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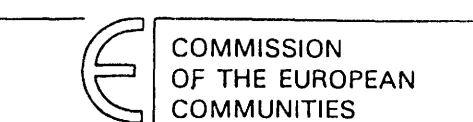
TREATMENT ACCORDED IN THIRD COUNTRIES
TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

(Commission Staff Working Paper)



Brussels, 19 June 1992

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TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

AUSTRALIA

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BANK AND NON-BANK FINANCIAL INSTITUTIONS MARKET

A. BRIEF OVERVIEW:

The Australian banking sector is regulated by a combination of Commonwealth Acts, Regulations, prudential statements and Government decisions. It is important to note that certain aspects of regulation are not set out in legislation, but form part of the powers that are delegated to the appropriate supervisory authority. The sector is made up of state and private banks operating under the authority of the Banking Act of 1959, and nonbank financial institutions, which include merchant banks, finance companies, building societies, credit unions, pastoral finance companies and general financiers.

Only those institutions that are licensed under the Banking Act 1959 have the authority to call themselves "banks". In December 1991 their assets amounted to $A 361.4bn. The sector is dominated by four major domestic banks which together account for about 70% of bank assets.

Other financial intermediaries created under state legislation such as building societies and credit unions may carry out "banking activities" (accepting deposits and making loans), but are unable to use the word "bank" in their name. The Martin Committee[1] suggests that the distinction between banks and those financial intermediaries carrying out banking activities has caused confusion following deregulation and proposes that a more comprehensive definition of "banks" than that contained in the Banking Act is developed. Banks are supervised by the Reserve Bank which has the duty to "exercise its powers and functions for the protection of depositors of banks subject to the Act" [Banking Act 1959].

Merchant and investment banks are the second largest category of the banks and non bank financial institutions sector with 9% ($A 44bn) of total assets of financial intermediaries in December 1991. They can carry out nearly all activities of banks, with the exception that they do not have access to the direct cheque clearing system, unless they operate through an agency agreement with a bank. Non-bank financial institutions are not supervised by the Reserve Bank but are required to submit statistics to it under the Financial Corporations Act (1974). Non-bank financial institutions are currently supervised by individual Australian State bodies, however on 1 July 1992 it is anticipated that a nationally coordiniated, but State based, system of high uniform prudential standards for building societies and credit unions will come into effect. Some activities of merchant banks and finance companies namely security dealing, borrowing and foreign exchange dealings are subject to regulation by the Australian Securities Commission.

Finance companies represent the third largest segment accounting for 7% ($A34bn) of total assets of financial intermediaries in December 1991 followed by building societies with assets of $A21.4bn. Other financial institutions include money market dealers, pastoral finance companies that provide finance to the agricultural sector, and general financiers. Their market share in terms of assets has been declining and stood at 3% in 1991.

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1 "A Pocket Full of Change", House of Representatives Standing Committee on Finance and Public Administration, November 1991

Total profits before tax in the banking sector were $A3152 million in 1990, a decline of 26% on 1989. Profitability of foreign banks was particularly low because of their concentration in the corporate sector and is likely to remain weak in the short term.

Table 1: Assets and deposits of financial intermediaries, end-year[1]

Assets ($A bn)	1988	1989	1990	1991
Total	374.5	452.2	482.3	486.4
of which				
Banks	242.7	308.9	348.1	361.4
Merchant banks	49.5	55.6	47.0	44.3
Finance companies	33.3	39.8	39.0	33.8
Building societies	21.9	22.1	21.4	21.4
Credit unions	7.4	8.1	8.9	9.7
Other[2]	23.3	21.9	23.2	21.7
Deposits ($A bn)	**1988**	**1989**	**1990**	**1991**
Total	165.1	200.0	221.5	226.9
of which				
Banks	139.9	175.1	196.9	200.8
Merchant Banks	N/A	N/A	N/A	N/A
Finance companies	N/A	N/A	N/A	N/A
Building societies	18.8	17.8	16.8	17.6
Credit unions	6.4	7.1	7.8	8.5
Concentration (%)[3]	**1988**	**1989**	**1990**	**1991**
Banks	N/A	75.9	72.4	N/A
Merchant Banks	28.8	24.6	18.2	N/A
Finance companies[4]	49.2	54.7	59.2	N/A
Building societies	52.6	68.4	58.8	N/A
Credit unions	13.2	12.1	13.8	N/A

Source: Reserve Bank of Australia (1991), Reserve Bank of Australia Bulletin (various volumes), Sydney. KPMG Peat Marwick (1991), 1991 Financial Institutions Performance Survey (and earlier editions), Melbourne.

[1] Balance dates for individual companies vary, results apply to year in which they end.

[2] Includes general financiers, pastoral finance companies, authorised money market dealers and cash management trusts.

[3] Measured in terms of assets of the 5 largest institutions.

[4] Finance companies and general financiers.

B. PRESENCE AND MARKET SHARE OF FOREIGN CREDIT INSTITUTIONS

Banks

Out of the 44 licensed banks at December 1991, 19 were foreign owned of which 6 were owned by banks in the European Community. Foreign banks accounted for around 11.5% of total bank assets with the EC banks accounting for 3.5%.

Foreign owned or controlled banks dominate the merchant and investment bank sector. Out of the 87 merchant banks for which details of performance were available in 1990, 67 were foreign owned, of which 20 were EC owned. Japan has an important place in this market accounting for 24 of these merchant banks. Foreign owned merchant and investment banks accounted for 82% of assets of this sector, with EC merchant banks accounting for 22%.

Of the 26 major finance companies for which details are available, 14 are foreign-owned or controlled, of which 7 are EC owned. These foreign-owned companies accounted for 21% of the assets of the major finance companies of which EC-owned finance companies accounted for 5%.

There are no foreign building societies or credit unions.

Table 2: Market share of EC and foreign owned/controlled banks (1990)

No. of institutions	Total	Foreign	EC[1]
Banks	44	19	6
Merchant banks	87	67	20
Finance companies[2]	26	14	7
Share of assets (%)	**Total**	**Foreign**	**EC[1]**
Banks[3]	100.0	10.6	3.5
Merchant Banks	100.0	82.2	21.5
Finance companies	100.0	21.1	5.0

[1] Included in Foreign
[2] Finance companies and general financiers
[3] Refers to 1991

C. MEASURES AFFECTING THE PROVISION OF FINANCIAL SERVICES BY EC FINANCIAL INSTITUTIONS

a) ESTABLISHMENT AND ACQUISITION

With the exception of three longstanding banks, foreign bank representation in Australia must take the form of a subsidiary and not as a branch.

Australia has applied a very restrictive policy towards foreign banks until recently. In 1984, following a longstanding embargo on the establishment of foreign banks the Australian Government selected 16 foreign banks and granted them licences to establish banking operations. Since that date the Government has not granted any further licences to foreign banks.

However, in the 26 February 1992 Economic statement, Prime Minister Keating announced that the limit on the number of foreign banks licences is be be lifted, and where the Australian government is satisfied that a bank and its home country supervisor are of sufficient standing and where the bank agrees to comply with RBA prudential supervision and arrangements, banking licences will be granted to foreign banks.

He also announced that foreign banks which are authorised under the Banking Act to operate as wholesale banks, will be permitted to operate in the form of a branch. However, foreign banks providing retail services will have to operate as subsidiaries. The necessary amendments to the Banking Act to implement these changes have yet to be adopted.

Regarding foreign shareholdings in banks the government considers bids on a case by case basis for second tier banks (that is, other than the big four Australian banks). Generally individuals or corporations are unable to hold more than 10 % of voting shares in a bank according to the requirements of ownership and control of banks set out in the Banks (Shareholdings) Act 1972. This limitation can be waived by the Treasurer, who can approve voting shares of up to 15 %, or by the Governor General who can approve shareholdings above 15 % if it is considered to be in the national interest.

Proposals for foreign investment to acquire 15% or more of a non-bank financial institution worth over $A50m are examined by the government to determine their conformity with the national interest. These arrangements also cover insurance and securities institutions but are generally applied in a flexible manner to all financial sector industries.

Currently a foreign bank is permitted to establish or acquire a merchant bank subsidiary, although it is not allowed to use the word "bank" in the subsidiary's title, there is an exemption in the Banking Act to allow the merchant bank to describe its operations as merchant banking. This exemption will be removed once the new arrangement for bank establishment has been implemented.

b) CARRYING ON BANKING ACTIVITIES

Since the number of foreign bank licences are limited whereas the liberalization of foreign investment enables foreign interests to operate as non-bank financial institutions, many foreign interests operate as merchant banks. However limitations on the activities of merchant banks prevent merchant banks from competing on equal terms with trading banks. Firstly, merchant banks, along with all other non-bank financial intermediaries do not have direct access to the cheque clearing system but have access by agency arrangement with banks. Secondly, under capital adequacy rules based on the Basle Guidelines, claims on merchant banks by trading banks are given a 100% weighting instead of the 20% weighting given to claims on trading banks, thus making refinancing of merchant banks more costly. The weighting is reduced to 50% if there is a "letter of comfort" from the parent bank to the RBA and to 20% if there is a clear-cut guarantee by the parent bank.

Thirdly, no merchant banks have access to the central banks rediscount facilities, although merchant banks have the same rights of access to rediscount facilities as other equivalent financial institutions. Restricted access for merchant banks exists to the open market operations (OMO) of the Reserve Bank. OMO is generally limited to eight authorized money market dealers. Some peripheral activity is also undertaken by reporting bond dealers and foreign exchange dealers.

Government owned or controlled banks account for 31% of assets in the banking sector. Commonwealth and State banks benefit from a government guarantee, making the cost of acquiring funds lower and providing an assurance for customers therefore distorting competition against both domestic private banks and foreign banks.

INSURANCE MARKET

A. BRIEF OVERVIEW:

The operations of life insurance companies are regulated by the Life Insurance Act 1945 which requires that all life insurance companies must be registered with the Insurance and Superannuation Commission (ISC) and provides the formal statutory information requirements that must be complied with. This requirement similarly applies to reinsurers. Non-life insurance business in Australia is regulated by the Insurance Act 1973. Under this Act companies are required to register with the ISC and to comply with minimum financial standards which are subject to continuous supervision.

Total premium income in the life insurance sector amounted to $A14.9bn in 1990, $A10.3 bn superannuation premiums and $A4.6bn ordinary premiums. Assets held in statutory funds amounted to $A78.9bn, of which $A48.3bn was invested in superannuation funds and $A30.6bn in ordinary funds.

There were 58 private companies registered to offer life insurance in June 1990. In addition there are four State Government Insurance Offices offering life cover, but these only account for 4% of premium income and 6% of assets.

Total non-life premiums written in 1990 reached $A14.3bn. Both the private and public sectors are active in the non-life sector with private companies writing $A8.6bn of this business and the State Government Insurance Offices writing $A5.7 bn. Assets at market value held by the non-life insurance sector totalled $A34bn, of which $A19bn was held by the private sector and $A15bn by the public sector. Some Government schemes are unfunded and operate on a "pay-as-you-go" basis, with the liabilities of the public sector exceeding assets by $A1.4bn in 1990.

Table 3: Indicators of insurance business

	Year	Life	Non-Life	Total
Direct premiums (A$ m)	1988	10,989	10,615	21,604
	1989	12,280	12,293	24,573
	1990	14,865	14,300	29,165
Assets (A$ bn)	1988	60.0[1]	27.8[2]	N/A
	1989	72.8	31.2	N/A
	1990	78.9	34.0	N/A
No. of institutions	1988	53	172	N/A
	1989	56	174	N/A
	1990	58	169	N/A

1 Excludes annuities

2 Investments of statutory funds

There were 169 companies authorised to carry on non-life insurance business in 1990. Direct indemnities accounted for 133 of those authorised; 26 were classified as reinsurers; 7 were classified as mortgage insurers; the remaining 3 companies were authorised to

underwrite a restricted class or classes of business for the benefit of a limited group of persons. Twenty of the authorised companies have ceased to write insurance business and are in the process of running off their insurance liabilities.

B. PRESENCE AND MARKET SHARE OF FOREIGN INSURANCE UNDERTAKINGS:

Out of the 57 private sector life companies reporting results in 1990, 35 were foreign owned or controlled, of which 23 were owned or controlled by EC institutions. Foreign institutions accounted for 24% of total life premium income earned by the private sector in 1990, with EC companies accounting for 22%. Foreign institutions also accounted for 21% of total assets, while EC companies accounted for 19%.

Table 4: Foreign presence in the Australian insurance market (1990)[1]

	Life	Non-life
No of insurance undertakings		
- All foreign undertakings	35	71
- of which EC	23	41
Assets (% of total market)		
- All foreign undertakings	21.0	N/A
- of which EC	18.7	N/A
Premiums (% of total market)		
- All foreign undertakings	24.1	45.6
- of which	21.9	35.3

Source: Insurance and Superannuation Commission (1991), Selected Statistics on the General Insurance Industry (1990), Quarterly Statistical Bulletin, Canberra

[1] Excludes reinsurance

Of the 166 non-life companies reporting results in 1990, 94 were foreign-owned, of which 54 were owned by EC interests. In aggregate the foreign-owned companies accounted for 44% of non-life premiums earned by the private sector with EC institutions accounting for 35%.

The foreign presence is even more apparent in the reinsurance sector with 23 of the 26 non-life reinsurance companies being foreign owned, 13 of which are owned or controlled by European interests. These foreign-owned reinsurance companies accounted for 88% of premium income, with EC companies accounting for 52% in 1990.

C. MEASURES AFFECTING THE PROVISION OF INSURANCE SERVICES BY EC FINANCIAL INSTITUTIONS

a. ESTABLISHMENT AND ACQUISITION

Several non discriminatory requirements contained in the Australian Insurance Legislation particularly effect the establishment of foreign firms. Life insurance and general insurance may only be carried out by

corporate bodies registered by the Insurance and Superannuation Commission (this excludes Lloyds Underwriters) and the principal officer of a life insurance company must be a resident of Australia (s.22 Life Insurance Act 1945). A further requirement of Lloyds' Registration is the lodging of a $A500,000 deposit, while Lloyds underwriters must provide an annual covenant (bank guarantee) which is equal to the total of their Australian net premium income for the preceding calendar year. These provisions are under consideration by the Australian authorities.

Where the application for registration involves a foreign company the Government may have to consider whether it would be consistent with its foreign investment policy. Proposed individual foreign investment in an existing or new insurance company are subject to the same test of conformity with the national interest as applies in the banking and securities sectors.

The Insurance Acquisitions and Takeovers Act 1991 requires all persons proposing to acuire a significant interest in, or control over, an Australian insurer to first notify the Minister in writing. It also gives the Minister power, in certain circumstances, to stop the proposal from being implemented. These measures were introduced for prudential reasons and apply equally to Australian and non-Australian insurers.

b. CARRYING ON INSURANCE ACTIVITIES

Life insurance re-insured with a non-established insurer is not taken into account for the purposes of calculating solvency reserves. Prudential considerations require general insurers to maintain a specific solvency ratio (whether operating as foreign companies through branches, subsidiaries or indigenous companies) which is calculated on their assets, liabilities and premium income. Total assets must exceed total liabilities by the greater of $2m, 20% of premium income or 15% of outstanding claims.

Insurers operating in Australia, whether foreign owned or not may elect to pay a tax of 10% of the premiums paid to overseas reinsurers. If this election is not made, then premiums paid overseas, less any claims recovered, are excluded from the insurer's taxable income.

Government monopolies in certain states may limit the scope for establishment and activities of foreign insurance firms. In Victoria, Queensland and South Australia workers' compensation insurance is restricted to a government monopoly, while in Victoria, South Australia, Western Australia, Tasmania and Northern Territories, the government holds a monopoly over third party insurance. Furthermore, the State Government offices are not subject to the same requirements under the Australian insurance legislation as private firms (whether Australian or foreign).

SECURITIES MARKET

A. BRIEF OVERVIEW

In 1990 turnover on the Australian Stock Exchange totalled $A66.1bn, $A51.4bn in equity shares and $A14.7bn in bonds. The total value of listings on the stock exchanges at December 1990 was $A278.5bn. Equity shares were valued at $A218.6bn and bonds at $A60bn.

At June 1990, 1318 institutions were listed on the Stock Exchange, 128 less than a year previously. Some 106 companies were members of the Stock Exchange at that time.

Table 5: Securities Market Indicators

	1988	1989	1990
Turnover on stock exchanges($Am)			
- equity shares	48860	56636	51421
- bonds and fixed income	21171	13911	14707
Turnover (% GDP)			
- equity shares	15.5	15.9	13.6
- bonds and fixed income	6.7	3.9	3.9
Volume of new securities			
- equity shares	2121	1869	1538
- bonds and fixed income	1819	1674	1706
Total value of listings (Dec)[1]			
- equity shares ($Am)	212017	208957	218562
- bonds and fixed income	52657	58919	60047
Market capitalization (% GDP)			
- equity shares	67.1	58.5	57.9
- bonds and fixed income	16.7	16.5	15.9
Number of institutions listed	1510	1446	1318
Number of members (June)	112	104	106

[1] Main board listing only

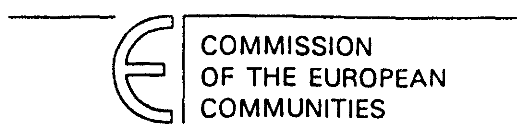
Source: Financial Review (1991), McIntosh Hampson Hoare Govett Ltd Survey Results, p.17, 14.8.91. Australian Stock Exchange Ltd. (1990), Annual Report 1990.

B. MARKET SHARE OF EC AND OTHER FOREIGN FINANCIAL INSTITUTIONS

Based on the information available for the largest 18 securities companies, 10 are foreign-owned/controlled and of which 7 are EC-owned or controlled. These 10 foreign companies accounted for 46% of the turnover on the stock exchange in 1990-91, with the EC companies accounting for 40%.

C. MEASURES AFFECTING THE PROVISION OF FINANCIAL SERVICES BY EC FINANCIAL INSTITUTIONS IN THE SECURITIES MARKET

Access to the Australian Stock Exchange (ASX) is intended to be based upon reciprocal access to foreign Stock Exchanges as provided by Article 37 (2)(e). Branches of a foreign company may, theoretically, be members of the ASX, but the ASX have indicated that this would cause them a number of problems. In practice foreign companies have therefore elected to establish subsidiaries. Proposed foreign investment in an existing or new securities firm are subject to the same test of national interest as proposed investment in the banking and insurance sector applying at the same thresholds.



