alliance	UK
Safety	NRMA	Australia
Southeast Asia	Asia	Singapore
Sri Muang	Tokyo Marine	Japan
Synmunkong	Globe	UK
Thai Prasit	Gainright Investments	
Thai Zurich	Zurich	Switzerland
Thai Yasuda	Yasuda	Japan
Universal	CV Starr	USA
Wilson	Sumitomo	Japan

Life Insurers		
Advance MLC	MLC	Australia
Aetna Osotspa	Aetna	Italy
Allianz CP	Allianz	Germany
Ayudhya CMG	CMG	Australia
CGU	CGNU	UK
Interlife John Hancock	John Hancock	USA
Krungthai AXA	AXA	France
Muang Thai	Swiss Re	Switzerland
National Zurich	Zurich	Switzerland
Prudential TS	Prudential	UK
Siam Commercial New York	New York Life	USA
Siam Samsung	Samsung	Japan
SouthEast Asia	Asia Life	Singapore
Thai Charoen	Tokio Marine Life	Japan
Thai Prasit Nationwide	Nationwide	USA
Wall Street Life	ACE Asia Pacific	Singapore

Several smaller insurers needed partners to strengthen their finances. New operators needed foreign expertise readily offered by international insurers seeking a presence in Thailand (Keeratipipatpong, 2000). The merger between CP Group (Thai) and Allianz (Germany) is seen as a good example. After running its new firm for two years, CP realised that it needed more expertise, and because of the dramatic potential of life insurance in Thailand sought a partner who could enable it to make a big jump.

Thai Prasit Life is similar, in that it needed financial and technical expertise, saw economic nationalism as outdated, and found a partner in Nationwide Inc of USA. Thai Prasit's concern was that Thai staff continued to run the business, especially at managerial level, as a life business needs those who truly know local people and culture. This view was confirmed by Thai Life who said that some liaisons had failed because the foreign incomers lacked information about Thai consumer preferences. Also, foreign partners should be prepared to face high initial operating costs, and take three to five years to establish the business (Keeratipipatpong, 2000).

The American president of Siam Commercial New York Life, said that the entry of more big foreign players would give customers more options and stimulate the market, as only 11% of the population of 69 million had life insurance (80% in Japan, 70% in Hong Kong). The company would be able to exploit the synergy of the Thai and American partners One focus would be on individual life products, and the US sales system would be applied. (Keeratipipatpong, 2000).

Muang ThaiLife, allied with Swiss Re, sought this strategic partner to help it introduce new technology and develop new electronic distribution channels for new products, and to develop human resources (Asia Insurance Review, July 2000).

Southeast Life's new partner in 2001 is Singapore-based Asia Life. Southeast Life had financial difficulties because of non-performing residential loans. It also welcomed Asia Life for its expertise and knowledge in financial and investment advisory services (The Nation, 6 April 2001).

The President of Ayudya CMG describes his approach: "We learned early in the hard way that imposing international standards on everything can be self-defeating", and the company prides itself on its integration of international and Thai management styles (Kind, 2000). Another company, CGU, sees itself as a Thai company with international management practices supplied under contract, gaining a lot of expertise and other support from being part of an international network, with Thai nationals running the company to international standards (Kind, 2000).

This issue was discussed at a roundtable meeting of CEOs (Asia Insurance Review, January 2001). QBE of Australia express it: "We look for the critical traits in the business leaders we choose, and leave it to them to locally develop the core principles that work for us" (p35). Although accepting that every country is unique, a different view on localisation was expressed by NMG Financial Services Consultants: " Very few insurers in Asia carry out consumer research on the scale required to understand and market to this uniqueness, and regardless of the unique nature of every country, most practices do travel extremely well, with a little customisation" (p38). AIG was compelled to change its strategy in Hong Kong because of the local knowledge of its local staff. Allianz strives to be an international company, "not a German insurer replicating its operations around the world with the same culture" (p35). Sun Alliance distinguish between commercial lines which are already global, and personal lines, where "globalisation is using local knowledge and capabilities to see how they can be modified to meet local demands" (p39). Interestingly, the General Manager for Asia of Manulife said that foreign companies coming into Asian markets make the mistake of either adapting too much or not adapting enough.

Royal Sun Alliance, which has long had a presence in Asia and Thailand, uses its international links to advantage, for "we have a tremendous culture of knowledge sharing across the world" (Royal Sun Alliance, 2000, p9). It achieves this knowledge sharing mainly through a sophisticated set of intranets, so that if a product or service is developed in one part of the world, everyone else in the international group can access it immediately and duplicate it if it will work in their part of the world.