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Austria is a signatory to the agreement between the countries of the European Community and the countries of the European Free Trade Area, establishing the European Economic Area and which enters into force on 1 January 1993. In accordance with that agreement, Austria in common with the other EFTA countries, will apply Community legislation relevant to financial services. Thus EC firms will have in relation to establishment and the carrying on of activities the same rights and obligations as they have within the Community. EC and EFTA countries will operate within a single market in financial services.

Introduction

GDP in Austria was 1,798bn AS in 1990 representing 236,000 AS (16,300 ecu) per head. The economy grew very rapidly in 1989 and 1990 and is continuing to expand at a steady pace of over 2.5% a year.

CREDIT INSTITUTIONS

In 1990 there were 1210 banks with 4497 branches operating in Austria. This included 940 co-operative banks, 117 savings banks and 55 commercial banks.

Concentration of the market is very low with the three largest banks controlling 24% of bank turnover in 1989, the five largest 34% and the ten largest about 50%.

Table 1: Banking Sector indicators, end 1990

	No. of Banks	Assets (bn AS)	Deposits (bn AS)
Commercial Banks	55	1,457.2	391.7
Savings Banks	117	1,022.5	451.8
Co-operative Banks	940	899.8	441.6
Mortgage Credit Institutions	10	224.0	40.9
Bausparkassen[1]	4	145.6	128.7
Special banks	84	311.3	108.4

[1] Special building societies

Foreign banks

In 1991 there were 15 "100% foreign-owned" commercial and special banks operating as subsidiaries and a further 10 that were more than 50% foreign-owned. There were also 2 foreign banks operating branches. A survey by the Nationalbank in 1988 showed that 32% of nominal capital and 22% of own capital in the banking sector was in foreign hands, about a third of the foreign nominal capital being held by EC companies.

INSURANCE

Total direct life insurance premiums were 29,366bn AS and direct non-life premiums were 68,465bn AS in 1990. This corresponded to 5.5% of GDP and 12,839 AS per head of population. The market value of investments made by insurance companies in the same year was 167.6bn AS in life business and 86.7bn in non-life.

Foreign insurance companies

In 1988 there were 6 life insurance and 28 non-life insurance undertakings operating in Austria. Three of the life companies, two subsidiaries and one branch, and 17 of the non-life firms, five subsidiaries and twelve branches, were foreign owned or controlled. In addition there were 33 composite companies of which 14 were foreign subsidiaries. Foreign undertakings accounted for 36% of direct life and 46% of non-life premiums in that year.

Table 2: Indicators of Insurance Business

	Year	Life	Non-Life	Total
Gross Premiums (m AS)	1985	16,590	50,677	67,267
	1988	25,043	53,529	78,572
	1990	29,366	68,465	97,831
Gross Premiums (% GDP)	1985	1.2	3.8	5.0
	1988	1.6	3.4	5.0
	1990	1.6	3.8	5.5

Source: OECD Insurance statistics
Direct premiums in 1990

SECURITIES TRADING

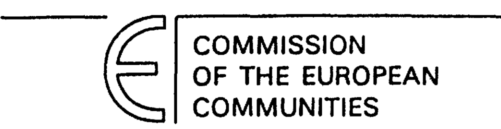
There were 151 companies listed on the Vienna Stock Exchange at the of 1990 an increase of 18 on the previous year. The total market value of shares also rose during the same period from 286.7bn AS to 302.2bn AS. The securities industry in Austria is mostly integrated into the banking sector.

Table 3: Securities Market Indicators		
	1989	1990
Turnover (AS bn)		
- in equity shares	326.3	633.3
- in bonds and debentures	243.8	435.5
Turnover (% GDP)		
- in equity shares	19.5	35.2
- in bonds and debentures	14.6	24.2
Capitalization (AS bn)		
- equity shares[1]	286.7	302.2
- bonds and debentures	780.3	815.1
New listings (AS m)		
- in equity shares[2]	16,542	31,209
- in bonds and debentures	162,384	163,312

Source: F.I.B.V. Statistics 1990

[1] Domestic companies

[2] Gross amount of new capital raised by domestic companies



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

BRAZIL

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Introduction

GDP in Brazil is estimated at 20,777 bn cruzeiros (239 bn ECU) in 1990. With a population of 150.3 million this represented 138,200 cruzeiros (1,589 ECU) of GDP per head[1]. The inflation rose to 1,199.2 % during 1990.

Output of financial services in Brazil has increased 6 % a year since 1980 at about twice the rate of growth of GDP. Moreover, wide fluctuations in the rate of inflation have a significant impact on the sector as the monetization varies widely with sudden changes in inflationary expectations of economic agents.

Monetary and credit policy is formulated by the National Monetary Council and administered by the Central Bank and the Banco do Brasil.

Brazilian financial institutions are diversified. The financial system consists of several sectors : commercial banking, development banking, housing finance, credit cooperatives, securities exchanges, insurance, and commodities and futures markets. The financial system's most important component is clearly the banking sector, which is mixed, with large federal financial institutions operating alongside federal, regional, state commercial, and state development banks along with a more flexible private financial system.

The government intervenes very substantially to direct credit and to subsidize it. That intervention in financial markets has increased steadily due to the collapse of consecutive economic plans and now affects a majority of all assets in the banking system.

Formally, the financial system is highly segmented although, in practice, many institutions are privately owned conglomerates centered around commercial banks. These conglomerates provided all the main financial services through companies which are separate in legal and accounting terms, but which had strong operational ties. At the end of 1988, the Central Bank eliminated this institutional segmentation by allowing some banks to widen their range of activities through the establishment of "multiple banks" (see below).

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1) Yearly average value in 1988 : 1 ECU = 0.905 Cruzeiros
1989 : 1 ECU = 12.52 Crz.
1990 : 1 ECU = 87 Crz.
At the end 1990 1 ECU = 225 Cruzeiros.
In 1986, the new Crz, equal to 1000 old Crz., was introduced.

CREDIT INSTITUTIONS

Overview

In 1990, the Brazilian banking system were comprises of 29 state banks and 97 private banks.

The state banking system comprises four kinds of institutions : commercial banks, saving banks, development banks and multiple banks. Commercial banks, although subject to important controls from Federal authorities, are the true financial agents of their states, while savings banks and development banks operate subject to strict regulations established at the Federal level. The multiple bank is essentially an all-service bank. Under Central Bank rules, a bank can qualify to receive multiple portfolios, and thereby offer commercial banking service, as well as leasing, brokerage or investment banking services.

The private banking system comprises commercial banks, multiple banks and investment banks, with a number of 97 institutions, of which 29 (30 %) were foreign owned.

The banking market is highly concentrated. In 1990, the state commercial and saving banks (that include Banco do Brazil) hold by far the main market share of assets (44.4 %) and deposits (35.8 %). The four largest institutions have more than 90 % of the total assets and deposits of the banking sector as a whole..

The next most important sector is the domestic private multiple banks with 26.3 % of assets and 33.6 % of deposits. This sector is also the most profitable (44.3 % of total benefits) and less concentrated, sharing the four largest institutions around of 50 % of the total assets and deposits.

Table 1 : Number of institutions	1990
- Private commercial banks	11
- Foreign commercial banks	15
- State commercial and saving banks	12
- Private multiple banks	41
- State multiple banks	8
- Foreign multiple banks	14
- Development banks	9
- Investment banks	16
TOTAL	126

Table 2 : Assets and deposits of Credit Institutions (end year)		
Assets(1) (bn Cruzeiros)	1990	%
Total assets	37,955	100
of which :		
- Private commercial banks	566	1.5
- Foreign commercial banks	1,067	2.8
- State commercial and saving banks(2)	16,864	44.4
- Private multiple banks	9,967	26.3
- State multiple banks	3,566	9.4
- Foreign multiple banks	1,390	3.7
- Development banks	3,714	9.8
- Investment banks	821	2.1
Deposits(1) (bn Cruzeiros)	1990	%
Total deposits	9,436	100
of which :		
- Private commercial banks	146	1.4
- Foreign commercial banks	367	3.9
- State commercial and saving banks(2)	3.376	35.8
- Private multiple banks	3.169	33.6
- State multiple banks	1.128	12
- Foreign multiple banks	478	5.1
- Development banks	515	5.5
- Investment banks	257	2.7

(1) Excluding real state finance and finance companies.
(2) Including Banco do Brasil.
Source : Gazeta Mercantil

Presence of foreign banks

In 1990, there were 29 foreign banks, 15 commercial banks and 14 multiple banks. The total assets were 2,457 bn Cruzeiros, 6.5 % of the total assets. Deposits were 845 bn Cruzeiros, 9 % of the total. Their profitability were about 7 % of the total market, being the multiple banks the more profitable (5.5 %).

MARKET ACCESS PROBLEMS FACED BY EC CREDIT INSTITUTIONS

Foreign banks are mainly interested in the wholesale part of the business unless they are already established in Brazil.

Establishment and acquisition

Treatment of foreign banks has regressed. The banking sector has been closed to new foreign investment, since the 1988 Constitution established that foreign investments in the financial sector may not be increased, unless enabling legislation is passed by Congress.

Foreign banks already operating were authorized to establish branches, and their maximum shareholding in banks incorporated in Brazil was 50 % with no more than 1/3 of voting rights.

The opening of foreign bank branches requires a lengthy authorization period and is fully discretionary. Applications for more than one branch are refused. Established foreign banks in Brazil can be prohibited from expanding by way of merger or a purchase.

Activity

Only domestic banks may act as depositories for federal tax payments, accepting payments from individuals and businesses and periodically forwarding them to the federal government; also there are limitations on offering to customers certain individual saving accounts.

A service tax of 5 % is payable on remittances to the parent company of a foreign bank to reimburse the operating cost of a local representative.

Profits from foreign banks are subject to a special tax between 15 % - 25 %, independently whether they are transferred out of the country or not. This tax does not apply to domestic banks. There are strict regulations for repatriation of capital or dividends. Remittances of interest on loans, credits or other forms of financing are limited to the maximum rates fixed by the Central Bank.

Foreign banks are not allowed to arrange loans subsidized by public financing programmes. An application period of 30 days is applicable for registration of foreign loans and investments, delay fees can be imposed after expiry of this period.

Foreign loan resources are not available to the borrower immediately in the full amount, but are subject to a compulsory depositing limited as to time, staggered in accordance with partial amounts, except perhaps for small trade loans.

INSURANCE

Overview

By the standards of developed economies the Brazilian insurance industry is weak. In 1990, total premiums were 446,464 mn of Crz. (ECU 1,984 mn), of which 389,682 mn and 56,782 mn of Crz. correspond to non-life and life premiums respectively. That represented a real growth of 9.9 % versus the previous year. As a percentage of GDP, total premiums represented 2.14 %. In terms of total premiums per capita were about 13.19 ECUs, corresponding 11.51 ECUs and 1.68 ECU per capita to non-life and life premiums respectively.

The Brazilian insurance market is highly concentrated. In 1990, the five largest companies held over 54 % of the market premiums, being motor vehicles and fire the most important sectors.

While the limited importance of the insurance industry as a whole is mainly related to Brazil's relative level of economic development, the particularly limited importance of life insurance is explained by the high level of inflation which interferes with the risk assessment of economic agents and their saving decisions and increases the uncertainty related to rates of return. Very high real interest rates are also thought to adversely affect insurance placements.

Table 3 Indicators of insurance business

	Year	Life	Non-Life	Total
Premiums (mn of Cruzeiros)	1988	116	676	792
	1989	1,457	12,061	13,518
	1990	56,782	389,682	446,469
Premiums as % of GDP	1988	0.13	0.78	0.91
	1989	0.11	0.95	1.06
	1990	0.27	1.87	2.14
Premiums per capita (in ECUs)	1988	0.88	5.17	6.05
	1989	0.78	6.53	7.31
	1990	1.68	11.51	13.19

Source : Federaçao Nacional das Empresas de Seguros privados e de capitalizaçao

Presence of foreign insurance companies

In 1990, there were 131 insurance companies in the Brazilian market, of which 13 had EC capital participation. Established EC insurance owned

companies play an important role in the Brazilian insurance market. In 1990, their share in the premiums market were of 23 %, 103,565 mn Crz (ECU 460 mn).

Table 4 Number of institutions in 1990	
Foreign companies with EC capital participation	13
Foreign companies with non-EC capital participation	22
Domestic companies	96
TOTAL	131

Source : Federação Nacuional das Empresas de Seguros privados e de capitalizacão.

Table 5 Market share of EC insurance companies			
Year	1988	1989	1990
Premiums (mn Crz)	182	2,604	103,569
% of total market	24	24	23

Source : Federação Nacional das empresas de seguros privados e de Capitalizaçao

MARKET ACCESS PROBLEMS FACED BY EC INSURANCE COMPANIES

Establishment and acquisition

Entry in the insurance sector is tightly regulated by the government while the reinsurance business is a state monopoly. The entry of new foreign firms in the sector is blocked. Foreign investment in insurance companies is limited to 50 % of the share capital and 1/3 of the voting capital.

Activity

There is in general no discrimination against foreign companies already established in relation to domestic companies. But there seems to be discrimination in favour of Brazilian companies in determining the allocation of the insurance business of state-owned enterprises.

There is a requirement for reinsurance of all risks to the local market. This limits the ability of foreign insurance companies in Brazil to seek reinsurance cover in the best possible conditions.

Tariffs are generally regulated both for foreign and domestic companies, except motor, which limits the ability of insurance companies to give cover at their desired rates.

SECURITIES MARKET

Overview

The main stock exchange markets are concentrated in Rio de Janeiro and Sao Paolo. There are secondary stock exchanges in other state capitals, but the percentage of total transactions is very low. Brazil has not established rigid distinctions between banking and securities operations. Securities markets functions are under the regulatory supervision of the CVM (Comissao de Valores Mobiliarios, the Securities Commission).

Brazil's stock markets are volatile and share issues are not a leading means of raising corporate finance, though they have increased in importance in recent years.

The ratio of turnover as percentage of GDP has fallen from 4.4 % in 1988 to 1.6 % in 1990. Brazil's performance depend on several factors, most importantly the government's ability to control inflation.

The Brazilian market is very concentrated in few stocks. In 1990, the market and trading value of the 5 % largest companies were 61.6 % and 72.4 % respectively.

There are two classes of stockbrokers, "corretoras" and "distribuidoras". Corretoras are firms that actually hold seats on exchanges. Distribuidoras do not own seats, but accept buy/sell orders and must deal indirectly with the exchanges. Both foreign and domestic firms may function as either class, since legally, any firms already established may purchase a seat on an exchange. The Central Bank and the CVM limit the number of seats allowed on each exchange.

In 1990, there were over 81 corretoras and over 58 distribuidoras.

Table 6: Concentration of domestic market value and turnover in shares(1)

	1988	1989	1990
Rio de Janeiro :			
- % market value	62.3	60.3	61.6
- % trading value	89.0	87.0	72.4
Sao Paolo :			
- % market value	27.1	22.4	20.0
- % trading value	65.7	54.1	-

(1) Percentage of market and trading value of domestic shares of the 5 % of the largest companies (by number).
Source : FIBV

Table 7: Securities market indicators - Shares(1)			
	1988	1989	1990
Turnover (market value of trading) (bn Crz)	4	47	340
Turnover as % GDP	4.4	3.5	1.6
Capitalisation (Market value) (bn Crz)	47	1,003	5,354
Trading volume (Nr of shares traded) (bn)	-	540	2,153
Nr of listed companies	1,219	1,221	1,191
Nr of companies newly listed	33	31	12

(1) Stock exchange of Rio de Janeiro and Sao Paolo
Source : Bolsa de Valores do Rio de Janeiro and Sao Paolo

MARKET ACCESS PROBLEMS FACED BY EC SECURITIES COMPANIES

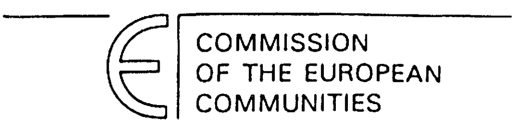
Establishment and acquisition

As in the case of banking, there is a Constitutional ban on foreign entry. Currently, a foreign firm may not hold more than 33 % of the voting shares and 49 % of the capital of a financial institution in Brazil. Temporary exceptions have been granted to several other foreign banks and other financial firms.

Activity

"Foreign capital investment companies" are prohibited from making any investment in stocks or debentures issued by foreign-controlled Brazilian companies.

Private pension funds are limited to investing no more than 15 % of their reserves in public debentures issued by foreign-controlled companies with at least 5 % of the reserves invested in bonds convertibles into shares. There are frequent changes in rates and regulations.



TREATMENT ACCORDED IN THIRD COUNTRIES
TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANES

CANADA

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Introduction

As a result of poor economic conditions and more intense competition between the financial institutions the Canadian financial sector saw higher levels of non-performing loans and greater loan loss provisions in 1991. Despite these problems profits in the sector continued to grow especially for the larger corporations. Statistics for the first quarter of 1992 show continued profits growth for the main credit institutions but the general outlook is somewhat uncertain, associated with high consumer and corporate debt, reduced consumer spending, a slow recovery in the United States and depressed property prices.

The financial services industry is undergoing reform with important bills already passed by the House of Commons in December 1991. The objectives of the reforms are to increase competition between the financial institutions, enhance protection for depositors and policyholders, strengthen Canadian financial institutions and harmonize legislation between the provinces.

CREDIT INSTITUTIONS

The reforms will largely maintain the two types of bank ownership that operate in Canada:

Schedule I, where ownership is restricted to 10% for a single entity ("widely-held"); and
Schedule II, where ownership can be "closely-held" for the first 10 years after receipt of a bank charter, after which time the bank must become widely-held; foreign banks may remain "closely-held" indefinitely.

The new measures will expand the Schedule II bank designation to include banks that are directly owned by a widely-held regulated financial institution that is not itself a bank. Owners of such a bank could be a widely-held trust, loan or stock life insurance company.

In principle a 35% rule will apply to Schedule II banks when a capital size of C$750 million is reached i.e. at least 35% of the total voting rights in the company must be attached to shares that are widely-held and listed for public trading. A ministerial exemption may be granted for firms that reach the threshold through internal growth or through successive acquisitions of small Canadian financial institutions, on a case-by-case basis.

Other aspects of the proposed legislation will allow financial institutions to diversify into new financial businesses through the setting up of subsidiaries. Legislation was already passed in 1987 to allow federal financial institutions to own securities dealers. The revised legislation will permit banks to own insurance companies and trust companies. Institutions will, in certain circumstances, be permitted to network financial services offered by affiliates or independent financial institutions. However banks, trust and loan companies will be restricted from offering most insurance services on behalf of insurance companies.

Total assets of chartered banks amounted to C$635 billion in 1990 and deposits amounted to C$499 billion. The top 10 banks accounted for 94% of assets and 95% of the deposits in 1990.

Foreign banks

At the end of 1991 there were 55 foreign banks established in Canada, 15 of which were from the EC. Non-EC foreign banks represented about 5.4% of assets and 4.7% of chartered bank deposits and EC banks 3.8% and 3.5% respectively.

Table 1: Banking Sector indicators, Dec 1991

	No. of Banks	Assets (C$bn)	Deposits (C$bn)
Chartered Banks	65	635	499
(of which)			
- Domestic	10	576	458
- Foreign EC	15	24	18
- Foreign non-EC	40	35	23
Trust Companies	108	135	121
Mortgage loan cos	12	-	-
Credit Unions & Caisses Populaires	3000	79	68

Sources: Canada Gazette, Part 1, February 22, 1992
Bank of Canada Review

MARKET ACCESS AFFORDED TO EC CREDIT INSTITUTIONS

Establishment

Direct branching from abroad is not allowed. A foreign bank wishing to operate in Canada must establish a Schedule II subsidiary. This subsidiary may be closely held indefinitely. The maximum global share of all foreign owned banks, excluding those held by US controlled Schedule II banks, is 12% of total domestic assets of the Canadian banking system.

Regarding participation in financial institutions the existing foreign ownership rules will be maintained. Foreign takeovers are strictly controlled by the 10/25 rule. For Schedule I banks this means that maximum ownernship by a single entity, whether domestic or foreign, is 10% and total foreign ownership may not exceed 25%. However, as part of the US-Canada Free Trade Agreement (FTA), US residents are exempt from the 25% limit.

Activities

The activities of Community credit institutions are disadvantaged in a number of important ways by Canadian legislation.

Regulations restricting the lending ability of foreign banks, to ensure that their assets did not exceed 12% of the assets of the whole banking system, have been revised under the new Bank Act. A new provision limits the average domestic assets of non-U.S. foreign banks to an amount fixed by Order by the Minister of Finance. The deemed authorized capital of foreign banks can be reduced by order of the Governor in Council. However this last provision has only been used in exceptional circumstances, for instance to reallocate the amounts within the foreign bank sector.

INSURANCE

Insurance companies operating in Canada are regulated either federally or provincially and there is no one government agency to oversee the whole industry. Life insurance and non-life business must be carried on in separate companies. Under the proposed financial reforms, "widely-held" insurance companies will be permitted to own Schedule II banks and to network products of other financial institutions, including other insurers. Insurance undertakings are also to be given greater access to capital through the issuance of preferred shares and debt instruments and they will be permitted to borrow for short-term liquidity purposes.

At the end of 1990 there were just over 160 life and 350 non-life companies operating in Canada , 95% and 74% of which are regulated at federal level, respectively. Life premiums amounted to C$15,859 (2.4% of GDP) and non-life premiums to C$18,991 (2.9% of GDP)in 1989. Total assets of life insurance companies amounted to C$120 billion in 1990 and C$32 billion in non-life.

Foreign insurance companies

Foreign insurance companies play an important role in the Canadian market. About three quarters of all insurance companies operating in Canada are either foreign controlled subsidiaries or branches and agencies of foreign undertakings. Foreign undertakings account for about one third of total life premiums and over 60% of non-life business.

Out of a total of 174 firms operating in the life and health insurance field in 1990, 92 were EC undertakings as opposed to 49 domestic firms and 33 non-Community foreign undertakings. EC firms accounted for 14.5% of premiums in that sector. In the non-life sector, there were a total of 36 EC undertakings out of a total of 320, accounting for just under 8% of premiums.

Table 2: Indicators of Insurance Business

	Year	Life	Non-Life	Total
Gross Premiums (C$ m)	1988	14,830	18,625	33,455
	1989	15,859	18,991	34,850
	1990	17,726	20,137	37,863
Gross Premiums (% GDP)	1988	2.5	3.1	5.5
	1989	2.4	2.9	5.3
	1990	2.6	3.0	5.6

Source: OECD Insurance statistics, StatsCan

MARKET ACCESS AFFORDED TO EC INSURANCE UNDERTAKINGS

Establishment

Foreign insurance companies may establish as either a subsidiary or branch. Authorization of foreign insurers may be subject to consideration of the value of the market entrant to Canada, as may the acquisition of control of

an existing Canadian enterprise by a foreigner. Notification of Investment Canada is required to establish a new insurance business and approval is necesary for larger acquisitions.

The 10/25 rule applies to the acquisition by non-residents of shares of a Canadian controlled life insurance company. This rule does not apply to federal companies under foreign control. US investors have been exempted from this rule under the terms of the US-Canada FTA.

Activities

Foreign insurance companies are subject to certain measures affecting their operations. For instance, registration in Canada requires that the parent company must have C$100 million worth of assets, in its home country, in addition to the requirements common to Canadian companies, however there are no domestic capital requirements associated with the establishment of foreign branches;

SECURITIES TRADING

There are 5 stock exchanges in Canada, the three largest are in Toronto, Montréal and Vancouver and there are smaller ones in Alberta and Winnipeg. All are private operations regulated at provincial level. Securities firms are also regulated provincially. This means that 10 different sets of regulations govern their capital requirements, permitted activities and investments. However, since 1988 the provincial ministers responsible for financial institutions have been harmonizing the regulations on the inter-provincial activities of financial institutions and a large body of legislation and policies are applied uniformly across Canada.

Table 3: Securities Market Indicators
Toronto and Montreal

	1989	1990
Turnover (C$ bn)		
- in equity shares	104.0	79.4
- in bonds and debentures(a)	169.4	78.3
Turnover as % of GDP		
- in equity shares[1]	16.0	11.8
- in bonds and debentures	25.1	11.6
Capitalization (C$ bn)		
- equity shares[2]	629.0	532.5
- bonds and debentures	1,484.6	2,255.0
New listings (C$ m)		
- in equity shares[3](a)	6,405.8	2,328.8
- in bonds and debentures	na	na

Source: F.I.B.V. Statistics

[1]Domestic companies

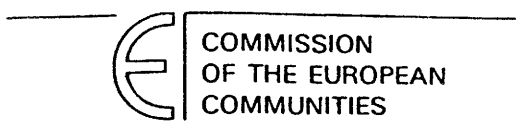
[2]Gross amount of new capital raised by domestic companies

[3]Number of shares traded

(a)Toronto only

The Toronto Stock Exchange, the largest in Canada, is regulated by the province of Ontario under the Ontario Securities Act. Equity share turnover in this market in 1990 amounted to C$64 bn. Foreign-owned firms are allowed to enter this market and like domestic firms must register with the Ontario Securities Commission. Nonresident firms may provide services on a cross-border basis under the "international dealer category".
Since 1983 foreign firms have been permitted to operate on the Montreal Exchange. Over recent years there has been a deliberate policy by the Quebec authorities to stimulate the role of the Montreal Exchange through regulatory reforms and innovation.

In 1990 there were 119 investment dealers (members of the Investment Dealers Association) operating in Canada with total assets of C$15 billion. Activity was generally slow in 1990 compared to 1989 with the value of turnover in equity shares down by 24% and in bonds and debentures by 54%.



TREATMENT ACCORDED IN THIRD COUNTRIES
TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

PEOPLE'S REPUBLIC OF CHINA

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Introduction

GNP in the People's Republic of China is estimated by the Chinese authorities to have reached 1.740 bn Rmb (242 bn ECU) in 1990[1]. With a population of 1.143 MN (90) it represented 1.522 Rmb per capita (211.4 ECU). The Community GNP per capita was 14.400 ECU. GNP growth in the five years up to 1990 averaged 7.8 % annually.

CREDIT INSTITUTIONS

Overview

The scope of business permitted to foreign financial institutions in the People's Republic of China is extremely limited. Foreign banks are allowed to open branches only in the five Special Economic Zones (SEZs) - Shenzhen, Xiamen, Zhuhai, Shanton and Hainau - as well as Shanghai's Pudong Development Area. These branches may not take local currency deposits or extend local currency loans. Elsewhere, foreign banks may open representative offices, but these offices may not engage in any direct profit-making business.

The domestic banking market in the People's Republic of China is dominated by the state-owned banks. Under China's Central Bank, the People's Bank of China (PBC), there are four specialized banks and two comprehensive banks. The largest specialized bank, the Industrial and Commercial Bank of China (ICBC), primarily provides working capital loans to urban industries and businesses. The People's Construction Bank of China (PCBC) provides commercial loans for investment in fixed assets and funds Ministry of Finance infrastructure projects. The Agricultural Bank of China (ABC) provides financing in rural areas, including the funds needed for crop procurement by the State. The Bank of China (BOC) is the PRC's main foreign exchange bank. The separation of activities is thus fairly strict. Attempts are being made to enhance competition between these banks.

The two comprehensive banks are full-service banks which operate much the same as do commercial banks in most Western countries. The Bank of Communications (BOCOMM) opened as a full-service bank in 1987. China Investment Bank (CIB), established in 1981, is a government-owned wholesale bank specializing in mobilizing funds from abroad to invest domestically. Administratively, it is under the People's Construction Bank of China. CITIC Industrial Bank, established in 1987, is a full-service bank wholly owned by China International Trust and Investment Corporation.

Total assets of the banking system were RMB 1.362 trillion (324.2 bn ECU) as of December 31, 1989[2].

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1) Exchange rate as of end 1990: 1 ECU = 7.20 Rmb (Renminbiyang)
" " average 1990: 1 ECU = 6.09 Rmb

2) Average exchange rate 1989 : 1 ECU = 4.148 RMB

Detailed statistics on the assets of the state-owned banks are not available. The following table summarizes available information:

Assets of China's State-Owned Banks as of December 31, 1989 (RMB bn)			
Institutions	Total Assets	Total Loans	Branches(1)
BOC	677	248	595
ICBC	773	575	30,000
PCBC	407	278	13,539
ABC	373	306	59,777
BOCOMM	53	28	45
CIB	10	8	60
CITIC IB	16	10	6
TOTAL	2,299	1,453	94,869

Source : People's Bank of China, bank annual reports.
(US National Treatment study)

(1) The number of branches varies depending on how a branch is defined. Figures were provided by People's Bank of China.
(2) Average exchange rate 1989 : 1 ECU = 4.148 RMB.

Foreign presence

On 11th June 1991 the People's Bank of China promulgated the revised version of the "Measures for the Administration of the Establishment of Resident Representative Offices in China by Overseas Chinese and Foreign Financial Institutions", making it easier for foreign banks to establish representative offices in the country. According to the streamlined rules, which took effect immediately, foreign financial institutions are no longer required to establish their first representative office in Beijing or any of the special economic zones, but may choose any open Chinese city. The central bank also eliminated provisions that required representative offices of foreign financial institutions to apply for extension of their term every three years.

At the end of 1991, 83 foreign banks had opened 150 representative offices in different cities (of which 57 Japanese, 22 French, 15 American, 14 from Hong Kong, 9 British, 6 Italian, 5 German, 5 Canadian, 2 Belgian, 1 Spanish, 1 Luxembourgeois and 1 Dutch). Eight foreign banks had opened branches in two of the SEZs (Shenzen, Yiamen).

Role of foreign banks

Branches not being able to take local currency deposits or extend local currency loans, market staples for EC banks in China consist of wholesale banking and trade finance. Primarily through their branches located outside of China, EC banks handle letters of credit and funds transfers, arrange or participate in export credit programs, participate in joint ventures in commercial banking and leasing, provide

financial advice for major projects, intermediate the disbursement of loans, underwrite the Government of China's bond issues in international capital markets, and arrange and participate in commercial loan syndications. Representative offices cannot engage in profit-making activities but often help facilitate these activities on behalf of the banks.

MARKET ACCESS PROBLEMS FACED BY EC CREDIT INSTITUTIONS

China's Central Bank, the People's Bank of China, is in charge of approving, regulating and supervising financial institutions with foreign capital and financial institutions with Chinese and foreign joint capital. Establishment is only authorized in the five SEZs as well as Shanghai and activities are limited to businesses in foreign currencies.

The provisions governing the operation of financial institutions in Shanghai are fairly detailed and cover foreign banks with head offices established in Shanghai, branches of foreign banks, banks with joint capital and operation established in Shanghai by foreign financial institutions with Chinese financial institutions and financial companies with joint capital and operation established in Shanghai by foreign financial institutions with Chinese financial institutions.

A foreign bank may be set up if it is a financial institution, has had a representative office of over three years' standing inside China and has total assets of more than US $ 10 bn at the end of the year prior to the application.

A branch may be set up provided the party wishing to do so has had a representative office of over three years' standing inside China, had total assets of more than US $ 20 bn at the end of the year prior to the application and its home country or region should have a sound financial supervising system.

A joint bank or a joint financial company may be set up if each investing party is a financial institution and the foreign investor has a representative office inside China.

The minimum amount of the registered capital of a foreign bank and a joint bank shall be US $ 30 MN in equivalent freely convertible currencies, And US $ 20 MN of a joint financial company. The actually paid-in capital shall be no less than 50 % of the registered capital. A foreign bank branch must be allocated by its head office a sum of not less than US $ 10 MN in equivalent freely convertible currencies as its operating funds.

A foreign bank, a joint bank or a joint financial company must draw 25 % of the net profit after tax each year as supplementary capital until the total amount of its actually paid-in capital and reserve funds is twice its registered capital.

A foreign bank branch must keep 25 % of its after-tax net profit inside China to supplement its operating fund until the kept profit is equal to its operating fund.

If a financial institution with foreign capital or with Chinese and foreign joint capital engage in various deposit businesses, interest free deposit reserves shall be placed with the People's Bank of China.

The total amount of loans by a financial institution with foreign capital or a financial institution with Chinese and foreign joint capital to any one enterprise and its related enterprises shall not be more than thirty percent of the sum of its paid-in capital and its total reserves, unless otherwise specially approved. by the People's Bank of China.

The total amount of investments by a financial institution with foreign capital or a financial institution with Chinese and foreign joint capital shall not be more than thirty percent of the sum of its paid-in capital and its total reserves. However, this does not apply to the investments in financial enterprises approved by the People's Bank of China.

The total assets of a financial institution with foreign capital or a financial institution with Chinese and foreign joint capital shall not be more than twenty times the sum of its paid-in capital and its total reserves.

A foreign bank branch must put aside 30 % of its operating funds in the form of interest bearing assets as specified by the People's Bank of China, including depositing the same in a bank designated by the People's Bank of China.

The total amount of China sourced deposits in a financial institution with foreign capital or with joint Chinese and foreign capital shall not be more than 40 % of its total assets inside China.

Rates of various deposits and loans in foreign currencies and fees for various services charged by a financial institution with foreign capital or with joint Chinese and foreign capital shall be determined buy the Bankers' Association or fixed in the light of the international market quotations and must be submitted to the People's Bank of China for verification and approval.

The rules and regulations applicable for the five SEZs are less clear precise and less detailed.

SECURITIES

China's nascent securities market is very small.

There are only two securities exchanges in China, located in Shanghai and Shenzen where stocks can be traded over the counter. There are eight companies listed in Shanghai and 11 companies to be listed in Shenzhen. A recent notice published by the People's Bank of China states that no stock will be allowed to be listed in cities other than its original issuing place. It is uncertain whether the notice indicates a rejection of stock market growth or simply a cooling down of other region's attempts to open their own exchanges.

In 1991, the Shanghai Securities Exchange recorded an all-time high transaction volume of 11 bn yuan (1.6 bn ECU)[3], a five old increase over the total volume for the previous five year period. At the same time, the Shenzhen Securities Exchange, recorded a total transaction volume of over 360,000 yuan (52.941 ECU).

The People's Bank of China and the Ministry of Finance have approved a number of securities companies throughout the country with authorization to trade bonds.

Further steps towards marketization were taken in December 1991 and last January when Shanghai and Shenzhen issued special B shares for foreign investors. The Shenzhen exchange issued 16 MN B shares in China Southern Glass in December 1991 and Shanghai issued 1 MN B shares in Shanghai Vacuum Electronic Devise Corp. Trading on both shares is to begin in spring 92.

INSURANCE

The state-owned People's Insurance Company of China has a monopoly on insurance underwriting. In April 1992 competition was introduced to Shanghai's insurance field when a new national insurance company, the Pacific Insurance Co Ltd, which is run by the Shanghai-based Bank of Communications, started operation.

Foreign insurance companies are not allowed to do business in China and foreign insurance policies are not recognized by the Chinese government.

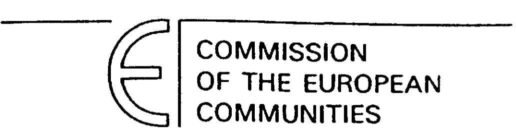
Chinas insurance industry has grown rapidly as a result of new regulations requiring various types of insurance. Premium income was up 32 % in 1991 and totalled 23.4 bn RMB (3.44 bn ECU) of which life insurance premium represented 8.4 bn RMB (1.24 bn ECU) up 40.1 % from 1990.

ASSESSMENT

Severe restrictions are in place on access to the Chinese market for Community banks and securities companies. For the access possible significant denial of national treatment remains. No access is possible for Community insurance companies.

In the Uruguay Round services negotiations China has made a conditional offer which affects only banking and which would change little in the market access situation.

3) Exchange rate end 1991 : 1 ECU = 6.790 RMB.



**TREATMENT ACCORDED IN THIRD COUNTRIES
TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES**

CZECH AND SLOVAK FEDERAL REPUBLIC

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Introduction

GDP in 1990 - the first year of the CSFR's market-oriented economic reforms - reached 798.09 billion Koruny (CSK), which equalled 34.91 billion ECU[1]. With a mid-year population of 15.66 million people, GDP per capita amounted to 50,963 CSK (2,229.4 ECU). Real GDP growth in 1990 was -3%.