Being part of a foreign insurer's empire has its risks. Nam Seng Insurance was part-owned by HIH of Australia, a company which became Australia's biggest and messiest insurance collapse in 2001, and many of whose assets have been bought (at bargain prices) by Allianz, QBE and NRMA (Yeo, 2001),

Advance MLC, an Australian partnership with the Soo Hua Seng Group, announced that its Thai operations are so successful that they will be used as a model in other

countries by holding a forum to introduce it to MLC's partners in 18 other countries. It has adapted systems developed in Australia (Thapanachi, 2001).

Many of the foreign investors are from Singapore, which has a national strategy of expanding into East Asia, and then further afield (as for example its government-linked major insurer NTUC-Income into Vietnam, and Asia Insurance into Thailand).

Good news is frequently reported, bad news seldom. In 2000, Allianz withdrew from its ten-year joint venture with Navakij Insurance, switching instead to a partnership with CP Insurance. Navakij has since announced merger plans with Thai Commercial Insurance. Allianz and Navakij said that their friendly relationship continued (Bangkok Post, 2 June 2001).

One consequence of the energising transfusion into these companies of fresh capital and systems is more competition for skilled Thai staff. Life business in Thailand surged in 2000, thus intensifying the shortage of skilled executives, with competitors headhunting managers and sales staff, offering higher pay and benefits (Keeratipipatpong, 2000).

Another concern is whether the foreign partners have researched the culture of Thailand, an old civilisation with an evolved way of doing things. At the World Economic Forum in Davos in 2001, many Asian leaders blamed globalisation for their economic turmoil, and expressed concern that full integration into the global economy could erode cherished 'Asian' values of self-discipline, frugality, and respect for authority" (Bangkok Post 28 January 2001).

A major issue is that of hierarchy, for society is seen by the Thais as made up of positions which are hierarchically related, and without the recognition of some sort of hierarchy it would be very difficult, perhaps impossible, for the Thai to perceive how social relations can be organized (Podhisita, 1998). In their ability to adapt to change "The Thais are closely constrained by various rigid structures in their society. Among the most powerful is the complex dynamic of social relationships. Thai society is deeply hierarchical", and they are used to businesses being familial in organisation, where personal and family connections play an integral part (Lithgow, 2000,p 244). In other words, the culture of business in Thailand is still very much on a human level, people mattering more than plans and profit.

National culture can also be an opportunity. Thailand has a justified reputation for tolerance. Thais are a coping and adaptive people: "The Thais have proved that they have an innate ability to cope, with an air of almost trance-like detachment... this inner calmness, a sort of national collective unconsciousness, has resulted in a society that is flexible and capable of adapting itself easily to change" (Lithgow, 2000,p242).

Conclusion

The prospect of more liberalisation, the consolidation of foreign insurers, and the entry of more foreign insurers, have already made a big impact on local insurers (compounded with their need to recover from the 1997 crisis). Although there has been almost no consolidation of local firms (a similar experience to Malaysia and Singapore), many more foreign insurers are now shareholders (minority or majority) in Thai insurers, more will follow, and some arrangements will be unscrambled and reconfigured.

As a concluding remark, it may be that consolidation (and convergence, and globalisation) are even now outdated in a rapidly changing world. Whitear (2001) considers that only large international groups will have the capital to achieve global dominance, and still fewer will be successful in obtaining the management skills to be winners in all lines of business in a more open competitive environment, and that US and European insurers moving into Asia face particular challenges in managing cross-cultural issues. He considers also, that with the breaking down of the value chain, there are real opportunities for Asian insurers to act as processing hubs, for claims, policy administration, and other back-office capabilities. So, perhaps we could soon see a different sort of globalisation in Thailand and elsewhere in the region, an unscrambling of conventional insurers, and a new set of consolidated processors.

Whether consolidation is history, change itself is certain. As Grace & Skipper (1998) promise, there will be exciting times for all insurance participants.