BANKING

Overview

A two-tier banking system was put into force on 1 January 1990, by transferring the commercial banking activities of the State Bank of Czechoslovakia to three state-owned financial institutions. These were the newly created Commercial Bank in Prague, the General Credit Bank in Bratislava and the already existing Investment Bank in Prague. As the State Bank's assets were split up according to regional and sectoral criteria, the three banks have so far largely been enjoying banking monopolies in their respective regions and sectors.

Since the establishment of new commercial banks, including private banks, was permitted on 1 January 1991, a variety of credit institutions have been founded, though their impact on the Czechoslovakian banking market is still rather modest. The degree of concentration on the banking market remains high, as may be gathered from different banks' market shares. Of total credit outstanding in the CSFR at the end of 1990, the Commercial Bank held 48%, the General Credit Bank 20% and the Investment Bank 15%. The "Big Three" commercial banks thus had 83% of all credits on their books. The taking of deposits is still dominated by the two Savings Banks, although private domestic and foreign banks have increasingly been gaining ground.

By the end of November 1991, the banking system comprises the following institutions:

1. The State Bank of Czechoslovakia (SBCS) is the central bank of the CSFR which sets the principles of and implements monetary and exchange rate policies. As the koruna is not yet fully convertible, SBCS fixes the exchange rate, based on a currency basket. Banking supervision is also carried out by SBCS. A new law on the State Bank went into force on 1 February 1992.

2. 38 commercial and savings banks, the majority of them established in 1990/91 and with only small assets so far.

3. Foreign banks, in the form of eight 100%-owned subsidiaries, six joint venture banks and 40 representative offices.

1) 1990 average annual official exchange rate of 17.95 CSK to the USD.

By the end of November 1991, there were 577 bank branches all over the CSFR, resulting in an average population of 27,000 being served by one office. However, in addition to branches, there are many of small savings outlets all over the country.

A new commercial banking law went into force on 1 February 1992, reinforcing the universal banking system which has been followed since 1990.

Banking indicators

By the end of July 1991, the Czechoslovak commercial banking system's total assets hovered around 1,200 bn CSK (33 bn ECU). The number of bank employees was 35,000. Credit extended and deposits accepted in the CSFR are shown in Table I.

Table I: Bank Credit and Deposits in the CSFR (Bn. CSK)

	1989	1990	Nov. 1991
Domestic Credit	586.3	640.2	705.0*)
of which:			
Claims on Central Gvmt.(Net)	5.2	54.2	n.a.
Claims on Nonfin.Pub. Entpr.	534.2	536.0	n.a.
Claims on Private Sector	46.90	50.0	n.a.
Deposits	479.8	476.7	n.a.

*) Credit to enterprises and private sector only

Source : SBCS, IMF

Foreign presence

Foreign banks can become operative on the Czechoslovakian market in different forms:

1) By setting up representative offices, which may promote, but not carry out their parent's banking business. By September 1991, there were 40 representative offices of foreign banks in the CSFR, more than half of them established by banks from EC states. Opening a rep office does not require any permission, but subsequent registration with the State Bank.

2) Participating in joint venture banks, founded on the basis of the Joint Venture Law which does not set any general limits as to the share of foreign capital. Among the six joint ventures existing in September 1991, three have partners from EC member countries.

3) Establishing subsidiaries, founded with 100% foreign participation on the basis of the Joint Venture Act. The headquarters of three, out of a total of eight foreign bank subsidiaries in September 1991, are located within the EC.

4) On the basis of the new banking law, foreign banks can also open branches in the CSFR.

At the beginning of 1991, only two non-EC foreign bank subsidiaries were fully operative, which had extended credit of less than 200 mn ECU.

MARKET ACCESS PROBLEMS FACED BY EC BANKS

1. **Establishment**

For setting up a 100% subsidiary, a licence from the State Bank is required. In evaluating applications from foreign banks, the State Bank assesses the past activities as well as the future plans of the foreign bank within the CSFR. "The CSFR expects foreign banks to contribute to the strengthening of the Czechoslovak banking system by means of: their capital contribution; their introduction of modern banking techniques; their input to the development of a money market; and, their competitive actions"[2]. Consequently, certain conditions may be imposed when licensing foreign banks. Conditions may include: offering special training to Czechoslovakian employees, participation in the development and proper functioning of the capital market, establishing a branch network over a specified time period etc.

INSURANCE

Until only recently, the CSFR insurance market was divided between two state-owned insurance companies, one of which covered the Czech Republic, the other the Slovak republic. Each company pursued both life and non-life insurance business, with the Czech state insurance company accounting for around 70% of all premiums accepted. Total premiums amounted to 20.094 bn CSK (3.2 bn ECU) in 1988. In 1989, total premiums accepted rose by 12.8% to 22.6 bn CSK, out of which 6.021 bn CSK (26.5%) came as life insurance, and 16.643 bn CSK (73.5%) as non-life insurance premiums.

When insurance activities were put on a new legal basis in 1991, the regional principle was maintained. In accordance with two new federal state Insurance Acts, insurance has become a federal state matter, separately regulated and supervised by the Czech and Slovak national governments. The state's monopoly on insurance was lifted and private companies may be founded on the basis of the new federal state laws. Rules on the pursuit of insurance business have been designed along German lines. The establishment of private companies and the market entry of foreign companies are expected to broaden the narrow range of services offered as well as to introduce modern techniques of management, actuarial mathematics and statistics.

2) State Bank of the CSFR, Czechoslovak Banking (Prague, 1991)

Foreign presence

Since the establishment of private insurance companies was permitted in the first half of 1991, the participation of foreign capital has also been allowed. By the end of 1991, two insurance joint ventures with non-EC Western partners were operating. A variety of insurance companies from EC member countries have so far set up representative offices in the CSFR.

MARKET ACCESS PROBLEMS FACED BY EC INSURANCE COMPANIES

1. **Establishment**

As regards the market entry of foreign insurance companies, the 1991 federal state insurance laws established a "waiting period" of two years in the Slovak Republic and of one year in the Czech Republic. Currently, foreign insurance companies can only pursue business in the CSFR by acquiring a participation in a domestic insurance company.

SECURITIES

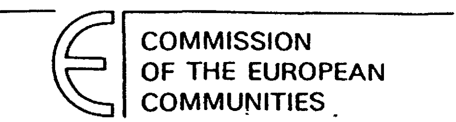
No formal capital market has yet been established in the CSFR, although a Stock Exchange Preparatory Committee, with representatives of some 20 commercial banks, has been working towards that aim since early 1990. A variety of proposals on laws covering securities, investment funds and
the stock exchange have been brought before parliament. However, neither law has been passed so far. Two stock exchanges, in Prague and Bratislava, are expected to be established, the preparations for the latter having further proceeded so far.

NOTE

Under the Europe Agreement concluded at the end of 1991 with the European Community, Czechoslovakia agreed to grant national treatment for the establishment of Community banks and other firms and nationals providing financial services, subject to normal prudential requirements. This ogligation must be put into effect at the latest by the end of the transitional period of ten years from the date of entry into force of the Agreement, i.e. 1993.

In addition, the CSFR will grant national treatment for any such firms and nationals already established in the CSFR, immediately from entry into force of the Agreement. Czechoslovakia has also agreed to a standstill, i.e. not to adopt any new regulations or measures which introduce discrimination as regards the establishemnt and operations of Community companies and nationals in its territory in comparison with its own companies and nationals..

The CSFR has further accepted an obligation to ensure that its legislation will be gradually made compatible with that of the Community inter alia as regards banking law, and the law relating to other financial services.



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

EGYPT

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CREDIT INSTITUTIONS

Overview

In 1990, GDP in Egypt was estimated at Egyptian pounds 76.87 bn (EGP)[1] (19.63 bn ECUs). With a population of 53 million, this represented a GDP per head of EGP 1,450 (370 ECUs). Consumer price inflation reached 16.8 %.

Although opposition remains strong in some quarters, the government has developed clear policies in favour of free enterprise over the past two years. An agreement concluded with the IMF in 1991 represents a large additional push in this direction.

The Egyptian banking system has long been subject to many regulations that restricted competition and inhibited innovation. The recent deregulation of interest rates and the creation of a free foreign exchange market have set in train a major program of banking and financial deregulation.

The Egyptian banking system consists of 4 large public sector banks, 40 commercial banks, 22 business and investment banks, 15 branches of foreign banks and a small number of specialized banks. The market is dominated by the 4 large public sector banks. With their vast branch networks these dwarf the rest of the banking sector, accounting for more than two thirds of total bank retail deposits and over 80 % of the total assets of commercial banks.

The other banks concentrate mostly on wholesale business and on offering deposit and other financial services to relatively wealthy individuals.

MARKET ACCESS PROBLEMS FACED BY EC CREDIT INSTITUTIONS

Establishment and acquisition

The opening of branches of foreign banks is possible within the framework of joint ventures, in which there has to be a majority shareholding of Egyptian capital. However, regulatory authorities are pursuing a policy of not granting licenses for new banks.

(1) Yearly average value in

1987	1 ECU =	0.802 EGP
1988	1 ECU =	0.828 EGP
1989	1 ECU =	0.898 EGP
1990	1 ECU =	1.807 EGP
At the end of 1990 :	1 ECU =	3.916 EGP

Activity

Branches of foreign banks are not allowed to engage in local currency business. In 1992, a new banking bill was introduced ; if approved, it would allow foreign banks to engage in local currency business. Purchase of real property by foreigners must be dealt with by local public banks.

Public sector companies may make deposits or ask for guarantees if they obtain a written authorization from their local public bank ; public sector companies are obliged in general to bank with public sector banks.

15 % of local currency deposits and 15 % of foreign currency deposits are to be held on deposit with the Central Bank at 0 % interest rate, and the latter at a 3 months LIBOR equivalent rate.

Liquidity ratios have been set at 20 % for local currency and 25 % for foreign currencies. Foreign exchange exposure should not exceed 15 % of the total equity of the bank, and 5 % of its total balance sheet.

INSURANCE

Overview

The Egyptian insurance market, measured in terms of annual premiums sold by insurance companies from 1987 to 1989 is small.

In 1989, total premiums were 659 mn of EGP (ECU 734 mn). That represented a real decline of 3.8 % versus the previous year. On the other side, premiums as a percentage of GDP reached 1.02 % in 1989, very low relative to developing countries, being the life insurance sector the weakest sector (0.18 % of GDP).

In terms of total premiums per head per annum, in 1989, were about 14.2 ECUs, corresponding 2.5 ECUs to life insurance and 11.7 ECUs to non-life insurance.

The Egyptian insurance market is highly regulated and concentrated. The state plays an important role in the market. 85 % of total premiums corresponding to state-owned insurance companies. In addition, public insurance companies hold partnership of private insurance companies operating in both the Egyptian and Free Zone markets, especially with regard to the entire structure of prices of the insurance market.

Low competition is reflected in low product development.

MARKET ACCESS PROBLEMS FACED BY EC INSURANCE COMPANIES

Establishment, acquisition and activity

The legal framework prohibits foreign investment in the whole insurance sector, except in the small market in the Free Zone area, where joint ventures with foreign capital are allowed, after approving of the GAFl (General Authority for Investment).

There is state monopoly on the reinsurance market with only one reinsurance company (a public enterprise) which does business protected by a regulatory framework, inhibiting competition while guaranteeing the company a minimum sales volume. Cession of 30 % of re-insurance to this company is compulsory, plus 5 % §to Africa Re-insurance.

Table 1 Indicators of insurance market

	Year	Life	Non-Life	Total
Premiums (mn of EGP)	1987	83	379	462
	1988	96	468	564
	1989	114	545	659
Premiums as % of GDP	1987	0.18	0.83	1.02
	1988	0.18	0.85	1.03
	1989	0.18	0.84	1.02
Premiums per capita (in EGP)	1987	1.7	7.7	9.4
	1988	1.9	9.3	11.2
	1989	2.2	10.5	12.7

Source : SIGMA - Swiss Reinsurance Company

SECURITIES MARKET

Overview

The Cairo and Alexandria Stocks Exchanges are the only capital market intermediaries.

In the Egyptian securities market the existing institutions on mechanisms to deal with intermediation between supply and demand for the issuance and placement of new securities (primary market) as well as for the trading of existing securities (secondary market) are really weak.

MARKET ACCESS PROBLEMS FACED BY EC SECURITIES COMPANIES

The following are some of the more important factors affecting the intermediation process and the establishment of financial intermediaries.

Foreign brokers may only establish minority owned joint ventures.

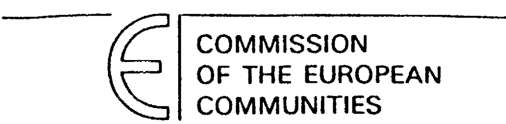
Transactions in securities abroad must be carried out through authorized banks, provided that the funds used for this purpose represent free foreign exchange.

Stock exchange membership is limited to individual brokers. Bias in tax laws against financial intermediaries in terms of taxation of realized capital gains while those realized by the individual investor are not taxable.

Repatriation of principal and dividends for foreign investors whose holdings are not regulated by investment law is not allowed.

There is a taxation of capital which is imposed on negotiable securities taking the form of stamp duty tax of 1.2 % per annum.

Apart from existing commercial banks and insurance companies, other forms of financial intermediaries are prohibited or is not conducive.



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

FINLAND

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Finland is a signatory to the agreement between the countries of the European Community and the countries of the European Free Trade Area, establishing the European Economic Area and which enters into force on 1 January 1993. In accordance with that agreement, Finland in common with the other EFTA countries, will apply Community legislation relevant to financial services. Thus EC firms will have in relation to establishment and the carrying on of activities the same rights and obligations as they have within the Community. EC and EFTA countries will operate within a single market in financial services.

Introduction

GDP in Finland was 523bn FIM in 1990 representing 105,700 FIM (21,700 ecu) per head of population. Like other Nordic economies, Finland is experiencing severe difficulties, with GDP falling by over 5.2% in real terms in 1991. The recession has caused serious problems for the country's financial sector with one of the major banks Skopbank being rescued by the government in the autumn of 1990.

CREDIT INSTITUTIONS

Taking account of the rapid internationalization of banking operations, the process of economic integration in Europe and the liberalization of financial markets, Finland implemented new banking legislation at the beginning of 1991. The new legislation puts all deposit banks on an equal competitive footing and is harmonized with measures taken in the European Community, including the adoption of the Basle recommendations on capital ratios. In addition to the Deposit Bank Act covering all banks, deposit banks are regulated separately according to their corporate form by the Commercial Banks Act, the Cooperative Bank Act or the Savings Bank Act.

The mortgage banks are subsidiaries of deposit banks. They specialize in the granting of long-term credit to the corporate customers of their parents and they do not have the importance in housing finance that is typical of other countries.

Table 1: Banking Sector indicators, December 1990

	No. of Banks	Assets (bn FIM)	Deposits (bn FIM)
Commercial Banks	14	508.1	128.7
of which foreign	5	4.4[1]	1.7[1]
Savings Banks	150	122.0	68.1
Co-operative Banks	338	104.0	66.7

Source: The Finnish Bankers' Association

[1] Includes only 4 foreign banks: Nordbanken Finland Ltd, Banque Indosuez, Midland Montagu, Citibank

Concentration in the market is relatively high with the three largest banks accounting for 77% of the deposits and 70% of the assets of commercial banks.

Foreign banks

Foreign banks have been allowed to establish subsidiaries since 1979 and branches since 1991. There are now five foreign banks operating in Finland accounting for about 0.6% of assets and deposits. Some foreign ownership restrictions still remain.

INSURANCE

Gross insurance premiums in Finland were 30,138 million FIM in 1989, composed of 18,374 million FIM life and 11,764 million FIM non-life premiums. This represented 6.1% of GDP and 6,076 FIM per head of population. Insurance business is highly concentrated with the five main groups accounting for 93% of business. The assets of the five main insurance groups totalled 127.0 bn FIM in 1990.

Foreign insurance companies

There are no foreign life insurance undertakings operating in Finland and out of a total of 30 non-life undertakings there is only one foreign undertaking operating as a branch. This undertaking accounted for 0.2% of direct non-life premiums in 1989.

Table 2: Indicators of Insurance Business

	Year	Life	Non-Life	Total
Gross Premiums (m FIM)	1985	9,783	8,898	18,681
	1988	15,561	10,858	26,419
	1989	18,374	11,764	30,138
Gross Premiums (% GDP)	1985	2.9	2.6	5.5
	1988	3.5	2.5	6.0
	1989	3.7	2.4	6.1

Source: OECD Insurance statistics

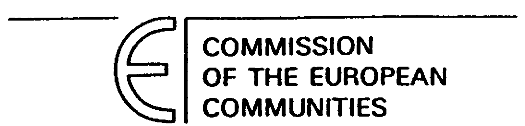
SECURITIES TRADING

Reform of the securities market has taken place in tandem with that in the banking sector. The Securities Market Act entered into force in 1989 . This act regulates the activities of the Stock Exchange and the activities of securities brokers with respect to markets and customers. It also lays down provisions on insider trading.

The number of companies listed on the Helsinki stock exchange fell during the stock market recession and stood at 74 at the end of 1990. The market capitalization of listed companies totalled 83bn FIM. In addition to the shares quoted on the Stock Exchange list there were 52 companies quoted on the OTC list and 41 on the brokers' list in 1990.

Table 3: Securities Market Indicators		
	1989	1990
Turnover (FIM bn)		
- in equity shares	15.3	31.7
- in bonds and debentures	7.4	4.6
Turnover (% GDP)		
- in equity shares	3.1	6.1
- in bonds and debentures	1.5	0.9
Capitalization (FIM bn)		
- equity shares[1]	124.6	82.6
- bonds and debentures	197.5	210.3
New listings (FIM m)		
- equity shares[2]	9,500	1,700
- bonds and debentures	11,901	12,986
Trading Volume (million)		
- equity shares[3]	483.3	246.3

Source: F.I.B.V Statistics 1990
[1] Domestic companies
[2] Gross amount of new capital raised by domestic companies
[3] Number of shares traded



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

HONG KONG

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Introduction

GDP in 1990 amounted to 546.8 bn HKD (51 bn ECU)[1]. With a population of 5.8 mn, GDP per capita was 94,276 HKD (8,781 ECU). Hong Kong is a major international financial centre. There are mature foreign exchange, securities, futures and gold markets. The financial services sector employs over 127,000 people and contributes about 7% of GDP.

BANKING

Overview

The main legal basis for banking is the Banking Ordinance of 1986 which came as the response to a series of bank failures in the early 1980s. The bill, which has undergone several amendments since, distinctly improved bank regulation and the banking system's stability by providing for increased supervision of bank management by the Banking Commissioner; increased balance sheet disclosure through monthly or quarterly statistical returns; changes in liquidity and capital adequacy measurements; and tighter restrictions on in-house lending. More measures to strenghten the banks were provided for by another ordinance passed in May 1987. The Banking Commissioner's authorisation is required for the appointment of directors or company secretaries of institutions incorporated in Hong Kong, and for anyone to acquire 10% or more of the voting rights in an authorised institution. Licences for banks are granted by the Governor-in-Council on application made through the Banking Commissioner.

Hong Kong has no central monetary authority. The issuance of currency, the management of the Exchange Fund (which holds the backing for the note issue and, inter alia, sets the interest rates for interbank transactions) and a variety of Central Bank activities are performed by different government departments and selected private sector banking institutions.

Retail interest rates and commissions levied by banks are set by the Hong Kong Association of Banks (HKAB) which every licensed bank in the territory must be a member of. The HKBA's management committee has twelve members, three of which are permanent: the Hongkong and Shanghai Banking Corp (HKSBC), Standard Chartered Bank and the Bank of China (BOC). Out of the nine elected members, four are local and five are foreign banks.

Hong Kong has a three-tier banking system made up of licensed banks, restricted licensed banks (RLBs) and deposit-taking companies (DTCs). The latter are active in underwriting securities, fund and unit-trust management, as well as in other investment banking services.

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1 Hong Kong Dollar (HKD) amounts are translated into ECU at the exchange rate published in "infor écu" for December of each year. The December 1990 exchange rate was 1 ECU = 9,78376 HKD and the December 1991 rate was 1 ECU = 10,7361 HKD.

RLBs are only allowed to accept deposits of 500,000 HKD and above, while DTCs may only accept deposits of a minimum 100,000 HKD with maturities of at least three months. Licensed banks are required to have a minimum capital of 150 mn HKD, RLBs 100 mn HKD and DTCs 25 mn HKD. All financial institutions must maintain a liquidity ratio of 25% and a capital adequacy ratio of 8%. No commercial bank may lend more than 25% of its paid-in capital to a single customer. There are no restrictions on bank shareholdings in industrial companies or in other financial groups. The introduction of a deposit insurance scheme is currently under consideration.

Banking in Figures

The banking system's total assets amounted to 5,234 bn HKD at the end of 1990 (a 23% increase over 1989). Deposits accepted by the banking system were 1,231 bn HKD in 1990 (+ 22% over 1989). Out of total deposits, licensed banks held 1,156 bn HKD (94%). 58% of deposits were denominated in foreign currencies. Loans extended by the banking system amounted to 1,789 bn HKD in 1990 (a 41% increase over 1989). Licensed banks dominate the loan business with 94% of all credit outstanding. 66% of all loans are denominated in foreign currencies.

The banking sector employed 75,097 people as of November 1990.

Presence of Community credit institutions

At the end of 1990, there were 168 licensed banks in Hong Kong, 43 of which had their headquarters in EC member states (26%). Out of the 46 restricted licence banks, 10 were owned by EC institutions (22%). Among the 191 deposit-taking companies, there were 18 EC institutions (9,4%). Only a few foreign banks have branch networks in Hong Kong, among these a British bank with 116 and a Belgian bank with 19 retail branches. Banks with their headquarters in Europe (including non-EC Europe) held assets of 633 bn HKD at the end of 1990 (12% of total assets). European institutions held 196 bn HKD of deposits (16% of total) and 186 bn HKD of loans (10,3% of total).

Treatment of EC banks

1. Establishment

Hong Kong has traditionally welcomed foreign presence in the banking sector. However, a number of restrictions are maintained in the banking sector, concerning in particular expansion of activities. The establishment of foreign bank branches is limited to one location (although there are no restrictions on the number of back offices). Some conditions for licensing are strict. The assets of a foreign bank which intends to establish in Hong Kong normally have to exceed 14 bn USD and a reciprocity test is applied to foreign banks. If the "assets" criterion is not fulfilled, a licence may be granted if the applicant is of undoubted standing, and granting a licence to the applicant would serve Hong Kong's interests as a broad based international financial centre taking account of the representation in

Hong Kong by banks from the applicant bank's country. At present, there is a moratorium on new full banking licences. However, the establishment in Hong Kong through the acquisition of locally incorporated banks is free subject only to prudential regulations and provides an opportunity to branch out in Hong Kong despite the above mentioned restrictions.

Apart from branching and acquisition, foreign banks have also access to the Hong Kong market by establishing a restricted license bank or a deposit-taking company. A restricted license bank whose head office is outside Hong Kong may maintain offices to which customers have access in only one building and at least two persons resident in Hong Kong must be in effective control of the business. The latter criterion also applies to deposit-taking companies (DTCs) if the applicant is incorporated abroad. If the applicant for establishing a DTC is a foreign bank, it has to be subject to adequate supervision.

2. Operations

The limits on the activities of foreign banks in Hong Kong seem to be practical rather than legal. Interest rates are set by the Hong Kong Association of Banks in which foreign banks are represented. Competition on interest rates is restricted, particularly as regards savings and demand deposits. Foreign banks have therefore been pushed to concentrate on offering wholesale banking services to large local and multinational companies.

INSURANCE

Hong Kong grants national treatment to foreign insurance companies and does not impose any significant restrictions on foreign establishment. No major complaints have been received from EC companies.

SECURITIES

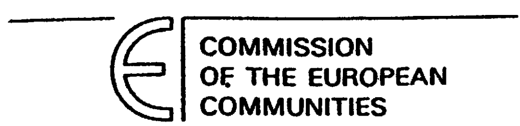
Hong Kong has one of the largest stock markets in Asia. The total capitalisation of the Hong Kong Stock Exchange (HKSE) was 665,312.11 bn HKD in December 1990, divided among the equity, bond and warrants market segments. The equity market's capitalisation was 650,409.8 mn HKD (a 7.5% increase over 1989). The trading volume in shares reached 270,532.7 mn HKD in 1990 (+ 0.2% over 1989). Being the second most important, though small, market segment, the warrant market's capitalisation was 9,775.19 mn HKD. By comparison, the bond market's capitalisation amounted to 5,127.14 mn HKD (+17% over 1989). The turnover of bonds traded in 1990 was 259,2 mn HKD (-14.3% compared to 1989).

In June 1991, 525 securities were listed on the HKSE, 314 of which were ordinary shares, 151 came in the form of warrants and 45 were debt instruments, the remainder being preferred shares and investment

fund certificates. At the time, the Hong Kong Stock Exchange's total market capitalisation was 823,431.18 mn HKD, which constituted a 24% increase over end-1990. The Hong Kong Stock Exchange has since experienced a very bullish market, culminating in the index breaking the 5,000-point barrier on 11 March 1992.

Regulation of the securities, futures and financial investment industries is exercised by the Securities and Futures Commission (SFC) which is an autonomous statutory body outside the civil service. The SFC is encharged with ensuring compliance with the SFC Ordinance, the Securities Ordinance, the Commodities Trading Ordinance, the Protection of Investors Ordinance, as well as various other codes and guidelines. At the end of March 1991, the number of securities dealers registered with SFC was 1,297.

Hong Kong grants national treatment to foreign securities firms and does not impose significant restrictions on foreign establishment.



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

HUNGARY

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Introduction

In 1990, Hungary produced a GDP of 1,706 bn Forint (HUF; 21.19 bn ECU). With a population of 10.4 mn, GDP per capita amounted to 164,038 HUF (2,038 ECU). Hungary took the lead among Eastern European economies when it initiated economic reforms aimed at a lesser degree of centralisation in the second half of the 1980s. However, the country has not been spared severe recession, a high rate of inflation and a surge of unemployment when transformation towards a market economy began in 1989.

BANKING

Overview

Banking in Hungary is regulated by the Act on Banking Institutions and Banking Activities which came into force on 1 December 1991. The law distinguishes between commercial banks, specialised banking institutions, investment banks and savings banks. There are provisions covering banking groups, bank branches, and representative offices. The question of ownership is given broad consideration. A single owner -- except for another banking institution -- may not hold more than 25% of a banking institution's share capital. Foreign investment in Hungarian banks needs prior government approval if foreign participation is to exceed 10%. The law obliges the State to sell its equity holdings exceeding 25% of any bank's share capital by 1 January 1997. From 1 January 1991 on, the State's voting rights are generally restricted to a maximum 25%.

The State Banking Supervision Authority was established with wide monitoring and control powers and which also acts as the competition authority as regards banks. The law also provides for a Statutory Deposit Protection Fund.

Public discussion currently focuses on bank privatisation, the guidelines for which were approved by the Hungarian government in April 1992. Basically, banks are to be privatised by means of capital increases in which the State does not underwrite any shares. However, the State will have a final word on the new owners. Bank privatisation will only be partial, as the State intends to remain a strategic investor holding up to 25% of the banks' capitals. Foreign capital is to be admitted, but the major banks will remain under national control.

National Bank of Hungary (NBH) is the country's central bank whose activities are regulated by the National Bank of Hungary Act. The Act, which went into force on 1 December 1991, gives NBH full autonomy, except for exchange rates which have to be set jointly by NBH and the government. The basic task of NBH, as defined by law, is the protection of the domestic and external purchasing power of the national currency.

Banking in Figures

By the end of 1991, the banking system comprised 31 commercial banks, four specialised banking institutions and 260 savings co-operatives. In addition, there were some state-owned specialised financial institutions pursuing industrial policy and development objectives. Fifteen of the banks were joint ventures with foreign investors. The number of bank staff amounted to 29,000 by the end of 1991.

The increase in the number of banks as well as the development of their assets, capital and profits may be gathered from the following table:

	1987	1988	1989	1990	1991
Number of banking institutions (1), of which	21	23	27	30	36
– commercial banks	5	5	13	22	31
– specialised fin. inst.	16	18	14	8	5
- with foreign participation	3	3	8	13	15
(Billion of HUF)					
Total assets of financial institutions	995.5	1019.4	1247.3	1620.5	2117.0
Own capital	53.2	75.0	93.9	112.7	209.7
Profits	27.4	34.7	49.7	63.2	35.5

(1) Not including 259 savings cooperatives and the offshore CIB.
Source: National Bank of Hungary

The degree of concentration in the Hungarian banking sector has continuously been decreasing since 1987, but is still very high. The reason for this is that a two tier banking system was implemented as recently as 1987, by transferring the commercial lending business of NBH to three newly founded commercial banks. These figure as the "Big Three" among Hungarian commercial banks. On the other hand, small banks -- both Hungarian and foreign-owned -- are gaining market share quickly, not only because of their growing number, but also as a result of the ever widening range of their business activity and services. The savings business is still dominated by the former monopoly National Savings and Commercial Bank. It holds about 75% of all bank deposits, much of which are channelled to the other banks in the form of interbank deposits.

Foreign presence

By end-June 1991, there were 15 joint venture banks in Hungary. The joint ventures' total assets amounted to 234.3 bn HUF on 30 June 1991. Thus, their share of total banking assets was 12.8% (as compared to 10.1% on 31 December 1990).

In five joint venture banks, the foreign partners had their headquarters in EC countries. In addition, 17 foreign banks, among them at least 15 EC banks, had representative offices in Hungary.

Treatment of foreign banks

The Law on Banking Institutions and Banking Activities does not allow the establishment of branches by foreign banks, but representative offices are permitted subject to prior registration. These may assist their headquarters in rendering services and promoting relations with customers in Hungary, but must not pursue any direct banking activities themselves.

Foreign banks can establish joint venture banks with local or foreign partners, as well as set up subsidiaries wholly owned by them. However, the establishment of foreign bank subsidiaries where foreign participation exceeds 10%, or the acquisition of a participation exceeding 10% in a domestic bank is subject to discretionary government licensing. At present, the Government applies an open policy to attract foreign investment in the banking sector.

INSURANCE

Overview

The State monopoly on insurance activities ended on 1 July 1986, when a second insurer, Hungaria Insurance Company, was split off from the former monopoly State Insurance Company. Consequently, both of them set up a subsidiary. After 1988 several large international companies established themselves in Hungary by entering into joint ventures with domestic partners. At the beginning of 1992 all 12 Hungarian insurance companies were joint ventures and in eleven of them foreigners (for the most part from EC states) were the majority shareholders. The shares of the Hungarian State in the Hungaria and State insurance companies are in the hands of the State Property Agency, while the Hungarian shareholders in the other companies are usually financial institutions. Privatisation in the insurance sector has already started. 75 % of the shares of the former monopoly State Insurance Company have recently been sold to an EC insurer, while 25% of the shares have remained in the hands of the State Property Agency (the latter being "golden shares" for five years, giving the State a veto right in certain strategic questions).

The State Insurance Supervisory Authority is the regulatory body which aims at a reform of the insurance sector. The Act on Insurance Companies and Activities to be submitted to Parliament in the second half of 1992 is expected to provide a major impetus towards an accelerated transformation of the sector.

Insurance in figures

In 1991 the number of insurance staff amounted to 12,000 (that is 50% more than in 1987). The gross premium income of the Hungarian insurance sector amounted to 62.2 bn HUF in 1991, which constituted a 56.3% increase over the previous year. Considering a 35% rate of inflation this means a 15.8% increase in real terms. Payments for claims amounted to 51 bn HUF which was an increase of 45.9% over 1990. Due to soaring expenditures for the modernization of products, the insurance sector closed the financial year 1991 with a deficit of 15.4 bn HUF, after having earned an overall profit of 1 bn HUF in 1990. While one insurer accounts for 94% of this deficit, three insurers could earn a profit. The Insurance Supervisory Authority expects the sector's return to overall profitability only for 1993.

There is a high degree of concentration in the insurance sector. The two large companies accepted in 1991 87% of the total premium income in the Hungarian insurance sector. The market share of the third largest Hungarian insurance company was only about 4%.

Treatment of foreign insurers

The establishment of foreign insurance subsidiaries where foreign participation exceeds 10%, or the acquisition of a participation exceeding 10% in a domestic insurance company is subject to discretionary government licensing. At present, the government applies an open policy of licensing and there have been cases of insurance companies being authorised to take over important domestic companies.

The establishment of branches by foreign insurers is not allowed, while representative offices can be opened subject to prior registration.

SECURITIES

The issue of securities was monopolised by the State up to 1982, but since that date it has been possible for all economic organizations, and purchases of securities have been made accessible to individuals as well. A capital market has since been developing with varying success, influenced notably by high rates of inflation at the turn of the decade and the absence of a legal framework and proper market conditions.

The Budapest Stock Exchange (BSE) started its operation on 21 June 1990. It is a self-regulatory body and the statutory rules of its organisation are laid down in the Act on Public Issues and Trading of Securities and the Stock Exchange passed in 1990.

The State Securities Supervision Board is the regulatory body of BSE. The Central Exchange Depository of BSE serves as the securities clearing house. BSE has 49 members and there are 56 authorised brokers and dealers operating in the market. 43 of them have a general

licence, and 13 were granted a restricted one. Brokerage activities are strictly separated from banking. The banks can, however, establish 100% owned brokerage subsidiaries. The trading system used is open outcry supported by a public order book. There are daily sessions of one and a half hour's duration.

At the end of 1991, 21 shares and two bonds were traded on the BSE. While daily turnover fluctuated wildly, the average weekly trading volume in 1991 amounted to approximately 1.21 mn ECU. The market capitalisation was 390 mn ECU by year-end 1991.

So far, only a limited range of investors have been active on the BSE and there are only a small number of shareholders. Institutional investors have not yet appeared on the market. However, due to the Law on Investment Companies which entered into force on 1 January 1992, investment funds are expected to play a major role on the market in 1992.

Foreign presence

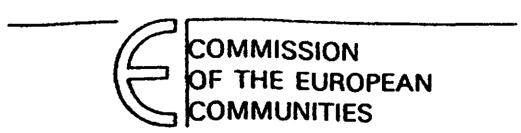
Out of the 54 authorised broker-dealers, one third is partly or wholly owned by foreign investors. Among the broker-dealers approximately one third has foreign partners from EC countries.

NOTE

Under the Europe Agreement concluded at the end of 1991 with the European Community, Hungary agreed to grant national treatment for the establishment of Community banks and other firms and nationals providing financial services, subject to normal prudential requirements. This obligation must be put into effect at the latest ten years after entry into force of the Agreement, foreseen for January 1993.

In addition, Hungary will grant national treatment for any such firms and nationals already established in those countries, at the latest five years after entry into force of the Agreement. Hungary has also agreed to a standstill, i.e. not to adopt any new regulations or measures which introduce discrimination as regards the establishment and operations of Community companies and nationals in its territory in comparison with its own companies and nationals.

Hungary further accepted an obligation to ensure that its legislation will be gradually made compatible with that of the Community inter alia as regards banking law, and the law relating to other financial services.



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

INDIA

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Introduction

GDP in India reached 4,427.7 billion Rupees (Rs) in 1989 (247.68 billion ECU). With a population of 811.82 million, GDP per capita amounted to 545.4 Rs (30.5 ECU). Economic growth is to reach 2.5% - 3% in the year to end-March 1992.

BANKING

Overview

The banking industry in India is largely controlled by the state. The government nationalized the 14 largest commercial banks in 1969 and another six banks in 1980. The Reserve Bank of India (RBI) is the central bank regulating the banking sector under the Banking Regulation Act of 1949.

The Indian banking system by end-March 1990 consisted of 295 institutions with a total of around 59,000 offices. Institutions belong to one of four banking groups:

a) 270 Scheduled Commercial Banks: The biggest group, accounting for about 90% of the country's total banking business, comprises State Bank of India and its seven subsidiaries, twenty nationalized banks, regional rural banks and others including cooperative and foreign banks;
b) 3 Non-Scheduled Commercial Banks.

Both a) and b) provide all general banking services including foreign exchange (except rural and cooperative banks).

c) 4 Development Financial Institutions: These are Industrial Development Bank of India, Industrial Finance Corporation of India, Industrial Credit & Investment Corporation, Export Import Bank of India;
d) 18 State Financial Institutions.

Both c) and d) provide long and medium-term loans, equity capital, underwriting, loan guarantees and advisory services, with d) focusing on small and medium-sized enterprises.