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THE ASIA-PACIFIC RISK AND INSURANCE ASSOCIATION

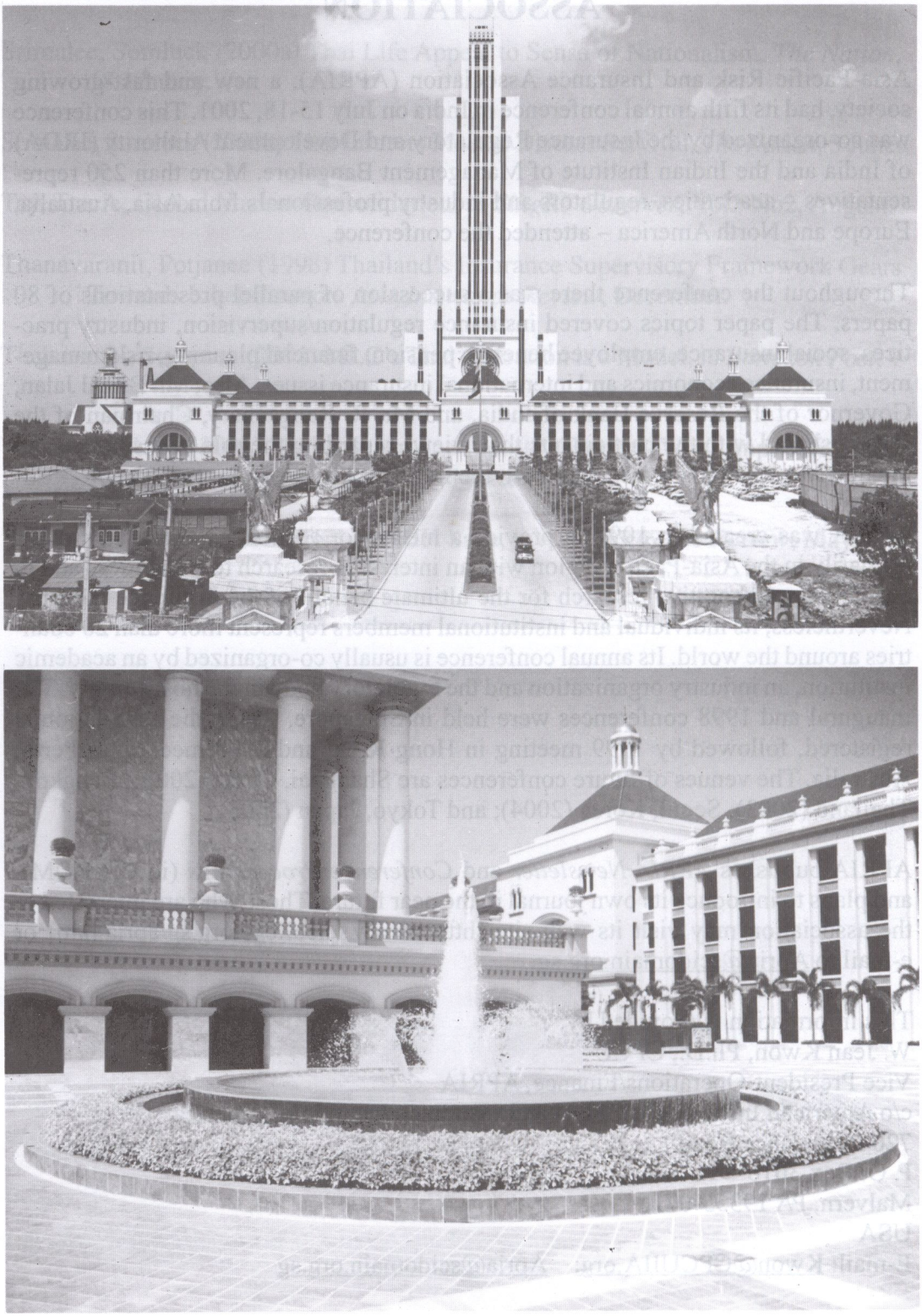
Asia-Pacific Risk and Insurance Association (APRIA), a new and fast-growing society, had its fifth annual conference in India on July 15-18, 2001. This conference was co-organized by the Insurance Regulatory and Development Authority (IRDA) of India and the Indian Institute of Management Bangalore. More than 250 representatives – academics, regulators and industry professionals from Asia, Australia, Europe and North America – attended the conference.

Throughout the conference there was a succession of parallel presentations of 80 papers. The paper topics covered insurance regulation/supervision, industry practices, social insurance, employee benefits, pension, financial planning, risk management, insurance economics and international insurance issues. Also, Mr. Bimal Jalan, Governor of the Reserve Bank of India, and Mr. R. Rangachary, Chairman of the IRDA, shared with the participants their views regarding the role of insurance and the newly opened insurance market in the Indian economy.

APRIA was created in 1997 to provide a means for academics and practitioners primarily in the Asia-Pacific region with an interest in research to share ideas and to engage in collaborative research for the ultimate benefit of the insurance industry. Nevertheless, its individual and institutional members represent more than 20 countries around the world. Its annual conference is usually co-organized by an academic institution, an industry organization and the regulatory body in the host country. The inaugural and 1998 conferences were held in Singapore, where the association is registered, followed by 1999 meeting in Hong·Kong and 2000 meeting in Perth, Australia. The venues of future conferences are Shanghai, China (2002); Bangkok, Thailand (2003); Seoul, Korea (2004); and Tokyo, Japan (2005).

APRIA publishes *APRIA Newsletter* and *Conference Proceedings* (in CD-ROM), and plans to introduce its own journal in the near future. Those who are interested in the association may visit its web site [http://www.scicollege.org.sg/apria.htm] or e-mail to Apria@scidomain.org.sg.

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