Banking Indicators

Assets, deposits and credits held by Indian banks are shown in Tables I and II.

Table I: Indian Bank Assets (Bn. Rs) - End March		
Bank Group	1989	1990
Scheduled Comm. Banks	1648.80	1963.77
Non-Scheduled Comm. Banks	0.53	0.62
State Cooperative Banks	79.28	90.76
Term Lending Fin. Inst.	378.74	449.41
State Level Institutions	72.04	78.99
Total Bank Assets	2215.39	2583.55

Source: RBI Annual Report 1990-91

Table II: Dep. & Cred. All Sched.Comm. Banks (Bn. Rs)		
	1989	1990
Deposits	1439.24	1703.49
of which: demand deposits	252.74	314.94
time deposits	1186.51	1388.55
Credits	868.18	1031.96
Total Bank Business (Deposits & Credits)	2307.42	2735.44

Source: RBI Report on Currency and Finance-Vol-II (various issues)

Concentration of banks

While the average population served by a bank office was 46,000 in 1971, it had lowered to 14,000 by end-March 1991.

Presence and market share of foreign banks

A total of 24 banks are operating in India in November 1991, nine of which have their headquarters in EC member states. The number of foreign banks' branches is 140. 23 foreign banks maintain representative offices in India. Out of the leading foreign banks' total of 118 branches, EC-based banks hold 85 branches (72%).

Deposits, credits and investments of foreign banks increased sharply during the decade of the 1980s, as compared with the previous decade. Total deposits held with foreign banks were 99.56 billion Rs in September 1990. This came after high growth rates in deposits of over 25% in the second half of the 1980s, peaking at 49% in 1989.

Total credit extended by foreign banks amounted to 52.51 billion Rs Annual growth rates of credit extended by foreign banks were between 15% and 30% in the second half of the 1980s. Investment by foreign banks has also been high, reaching 34.23 billion Rs in 1990, after a record growth of 44.1% in 1989. The credit-deposit ratio was shrinking from 67.3% in 1987 to 52.7% in 1990. The investment-deposit ratio lowered only slightly from 38.1% to 34.4% over the same period.

Table III gives the market shares of foreign banks in terms of branches, deposits, credits and investments, as compared to other Private Scheduled Banks (Other Priv. Sch. B.) and to State Bank of India together with its Subsidiaries and Nationalized Banks (SBI & Subs. & Nat. B.).

Table III: % Shares of Diff. Bank Groups in Broad Banking Aggregates

	1988			1989		
Banking Aggregates	Foreign Banks	Other Priv. Sch. B.	SBI & Subs. & Nat. B.	Foreign Banks	Other Priv. Sch. B.	SBI & Subs. & Nat. B.
Number of Branches	0.32	10.00	89.68	0.31	9.40	90.29
Total Deposits	3.84	4.67	91.49	5.24	4.28	90.48
Total Credits	5.94	4.35	89.71	7.69	3.67	88.64
Total Investments	3.49	4.36	92.15	3.96	4.30	91.74

Sources: various

Market Access Problems Faced by EC Credit Institutions

1. Establishment

There are various obstacles faced by EC banking institutions that want to set up office in India:

In practice, foreign banks are prohibited from establishing, but occasionally licences are granted; India operates a very restrictive reciprocity policy, relating permission to open new foreign bank branches and representative offices to the extent of Indian banks' operations in the applicant's home country. One of the criteria applied in granting licences is the assessment of India's need for financial services. Moreover, foreign investment in domestic commercial banks is prohibited, although a holding up to 40% of an Indian finance company may be allowed for foreign merchant banks. Reserve Bank of India (RBI) pursues a restrictive policy towards authorizing the opening of additional branches, particularly in cities. This policy seems to apply to both foreign and domestic banks. In addition, the relocation of branches set up by foreign banks, if deemed necessary by management, is not permitted.The acquisition of real estate for business/residential purposes requires funds to be remitted from abroad and/or from remittable profits.

Community credit institutions have also drawn attention to the following:

Due to the recent foreign exchange crisis, foreign banks have to fund geographical expansion by non-interest bearing foreign currency remittances. Restrictions apply to the importation of equipment which is not locally available for use in banks' world-wide electronic mail; this applies equally to domestic banks.

2. Activity

Foreign banks' activities are restricted as follows:

Although it is not always the case, higher taxes may be imposed on foreign banks (a 65% tax on foreign bank profits as opposed to 50% on local banks). The repatriation of profits is subject to RBI approval and an 80% ceiling.
Foreign banks may not open ATMs except in existing branches.
There is an obligatory lending requirement to priority sectors (agriculture and small businesses), of at least 12% by March 1990 and 15% by March 1992 (in terms of total lending).

INSURANCE

Overview

The insurance business was entirely nationalized in 1972 and is still completely government controlled. The sector can be classified into two groups:

1) General (Non-life) Insurance: This business is executed by General Insurance Corporation of India (GIC) and its four subsidiaries. GIC acts as a holding company charged with the responsabilities of aiding and advising the four operating companies. The only direct insurance business transacted by GIC itself is Aviation Insurance.

2) Life Insurance: All life insurance business is controlled by the Life Insurance Corporation of India (LIC), established in 1956 by amalgating the business of 245 both Indian and foreign insurance companies.

Performance data on Indian general insurance are only available till 1987. The gross direct premium income of GIC and its four subsidiaries stood at 16.52 billion Rs in 1987 (after 14.23 billion Rs in 1986, and 12.04 billion Rs in 1985). Thus, annual growth rates of premium income were 17% in 1986 and 15% in 1987.

The premium income of LIC in 1989 and 1990, grouped by business lines, is given in Table IV.

Table IV: Premium Income of LIC (Bn. Rs)			
	1989	1990	1990/89
Individual Insurance	29.56	38.30	29.6%
Pension Scheme	1.34	2.06	53.7%
Group Insurance	3.43	4.47	30.0%
Total	34.33	44.89	30.8%

Source: LIC Annual Report 1990-91

Market Access Problems Faced By EC Insurance Companies

1. Establishment

Insurance in India is a state monopoly. No foreign insurance companies are allowed to operate in India, however, aviation, marine and oil installation as well as large industrial risks may be reinsured with companies abroad.

2. Activity

Not applicable, due to the sector being closed to foreign companies.

SECURITIES

Overview

The number of stock exchanges in India have increased from seven in 1946 to nineteen in 1990. Activity on the stock exchange is mainly concentrated in corporate securities. Government securities listed on the stock exchanges do not enjoy an active secondary market, though the gilt-edged securities market is much larger than the one for private sector securities. The Securities and Exchange Board of India (SEBI) was set up to supervise securities and merchant banking in 1988.

Some key indicators for the securities business are shown in Table V.

Table V: Securities Markets Indicators (End March)			
	1988	1989	1990
No. of Stock Exchanges	15	n.a.	19
Number of Listed Companies	5,841	n.a.	5,968
Capital of List.C. (Bn. Rs)	214.65	n.a.	277.61
Capitalization (Bn. Rs)	513.79	n.a.	705.21
Turnover on BSE* (Bn. Rs)	79.12	205.62	293.84
BSE Turnover as % of GDP	2.38	5.21	6.64
New Capital Issues by Non-Government PLCs (Bn. Rs)	17.77	31.65	64.37
New Capital Issues by Govt. Companies (Bn. Rs)	27.39	25.66	35.79
Total New Capital Issues (Bn. Rs)	45.16	57.31	100.16

*The turnover on Bombay Stock Exchange (BSE) equals about 75% of the overall turnover of all stock exchanges in India.
Source: Stock Market Review of India, 1991

Market turnover on the BSE nearly quadrupled from 1987-88 to 1989-90, so did new capital issues by non-government corporations. Total new capital issues more than doubled during the same period.

The structure of stock outstanding on all Indian stock exchanges by 31st March, 1990, may be gathered from Table VI.

Table VI: Structure of Stock Outstanding (March 1990)				
	Equity	Deb./Bonds	Pref.	Total
No. of Stock Listed	6,360	1,244	685	8,289
Capital Listed (Bill.Rs)	126.91	148.86	1.73	277.5
Capitalization (Bill.Rs)	554.17	149.36	1.68	705.21

Source: Stock Market Review of India, 1991

Both in absolute figures and in terms of market value, three quarters of all stock listed on Indian stock exchanges come in the form of equity. Fixed-income securities though provide more than 50% of the capital outstanding.

Market Access Problems Faced by EC Securities Firms

1. Establishment

Under the Securities Contracts (Regulations) Act from 1956, which regulates stock markets in India, foreign brokerage companies are not allowed to operate directly in the Indian stock markets.

2. Activity

Discriminatory treatment is to be found in two major areas:

* Foreign merchant banks, though they are permitted to engage in merchant banking activities, are limited in the expansion of branch networks.
* Overseas funds to attract investment by non-resident Indians are not given the same tax concessions as the Government-owned funds.

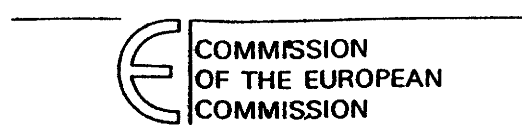
Furthermore investment institutions, as well as banks, are required by statute to maintain government securities in a certain proportion to their investment portfolio.

Outlook

In late 1991, a government committee on financial reforms recommended a variety of changes. According to these, more foreign banks are to be permitted to operate branches in India in the future. Foreign banks shall also be free to establish joint-ventures with Indian banks.

It has recently been proposed to open up the stock market to overseas pension funds.[1]

1 See: Financial Times, 13th March, 1992



**TREATMENT ACCORDED IN THIRD COUNTRIES
TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES**

INDONESIA

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Introduction

GDP measured in current prices reached 197,721.0 billion Rupiahs (Rp) in 1990 (84.25 billion ECU[1]). With a mid-year population of 178 million inhabitants, GDP per capita amounted to 1,11 million Rp (473.34 ECU). Real GDP growth in 1990 was at 7.4%.

BANKING

Overview

A package of deregulation measures was passed in the financial sector in late 1988. This led to a significant expansion of bank credit as well as a mobilisation of deposits and an increase in the number of bank offices. On the other hand, a large number of speculative loans have since failed, primarily in the areas of real estate and share dealing. A comprehensive set of banking supervisory guidelines was therefore passed in February 1991, aimed at improving the soundness and efficiency of the Indonesian banking system. Until only recently, Indonesian banking was regulated by the Banking Act 1967. Bank supervision has so far been carried out by the Ministry of Finance. Under the new Banking Act passed in February 1992, powers previously in the hands of the Minister of Finance, including banking supervision, will be transferred to the Governor of the Central Bank.

The banking system at the end of March 1991 is made up by the following institutions:

1) Bank Indonesia (BI), the central bank, also pursuing some minor commercial banking business;

2) 144 commercial banks, comprising five state commercial banks, 111 private national commercial banks and 29 foreign/joint venture banks;

3) 29 development banks, out of which the state and the private sector own one each, while there are 27 regional development banks;

4) 3 savings banks, one state-owned and two private ones.

These 176 commercial, development and savings banks with a total of 3,715 bank offices are supplemented by

5) 8,058 rural credit banks. Altogether, the Indonesian banking system counts with 11,773 bank offices.

In addition to functional criteria, Indonesian banks are often classified by ownership structures. Accordingly, the banking system comprises state banks, private national commercial banks, regional development banks and foreign banks. These specialised categories of banks are eliminated by the new Banking Act (see Outlook).

1 Translation was made at the 1990 yearly average exchange rate of 1 ECU = 2,346 Rupiahs.

Apart from the banking system, the 14 non-bank financial institutions (NBFIs) with a total number of 22 offices are to be mentioned. They have gradually been treated as banks, especially in the conduct of supervision. In addition to their acting as intermediaries and trustees for medium- and long-term loans and investments, NBFIs pursue merchant banking activities.

Furthermore, 122 financing companies are active in Indonesia which are companies other than banks and NBFIs. There were 115 companies engaged in leasing, 47 in factoring, 33 in venture capital, 30 in credit card business, and 47 in consumer financing (each company may engage in more than one financing activity). By ownership, there are one state-owned company, 87 private national companies, and 34 joint-venture companies engaged in leasing companies. The share of joint-venture leasing companies in all leasing companies' assets of 6,648 billion Rp is 49.5%.

Banking Indicators

The total assets of the Indonesian banking system were 138,425 billion Rp in March 1991, which constituted a 34% increase over 1990.[2] State banks held 77,287 billion Rp (55.8%), private national commercial banks' assets were 46,873 billion Rp (33.9%). Regional development banks contented themselves with assets of 4,009 billion Rp (2.9%), while foreign banks held 10,256 billion Rp (7.4%). The state banks' well above 50% shares in total assets as well as in credit outstanding (see Table II) shows that the banking sector is still dominated by the state banks. State banks are said to have a comparative advantage in terms of public confidence and take advantage of their ability to mobilize public funds.

The banking system's outstanding deposits and credits are shown in Tables I and II.

Table I: Banks' Deposits (Bn Rp) - 31 March

	1989	1990	1991
Demand deposits	10,543	15,978	17,949
Time deposits	26,475	36,350	49,840
Savings deposits	2,485	6,864	9,722
TOTAL DEPOSITS	39,503	59,192	77,511
Of which: Foreign currency	6,933	10,689	20,519

2 The exchange rate in March 1991 was 1 ECU = 2,678.68 Rupiahs.

Table II: Banks' Credits (Bn Rp) - 31 March			
	1989	1990	1991
State Banks	30,270	42,589	54,699
Private National Comm. Banks	11,441	22,684	35,641
Regional Development Banks	1,238	1,814	2,512
Foreign Banks	1,994	3,786	6,837
Bank Indonesia	1,583	691	724
TOTAL CREDITS	46,526	71,564	100,413
of which: Foreign currency	1,911	5,750	12,298

Source: Bank Indonesia

Concentration of banks

The average population served by a bank office in Indonesia is about 15,100.

Foreign Presence

A total of 11 foreign banks hold branches in Jakarta, three of which have their headquarters in EC countries. The three European banks, like some other foreign banks, have subbranches in the city of Surabaya. There are 18 joint venture banks in Indonesia, with a European partner in one of them.

Out of the 59.562 billion Rp in total time and savings deposits held by the Indonesian banking system at end-March 1991, 3.760 billion Rp (6.3%) were deposited with foreign and joint-venture banks. Foreign banks recorded credits of 6,837 billion Rp (i.e. 6.8% of all banks' credits of 100,413 billion Rp).

Market access problems faced by EC banks

1. Establishment

Receiving a license as a foreign bank is subject to a variety of restrictions. Foreign banks are required to enter into joint ventures with local banks. In such case, the maximum share of foreign ownership is 85% of the paid-up capital. Indonesia looks closely whether Indonesian banks receive reciprocal treatment in the bank's country of origin. Reciprocity is also an important consideration in permitting foreign ownership of finance companies. Furthermore, branches of foreign banks and joint venture banks may only be established in eight Indonesian cities. In fact, foreign and joint venture banks have so far only been able to open their branches/subbranches in four out of these eight cities.

2. Activity

The capital requirement for joint venture banks is higher than for local banks. In addition, while foreigners may acquire stock in Indonesian banks, they may not gain a controlling interest.

Community credit institutions have also drawn attention to the fact that interest payments made to banks or other financial institutions located abroad are subject to taxation at source of up to 20%. As of refinancing with Bank Indonesia, the amount of any bank's swap transactions may not exceed 20% of the bank's capital; the Indonesian authorities indicate that this restriction is applied for prudential purposes.

INSURANCE

Overview

The insurance industry has grown steadily after the sector was deregulized in December 1988. As reflected by the increase in the number of companies and total assets, insurance activity expanded significantly in 1990. The number of insurance companies rose from 133 to 141 at end-December 1991, comprising 45 life insurance, 5 social insurance, 87 indemnity insurance, and 4 reinsurance companies. The total assets of insurance companies (excluding social insurance) reached 3,450.5 billion Rp in March 1991, which constituted a 30.6% increase over March 1990. Of total assets, non-life insurance companies (including reinsurance companies) held 2,137.6 billion Rp (63.8%), while life insurers counted with 1,212.9 billion Rp (36.2%).

Foreign presence

The activity of foreign insurance companies is only permitted in the form of a joint-venture company with local partners. In the non-life insurance sector there are six joint ventures with EC partners and seven non-EC joint-venture companies. In life insurance only four non-EC joint-venture companies are active. Foreigners generally are majority shareholders in insurance joint-venture companies. The joint ventures' market shares in premiums may be gathered from Tables III and IV.

Insurance indicators

The main indicators of the life insurance business, together with the market shares of foreign joint ventures, are shown in Table III. Table IV gives the same data for non-life insurance.

Table III: Life Insurance Indicators (Bn. Rp) - 1990

	All Life Insurers	Non-EC Joint Ventures	Non-EC Market Share
Total Direct Premiums	440.481	43.499	9.9%

Table IV: Non-Life Insurance Indicators (Bn. Rp) - 1990					
	All Non-Life Ins.	EC Joint Ventures	EC Market Share	Non-EC For.J.Vs.	Non-EC Mark. Sh.
Total Direct Premiums	1,320.913	37.019	2.8%	113.579	8.6%
Reinsur. Prem. Pd. to Establ. Insur.	341.115	6.248	1.8%	46.638	13.7%
Reinsurance Prem. Paid to Abroad	510.348	8.231	1.6%	48.387	7.5%

Source: Ministry of Finance, Jakarta

Market access problems faced by EC insurance companies

1. Establishment

Unless a joint venture company is founded with a local partner, no new permits are granted to foreign companies. According to a 1988 decree by the Minister of Finance, non-life insurance and reinsurance joint venture companies can be set up. However, foreign ownership shall be limited to 80%. The minimum paid-up share capital of non-life insurance joint venture companies is 15 billion Rp, as compared to a 3 billion Rp capital requirement for local companies. Reinsurance joint ventures are required to have a minimum capital of 30 billion Rp, while 10 billion Rp. is the amount for local companies. In the case of life insurance companies, the paid-up capital required from a joint venture is 4.5 billion Rp, and 2 billion Rp for a local company.

2. Activity

Government property may only be insured by state insurance companies or local companies.

Community insurance institutions have also drawn the attention to the following: There is a ban on US Dollar denominated insurance policies. Government regulations require 75% of a life insurance company's outstanding premiums to be invested inside Indonesia. However, this regulation is currently being amended and it is planned to eliminate such limitation. Insurance joint ventures -- like most other insurance companies -- have to keep most of their reserves in the form of bank deposits, therefore being particularly affected by the 35% tax on interest paid on bank deposits.

SECURITIES

Overview

Stock and bond financing has expanded greatly since the 1988 deregulation of the capital markets. Factors contributing to this development were the permission given to foreign investors to buy stocks listed in the stock exchange as well as the imposition of income tax on interest earned from time and savings deposits. Capital market supervision is carried out by the independent Capital Market Supervisory Agency (BAPEPAM).

The surge in capital market activity on the Jakarta Stock Exchange may be gathered from Table V.

Table V: Developments on the Jakarta Stock Exchange

	1989	1990	1991
STOCK			
No. of companies listed *	62	128	143
Emission value (Bn. Rp)	2,009.9	7,592.5	9,176.0
Foreign investment (Bn. Rp)	555.7	3,794.6	3,805.4
Market turnover (%)**	22.5	21.5	35.2
BONDS			
No. of companies listed *	22	23	24
Emission value (Bn. Rp)	1,495.2	1,890.2	2,215.2

* As of 31 December
** Market turnover = $\frac{\text{Cumulative value of trading (1 year, Rp)}}{\text{Market Capitalization (end of year)}} \cdot 100\%$

Sources: BAPEPAM, Ministry of Finance and BEJ

The Jakarta Stock Exchange is currently being privatised. The Indonesian authorities are also considering measures to enhance the attractiveness of the domestic bond market to both issuers and investors, with the support of technical assistance from donors, including the Asian Development Bank.

Market access problems faced by EC securities firms

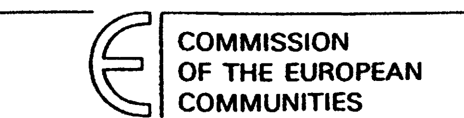
1. Establishment

Foreign financial institutions can only invest in the securities business by establishing a joint venture with a maximum 85% foreign participation. The minimum paid-up capital of national underwriters is 5 billion Rp; for brokerages, traders and investment managers the amount is 500 million Rp. For foreign joint ventures, the amount doubles.

Outlook

A new Banking Act was passed on 17 February 1992. It provides for only two kinds of banks, that is commercial banks and smallholder credit banks; commercial banks can specialise themselves on certain business activities. The new law allows foreigners to buy shares of local banks listed on local stock exchanges, but bars them from gaining a controlling majority. The new law requires foreign joint venture banks gradually to hand over managerial posts to Indonesian executives.

As regards the insurance sector, a new Law on Social Security has recently been passed. It remains yet to be seen whether the private sector will be given the same opportunities as the state-owned insurance companies in the implementation of the new social security scheme. The freedom of choice of insurance cover is also questioned under the new Bill on Land Transportation which will have major consequences for motor insurance.



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

JAPAN

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Introduction

Japan pursues at present a policy of national treatment for foreign financial institutions in the banking, insurance and securities sectors, both as regards their establishment and operations. In a number of areas, Japan has introduced greater flexibility in their regulations to take into account the specific characteristics of foreign financial institutions and of the way they are regulated in their home country, and grants foreign financial institutions certain business opportunities not available to domestic institutions.

Over the years, foreign financial institutions have experienced a number of market access problems in Japan, due in most instances to particular non-discriminatory features of Japan's financial market; many of their concerns have already been addressed through regulatory action of the Ministry of Finance (MoF), which has taken in recent years a number of important measures to liberalize and modernize Japan's financial system. In addition, further measures to liberalize the market and which would deal with many of the remaining problems for foreign institutions, have been proposed in the banking and securities area, or, in the case of insurance, are under active consideration in Tokyo. As a consequence of such regulatory action, many of the outstanding problems are expected to disappear or diminish considerably.

The overwhelming majority of the issues mentioned in this chapter fall under this category of problem stemming from particular non-discriminatory features of Japan's financial market, and which are in many instances being addressed currently by Japanese authorities. These issues are referred to in this chapter with an indication of the measures being adopted or proposed by the MoF, and cannot be assessed properly independently from these regulatory developments.

Among these problems related to regulatory structure, there have been frequent complaints by foreign institutions about lack of transparency of regulations and practices, in particular concerning licensing procedures. Also in this context important improvements have taken place, and foreign financial institutions have been increasingly involved in the Government's consultation procedures, and efforts have been made to improve clarity of guidelines and criteria for decision.

In certain other instances, problems faced by foreign firms arise from particular features of the Japanese market, including aspects related to business culture, which largely escape the scope of regulatory action of Japanese authorities. These issues, such as problems related to acquisitions of domestic institutions, are mentioned in this chapter in order to provide a complete picture of the main problems faced by foreign financial institutions in Japan.

Overview

Banking

The Japanese banking system is highly segmented although the distinctions between the various types of bank are becoming more and more blurred. Within the core category termed "All Banks" in the BOJ statistics i.e. the 153 banks which are members of the Federation of Bankers Associations of Japan, the following divisions exist:

- City Banks whose headquarters are in a large metropolitan area and who have a wide network of branches;
- Regional Banks: their headquarters are located in a local city and they have notworks of branches in the local area;
- Member Banks of the Second Association of Regional Banks; this comprises former Sogo Banks which recently converted to regional banks status;
- Trust Banks; these may operate trust business as well as banking business but the two must be managed separately;
- Long-term Credit Banks; these are organized under the Long-term Credit Law of 1952 and have a primary function of lending long-term to Japanese industry.

Table 1: Assets and deposits of the banking sector, end-year

Assets (¥ trillion)	1988	1989	1990	1991
"All Banks"	582.0	676.4	728.6	730.8
of which				
- City Banks	281.8	328.3	352.3	345.9
- Regional Banks	143.2	164.5	179.4	186.1
- Regional Banks II[1]	55.5	62.7	68.2	70.3
- Trust Banks	42.2	51.1	53.2	52.0
- Long-term Credit Banks	59.3	69.8	75.3	76.5
Shinkin Banks	76.1	87.4	95.2	99.3
Agricultural Coops	50.0	54.3	59.1[2]	n.a.
Deposits (¥ trillion)	**1988**	**1989**	**1990**	**1991**
"All Banks"	358.3	405.5	436.2	428.5
of which				
- City Banks	172.8	195.5	209.6	197.3
- Regional Banks	120.5	136.0	147.5	153.9
- Regional Banks II	47.7	52.6	57.0	58.6
- Trust Banks	10.5	13.6	14.7	12.7
- Long-term Credit Banks	6.8	7.9	7.4	5.9
Shinkin Banks	65.6	74.3	82.1	85.6
Agricultural Coops	47.3	51.5	56.4	61.2

Source: The Bank of Japan
[1] Second Association of Regional Banks including Sogo Banks

In addition to "all Banks" there is a group of small local banks (Shinkin) and credit cooperatives, particularly in the agricultural sector. There is also a large public-sector centered mainly on the EXIM Bank of Japan and Japan Development Bank.

Significant changes have taken place in the Japanese banking system over the past decade.

- Interest rate controls on large deposits have been progressively relaxed. This has mainly affected city banks. There is corresponding pressure for flexibility on loan rates to reflect more closely the marginal cost of funding.

- Retail-type lending has increased both directly and indirectly through non-banks and there has been a rise in the number of small firm borrowers.

- There has been a tendency for the maturity on loan portfolios to lengthen as the maturity structure on the liabilities side has also lengthened even though commercial banks are not allowed to accept deposits in excess of three years maturity.

- Banks have moved into securities type business (bond dealing, CPs and private placements).

Table 2: Number of institutions, end year

	1988	1989	1990	1991
"All Banks"	155	154	154	153
of which				
- City Banks	13	12	12	11
- Regional Banks	64	64	64	64
- Regional Banks II	68	68	68	68
- Trust Banks	7	7	7	7
- Long-term Credit Banks	3	3	3	3
Shinkin Banks	455	454	451	443
Agricultural Coops	4,024	3,795	3,600	3,474

Source: Bank of Japan

More recently a combination of poor results and the need to comply with the BIS ratios has compelled Japanese banks to change business behaviour. This has involved:

- pulling back from cut-price strategies designed to gain market share, restraining asset growth and putting more emphasis in loan spread and quality of customer;
- improving risk management and internal reporting requirements;
- increased merger activity among city banks.

Smaller banks have not yet felt the major effects of interest rate decontrol, which should be completed by the end of 1994, and competition continues to increase for household and small enterprise savings. Their strong local connections will benefit them in this respect but they face heavy costs in upgrading facilities. A tendency for merger has been notable recently among Shinkin banks.

There has been a blurring of the distinction between trust banks and commercial banks. In the past these banks concentrated on lending to large corporations. With moves towards direct financing during the 1970s and 1980s, services and real estate firms have become important customers and there has been a marked increase in lending to small firms.

Draft legislation will allow Long-term Credit Banks to convert into commercial banks and to merge.

Presence and market share of EC and other foreign financial institutions

(a) Commercial Banks

In June 1991 there were 88 foreign banks with 136 branches established in Japan. There were also 120 representative offices. Of these foreign banks 31 were from the European Community with 41 branches and 49 representative offices. Market penetration remains low - 3.8% of total assets at March 1991. The share of total loans and discounts at March 1991 for foreign banks and for Community banks was 2.7% and 1.7% respectively.

Table 3: Foreign banks in Japan

Registered Office	Banks	Branches	Rep. Offices	Affiliated firms
European Community[1]	31	41	49	1
USA	19	36	10	6
Asia	22	41	18	0
Others	16	18	43	2
Total	88	136	120	9

Source: Ministry of Finance, Tokyo

[1] Includes 3 banking subsidiaries established in the Community by 3 American investment banks.

European Community banks accounted for 62% of the foreign bank lending in Japan at end March 1991. Community banks tend to concentrate more on traditional banking business while US banks have their relative strength in the derivative business. Loans and discounts account for a proportionately smaller share of the assets of foreign banks than of Japanese banks.

Japanese banks fund themselves through deposits to the extent of about 60% of total liabilities. Foreign banks, on the other hand, rely heavily on the call money market and on borrowings from head office. At end March 1991, for example, call money accounted for 19% (21% EC) of the liabilities of foreign banks compared to only 4% for all Japanese banks and off-shore deposits accounted for a further 17% (19% EC). Thus foreign banks are highly dependent on the most short-term and volatile sources of refinancing.

(b) Trust Banks

There are 9 foreign trust banks operating in Japan, one of which is from the EC. Against the background of the stock market boom to the end of 1989 foreign trust banks expanded their business rapidly, mainly in "fund trusts", where they manage trust securities on a discretionary basis for their clients, and "specified money trusts" ("tokkins"), where funds are managed in accordance with the investors instructions. Following the stock market crash growth of assets slowed substantially.

Table 4: Market share of foreign banks in Japan

	March 1989	March 1990	March 1991
All foreign banks			
- Deposits and CDs	0.89	1.25	1.12
- Loans and discounts	1.66	2.38	2.67
- Total assets	3.36	3.70	3.83
EC banks			
- Deposits and CDs	0.56	0.89	0.75
- Loans and discounts	1.02	1.56	1.66
- Total assets	1.93	2.21	2.28

Source: Economic Statistics Monthly, Bank of Japan, and "Published Balance Shets of Foreign Bank Branches in Japan at 31 March 1991, KPMG Peat Marwick

Note: Figures are the total of domestic accounts (excluding Tokyo offshore accounts) of 12 city banks, 3 long-term credit banks, 7 trust banks, 64 regional banks and 68 member banks of the Second Association of Regional Banks. Figures for foreign banks include Tokyo off-shore accounts (no separate data available)

TREATMENT OF CREDIT INSTITUTIONS

Foreign banks generally enjoy national treatment in Japan, as regards both establishment and operating conditions. Difficulties have arisen in the past as a result of institutional or behavioural features of the Japanese market ; foreign firms have also expressed concern about administrative guidance and lack of transparency. Some EC banks have encountered difficulties, in particular as regards funding in local currency for expansion of their activities.

Japanese authorities have been aware of these problems and have introduced in the last years a number of important improvements, for instance in the area of funding and expansion into securities activities; similarly, efforts have been made to improve transparency of regulations and to involve foreign banks in the Government's consultation procedures. The Community expects these efforts to continue as a result of reform proposals recently introduced into the Diet.

Establishment

At present Japan follows an open policy and welcomes foreign participants in the market. The main restriction, which is non discriminatory, is the segmentation of activities imposed by Japan's regulations; there are also market barriers to foreign acquisitions of domestic banks.

a) Segmentation of activities

Japan has a specialized financial system, and there is a strict separation between banking, securities and insurance activities. Access to certain activities is subject to obtaining a separate licence or in some cases to the constitution of a separately capitalized company. This applies, for instance, for access to the trust business, to the pension fund management business, or to securities brokerage or underwriting, which are not considered in Japan as part of the banking business.

Although these restrictions apply in the same form also to Japanese firms - and in some important respects additional flexibility has been introduced specifically for foreign firms - such segmentation can prevent banks coming from countries where such activities are normally carried out by banks to compete in Japan with all their competitive strength. In certain cases, their competitive advantage stems from their expertise in combining the different characteristics of the financial services they may provide in their home market, and from their ability to offer to their customers a complete range of financial services tailored to their needs, independently of regulatory constraints.

Several bills for the reform of Japan's financial system, discussed in more detail in the securities section, were adopted on 19 June 1992 and will ease these restrictions.

b) Acquisition of domestic banks

Although there are formally no regulatory barriers to foreign takeovers, acquisition of domestic banks by foreign interests is difficult because of frequent cross-shareholding between banks and Japanese firms.

Activity

Although a number of measures to facilitate foreign bank' operations have been introduced in recent years, certain problems are still reported to exist. Among them are difficulties in funding in yen and access to new products; another problem, stemming from business patterns of the Japanese market, concerns the nature of the business relationships between Japanese banks and commercial firms.

a) Funding problems

The main problems posed in this area concern conditions for funding in the inter-bank market, and the ability of foreign banks to compete for deposits in terms of interest rates. Regulators have recently adopted a number of measures intended to address certain problems; thus, an uncollateralized call market was introduced by market participants, and the uncollateralized and collateralized call markets moved to a compe-

titive offer-bid system in 1988 and 1990 respectively; foreign banks have increasingly been granted a fairer access to Bank of Japan's lending and rediscount facilities (including expansion of their rediscount quotas and discount of commercial bills); and the Bank of Japan confirmed in 1990 that direct dealing in the interbank market is not legally restricted.

Foreign banks rely heavily for funding on the inter-bank money market and the call market, due to a large extent to the absence of an extensive branch network for the collection of deposits. The inter-bank money market has expanded progressively as a result of the improvements introduced, but there are still reports concerning certain deficiencies in the domestic yen inter-bank money market. In effect, inter-bank money market may be used, by tradition rather than because of any legal requirement, only through the intermediation of a money broker (Tanshi). Due to a number of factors linked partly to the assessment of creditworthiness of foreign banks on the basis mainly or exclusively of their Japanese operations, it is reported that foreign banks are often given in the market second-tier rates which increases their costs for funds. However, Japanese authorities deny that foreign banks suffer from high-cost funding ; in particular, the Bank of Japan declared in December 1990 that it is legally possible for market participants to carry out inter-bank transactions without using a Tanshi as a broker, and inter-bank transactions have been increasing in recent years.

A measure which has made in the past funding by foreign banks difficult is the regulation of interest rates for deposits. Regulated interest rates, normally at artificially low levels, have had a double effect. On the one hand, the restrictions on the ability of foreign banks to compete in terms of interest rates has made it more difficult for them to fund themselves through domestic deposits and therefore to compete with domestic banks which do have an extensive branch network. Low regulated interest rates have given Japanese banks an indirect subsidy, since they could fund themselves extensively at below market rates, thus increasing their relative competitiveness and facilitating their dominance in the Japanese market.

However, the MoF has been carrying out a process of gradual elimination of interest rates controls, and at present interest rates for about 70 % of total deposits are not regulated. In July 1991, the MoF and Ministry of Posts and Telecommunication announced a schedule for complete deregulation by 1994 of interest rates for all deposits, excluding checking accounts. It is thus expected that the completion of the process of deregulation of interest rates for deposits will facilitate funding by foreign banks.

b) New financial products

As explained in more detail in the section on securities, the definition of securities given in the Securities and Exchange Law is narrow and does not take into account the blurring of the frontier between banking and securities products; in certain instances, it has resulted in slow new product approval. This has had an adverse effect on the competitiveness of foreign institutions, which have acquired, in their home market or in other markets, an expertise in innovative securities products which are very linked to their banking activity, and therefore cannot fully exploit this competitive advantage in Japan.

THE INSURANCE INDUSTRY

Overview

The relative importance of the insurance sector in the Japanese financial system has increased markedly since the mid-1980s. This is because insurance is an increasingly important means of personal savings in Japan. Life insurance premiums as a percentage of GDP were the highest in the world in 1989 and in terms of total premiums as a percentage of GDP Japan ranks fourth in the world. In absolute terms the Japanese life insurance market is now equal to that of the USA. This is also reflected in the asset growth of insurance companies, estimated at 22.8% annually between 1986 and 1990 compared to 13.1% for all financial institutions.

Table 5: Indicators of Insurance Business

	Year	Life	Non-Life	Total
Premiums ¥ bn	1985 1989	15,646 28,558	6,869 9,692	22,515 38,250
Premiums as % of GDP	1985 1990	4.8 7.0	2.2 2.5	7.0 8.4
Total assets (¥ trillion)	1989	117	26	146

Source: OECD insurance statistics

Insurance services are offered by private companies, the government and cooperative associations. Under the Insurance Business Law of Japan (Article 7) life insurance business is separated from non-life, but the separation is now becoming blurred with some policies being sold by both life and non-life firms. Private companies account for about 75% of premium income while the government and cooperative associations account for about 15% and 10% respectively. But, growth of assets has slowed in recent years as other savings instruments have become more competitive.

Foreign presence in the insurance market

There are 10 foreign insurance subsidiaries established in Japan. In addition there are 3 foreign life insurance firms and 35 foreign non-life firms operating branches. Foreign life insurers are weak in the annuities business reflecting their limited sales force and branch network and the general emphasis by Japanese clients on a long-term business relationship with insurers. However foreign life insurers are strong in providing some niche products. Foreign firms however accounted for only 2.4% of premium income of life companies in 1990 and 2.7% of non-life business.

On the other hand the foreign firms have been able to engage in business similar to domestic firms in the non-life market because about 90% of sales in this section of the market is carried out by agents.

Table 6: Number of foreign insurance firms, 1992			
	Life	Non-life	Total
Subsidiary	6	3	9
Branch	14	34	48

TREATMENT OF EC INSURANCE COMPANIES

Japan's law and regulations formally grant EC insurance companies national treatment as regards establishment and operation in Japan. Problems faced by EC insurance companies essentially arise from certain characteristics of the regulatory system and from regulations which are not applied in a discriminatory manner.

Since foreign insurance companies do not have the size or business relationships of their long-established Japanese counterparts, their competitive edge lies to a large extent with their ability to offer innovative insurance policies and with the possibility of marketing them at the lowest possible cost. Some indication of these difficulties is provided by the fact that, despite the number of foreign companies operating in Japan, they account only for a tiny fraction of premium income.

The main problem areas, which stem from non-discriminatory regulations, concern access to the pension fund market, prior approval of new insurance policies, and restrictions regarding insurance intermediation. There are also concerns as to how deregulation of the life/non-life segmentation may be carried out.

The Insurance Industry Advisory Council issued on 17 June 1992 a report containing recommendations for a comprehensive review for the regulation of the insurance industry. Such recommendations deal to a certain extent with some of the problems raised here. It also recommends increased transparency as regards licensing procedures and the criteria used for the adoption of decisions.

a) Access to the pension fund management business

Foreign firms may have access to the management of pension funds in two ways: (a) if they have a trust banks license or a life insurance license in Japan they have an automatic access to all private pension funds in Japan; (b) foreign securities firms not being life insurance companies or having a trust license may enter the pension fund business

through an "investment advisory company"; however, the scope of pension fund management open to those firms is limited to new inflows, and is not extended to all corporate pension funds and to public pension funds.

Access in the second form implies a number of rigidities making market access difficult; although the Japanese authorities have adopted a number of measures to provide greater flexibility in the operation of such firms (for instance, in December 1991 foreign investment companies were allowed to invest up to 70 % of the pension fund assets in foreign securities - the limit is 50 % for domestic firms -, and the minimum amount of contracts has been reduced for foreign firms to 0.5 m Y from 1 m Y), investment advisory companies at present have only access to a small fraction of total Japanese pension funds, which is estimated to be around 5 %.

b) Prior authorization of insurance contracts

Streamlined procedures for checking policy conditions and premium rates are essential for Community insurance companies to be able to compete with Japanese insurance companies. At present insurance policies are subject to prior approval by the MoF, which applies not only to the introduction of completely new products, but also to the modification of an existing product. Tariff rates are also subject to prior approval.

Although a "file and use" system was introduced for certain non-life insurance policies, which allows insurance companies to deal in their products only subject to notification of additional policies when the main policies have already been authorized, such a system is very limited in scope due to present laws. There have been complaints about frequent delays in processing applications.

Similarly, there are no timescales for decisions on product approval, and is has been reported that there are no clear guidelines as to which documentation should be provided for product approval. However, the MoF indicates that the Insurance Business Law and other regulations clearly indicate the documentation needed for prior approval.

Tariff rates for non-life insurance policies are in practice fixed, within certain ranges, by two separate Non-Life Rating Associations, mainly composed of representatives of Japanese companies; however, member companies of the rating associations can deviate from the range fixed in certain circumstances. Although insurers have no obligation to subscribe to the rating associations, it is more expensive and unpractical not to pass through them.

The Insurance Council report contains a number of recommendations concerning the product approval system. It recommends a simplification of basic documentation requirements and a shift from an approval system to a reporting system for tariff rates, as well as for policy conditions for certain product lines where there are no major concerns of policy holder protection.

A number of improvements could be introduced without affecting adversely consumer protection: thus, the present burdensome system of prior approval could be replaced in general by a notification system

("use and file"). The areas where prior authorization is deemed to be necessary and is maintained could be substantially reduced, more widespread use of the "file and use" system could be made, and a short time limit could be fixed in which decisions on authorizations should be taken; after such a period, authorization should be deemed to be granted unless the MoF objected, and decisions taken could be subject to review. The same could apply for the approval of premium tariffs.

c) Insurance brokers

Life insurance companies may operate only through tied agents. As regards non-life insurance, there is a "multiple agency" system, according to which insurance agents may sell contracts of several insurance companies. A system of insurance brokerage as known in the Community or in other jurisdictions does not exist in Japan. The absence of such a system, although in itself not discriminatory, may make difficult the distribution of insurance policies by foreign insurers, since foreign firms do not have large insurance agent networks as their Japanese counterparts. The existence of a brokerage system would allow foreign insurers to sell their policies more easily and on the merits of the insurance policy itself rather than because of the strength of the distribution network.

The Insurance Council report recommends a review of the Law on Control of Insurance Soliciting on order to allow diversification of distribution channels for insurance products; in particular, it proposes to open the way for the introduction of the brokerage system in order to provide users with advice from an neutral position on insurance products suitable for the needs of consumers. A question left open is whether insurance brokers would be allowed to offer both life and non-life insurance policies.

d) Segmentation between life and non-life insurance

At present life insurance companies cannot enter the non-life insurance business and, conversely, non-life insurance companies cannot enter the life insurance business. This is not a discriminatory restriction, and foreign insurers have been given increased flexibility and have been allowed to operate in both the life and non-life business through separate subsidiaries, which is not permitted to domestic firms. Life and non-life insurers are allowed, however, to operate directly in a grey area between life and non-life, called the "third area", which includes classes such as personal accident, sickness, nursing care and hospitalization insurance.

Foreign insurance companies, which are very active participants in the "third area", are concerned that any possible further mutual access to the "third area" should not be granted unless by means of separate subsidiaries, in particular in order to prevent cross-subsidization by the largest insurance companies.

The Insurance Council has recommended to allow life and non-life insurance companies to enter each other's business through separate subsidiaries. As regards the "third area", it has recommended that existing life and non-life insurance firms should in principle be allowed to sell "third area" products, but it has indicated that such

permission, its modalities and timetable should be subject to further consideration and be conditional on harmonization of institutional differences between life and non-life insurance companies. It has also indicated that a phase-in approach should be taken for certain types of policies in which small and medium-sized insurers, including foreign insurers, are specializing heavily.

SECURITIES COMPANIES

There were 217 Japanese securities companies licensed at the end of 1991. These vary widely in size, but the domestic securities business is effectively dominated by the so-called Big Four - Nomura, Daiwa, Nikko, Yamaichi. According to article 65 of the Securities and Exchange Act (1948) banks are prohibited from engaging in securities business but under planned new legislation more that 50% owned subsidiaries of banks and securities companies will be allowed to engage in each others business. But the securities subsidiaries of banks will not be allowed into the stock brokerage business for the time being.

Japan's securities industry is currently facing its most adverse conditions since the mid-1960s. The industry has been thrust into a drastic contractionary phase by the confluence of structural problems and the collapse of market activity. Lower income from the shrinking stock market and higher costs associated with the companies' past capacity expansion are severely squeezing their earnings. Heavy investment in computer and on-line information systems and a large expansion of personnel between 1985 and 1989 have left the industry with substantial overcapacity.

The Big Four companies appear better able to weather the current adverse situation than the second tier companies. Under these circumstances the industry is under severe pressure to consolidate. Some companies have already begun merging subsidiaries and operating units. The recent worsening of the securities environment may slow the liberalization of commission rates because deregulation will intensify competition. It has been estimated recently that the deregulation of commission rates would render superfluous some 30% of current capacity in the industry.

Table 7: Securities market indicators			
	1989	1990	1991
Turnover in the stock exchanges			
- equity shares	344,359	207,632	114,558
- bonds	164,649	130,891	61,571
Turnover off-exchange			
- equity shares	3,184	5,270	4,568
- bonds	3,506,792	3,285,769	2,572,616
Volume of new securities(1)			
Equity shares			
- domestic market	10,802	2,253	497
- overseas market	7,560	664	158
Bonds			
- domestic market	81,704	99,856	47,445
- overseas market	12,168	7,420	4,950
Volume of new securities(2)			
- equity shares	298	n/a	n/a
- bonds	1,175	1,448	380

Source: Tokyo Stock Exchange and Bond Underwriters Association
(1) Resident issues
(2) Non-resident issues

The Japanese investment trust market is the second largest mutual fund market in the world, yet there are only 18 licensed firms eligible to engage in this business in Japan. Four of these firms were licensed in the last two years. Affiliates of the Big Four securities firms control about 80% of this market.

At present participation in the ¥80 trillion pension fund market is restricted to trust banks, insurance companies and investment advisory firms in possession of a discretionary fund management licence. For all practical purposes new entry is limited to investment advisory firms only and access is at present limited to roughly ¥3.5 trillion of new inflow into corporate pension fund assets - termed new money.

Presence and market share of foreign firms.

The number of foreign securities firms in Japan has increased substantially in recent years, but has now perhaps reached a ceiling. (See table 8). Twenty four of the foreign firms are from the EC, 13 of which are members of the Tokyo Stock Exchange. In July 1991 there were also 107 representative offices of foreign securities firms.

Table 8: Presence of foreign securities firms in Japan				
	1985	1987	1990	1991
No. of firms	20	44	52	50
No. of branches	22	47	59	62

The simultaneous operation of European universal banks in the banking and securities areas, through up to 50% owned securities subsidiaries has been accepted by the authorities since 1985. At present 13 EC banks have both banking and securities licences. Planned new legislation will allow ownership to rise to 100%. Foreign securities companies have also been allowed to enter the foreign exchange business.

Branches of foreign securities companies in Japan may, in principle, conduct the same business activities as their Japanese counterparts. At present, however, operations of the foreign securities companies are mainly brokerage transactions in Japanese and foreign stocks. Japanese securities-related brokerage business has become increasingly important for the foreign securities companies in Japan in the light of the high level of flows of foreign securities investment in Japan.

As the number of foreign members of the Tokyo Stock Exchange rose (25 in 1990) foreign securities firms have played an increasingly important role in stock trading. The share of stock trading by foreign securities firms rose to 9.1% in fiscal 1990, compared to 7.0% in fiscal 1989 and 3.8% in fiscal 1987.

The share of bond underwriting by foreign firms is very small relative to the inherent expertise and size of many of these companies.

TREATMENT OF EC SECURITIES FIRMS

The Japanese securities market has been progressively opened to foreigners during the last decade. At present, national treatment is formally provided to foreign securities firms as regards both establishment and operating conditions, and there are no exchange controls preventing foreigners from investing in Japanese equity or bonds.

Japanese authorities have been responsive in a number of cases to the concerns of foreign securities firms, and a number of important improvements have been taking place, such as the authorization to foreign banks enter the securities and investment fund business and to securities firms to carry out foreign exchange activities, the authorization to foreign investment firms to enter a limited part of the pension fund business, the permission of new securities, and the increase of the share of Government bonds which are issued through competitive auctions.

However, despite good performance by foreign securities firms in recent years, certain segments of the Japanese market remain difficult to penetrate. There have also been market access problems stemming from an overtly cautious approach to opening market access to any suitably qualified applicant, through the imposition of tight entry criteria which are difficult to comply with or which imply costs which diminish interest in entering the market; these have resulted in difficult penetration of the market by newcomers in general and by foreign firms in particular ; examples are the cautions opening to greater competition for the investment trust and pension fund management business.

Among these problems is a narrow definition of securities which makes innovation and expansion by foreign firms difficult, and certain rigidities in the regulation of access to the pension fund and investment trust management business.

a) Access by foreign banks

Up to the present foreign banks could enter the securities market in Japan through a branch of an overseas company where banks may own up to 50 %; this possibility, which has not been available to Japanese banks, was given to foreign banks to allow them to compete in the Japanese market with Japanese firms operating in the capital markets. This flexibility was necessary in the case of the Community where banks are often affiliated with securities firms or may themselves act as securities firms.

The Government tabled on 17 March several bills to reform the financial market which were adopted by the Diet in June 1992; according to the new legislation, Article 65 of the Securities and Exchange Law has been amended, and subsidiaries of banks will be allowed to be engaged in securities business. However, a number of restrictions such as firewalls between the banking and securities operation will be imposed, and securities firms affiliated with banks would be excluded from the stock brokerage business. Although some details of the implementation have still to be determined by the MOF, foreign banks will be able to maintain their 50 % owned overseas subsidiaries with the present powers and not subject to firewalls; if they decide to increase their shareholding to more than 50 %, they would in principle be subject to firewalls; finally, they will in any case be able to establish a 100 % owned securities firm in Japan, subject to the same restriction as securities firms owned by Japanese banks.

b) Access to the investment trust business

Despite efforts to open the market, access by foreign firms to this huge market of 600 bn $ has proved to be difficult, and the conditions for licensing have remained tight. Market access problems have been due to regulations - and in particular severe licensing requirements - which, although applied in the same manner to both Japanese and foreign firms, acted for the latter in the form of an important barrier to entry, making it very difficult for them to compete with the few Japanese firms which dominate the business.

The Japanese authorities, in response to foreign concerns, have introduced recently a number of measures to facilitate foreign access to the investment trust business. Thus, in December 1989 foreign banks were authorized to enter the business through a 50 % owned overseas subsidiary (similar to the case of securities dealing), and some EC firms benefited from this possibility). However, limitations were imposed as to the institutions which may be shareholders in the overseas subsidiary and as to the amount of their individual shareholding, which makes difficult to find suitable partners, and criteria for licensing appear to have been based on the profile of existing Japanese firms.

Also in response to concerns expressed by foreign securities firms, the Securities and Exchange Advisory Council of the MoF released in January 1992 certain recommendations for reform of the conditions for access and operation of investment trust managers in order to promote new entrants. These proposals resulted in the amendment on 24 April 1992 of the guidelines for licensing investment trust management companies.

The amended guidelines introduce greater flexibility in a number of areas, including some of them which were of particular interest to foreign firms, such as : the permission to investment management companies to establish investment trust companies acting as sponsors; the elimination of prior experience of sales in Japan's trust market and the elimination of number of personnel requirements; the authorization to entrust back-office work to a third party; the reduction of the minimum capital requirement to ¥300m from ¥500m; and the provision that examinations of applications will be processed at any time and be completed in principle within a month after their submission. Foreign firms will be partially exempt from the 30% limitation of participation in companies acting as sponsors by firms engaged in financial business in Japan (the participation allowed to foreign firms will be 50%), and foreign applicants will be required to be profitable within 5 years of the start of business (as compared to 3 years for domestic firms).

c) Access to pension fund management business

Foreign securities firms were granted in 1990 the ability to enter the corporate pension fund market without a life insurance or a trust license, through an investment advisory company having a discretionary investment license; however, the scope of pension fund management open to those firms is limited to new inflows, and is not extended to all corporate pension funds and to public pension funds. Investment advisory companies at present have only access to less than 5 % of total Japanese pension funds.

In addition, a number of regulatory constraints were imposed on their operation, such as on their investments and assets and the minimum amount of contracts. This regulatory situation reduces foreign interest in the market and explains to a large extent the limited foreign presence.

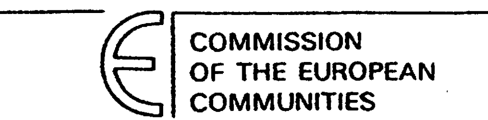
The Japanese authorities have adopted a number of measures to provide greater flexibility in the operation of such firms, for instance as regards investments in foreign securities and a reduction of the minimum amount of contracts for foreign firms (see chapter on insurance); but the scope of pension funds open to those firms has not yet been broadened and remains fairly narrow.

d) Definition of securities

Due to a number of reasons, up to the present the definition of securities given in Article 2 of the Securities and Exchange Law has been applied in a narrow way; not enough account was taken of the process of financial innovation and particularly the blurring between banking and securities products, and consequently a number of products which are normally considered in many other jurisdictions as securities, were not included, for instance commodities futures (which are not regulated and supervised by the MoF). In addition, no explicit criteria against which the Ministry will evaluate the acceptability of new products, and no time-frame against which the Ministry must reply either in the affirmative or the negative to the applying firm were provided for, thus introducing uncertainty in the authorization procedures.

Despite recent cases of authorization of certain new products, this narrow definition has acted as a hurdle for foreign securities to compete in the market through offering innovative products in which they have a particular expertise in their home country.

The recently adopted financial reform will expand the definition of securities; as regards the types of financial products considered as securities, the financial reform bill treats as securities commercial paper, and credit card and mortgage-backed securities, and a Cabinet order is scheduled to designate overseas certificates of deposit as securities; transferable instruments which may be determined by Cabinet order will also be considered as securities. Commodities futures are not considered as securities.



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

KOREA

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Introduction

GDP in Korea reached 170,000 bn won (191 bn ECU) in 1990. With a population of 42.8 million this represented 4.0 million won (4,460 ECU) per head. This compares to an average of 14,400 ECU in the European Community. The Korean economy has experienced considerable growth in recent years with real GDP growing at an annual average of almost 10% in the five years to 1990.

CREDIT INSTITUTIONS

Overview

The Korean banking system is comprised of 11 nationwide commercial banks, 10 regional commercial banks and 6 specialized banks established with government capital to provide financial support for particular sectors of the economy. The assets of the commercial banks (110,306 bn won in 1990) account for over two thirds of the total assets of Deposit Money Banks (158,444 bn won). Of the commercial banks the nationwide banks play a dominant role accounting for 76% of assets in 1990. The seven specialized banks have recently expanded into commercial banking and now compete directly with the commercial banks for deposits. The regional banks with 11.5% of total assets in 1990 play a smaller but expanding role in the system.

Role of foreign banks

Since 1967 foreign banks have been allowed to establish branches. In 1991 there were 52 foreign banks with branch operations and a further 23 with representative offices. Of the foreign banks, 22 originate in the European Community, 14 of which have branch operations and 8 with representative offices. The branches of foreign banks are governed by the General Banking Act of 1950 and are regulated and controlled by the Ministry of Finance and the Bank of Korea.

The total assets of foreign banks' branches operating in Korea at the end of 1990 amounted to 8,196 bn won, a 15.6% increase from the previous year, arising mainly from an increase in deposits. However, over the last few years the rate of increase has been lower than that of Deposit Money Banks implying a fall in the share of assets of foreign banks, from 8.9% of the total in 1986 to 5.2% in 1990. This decline can be attributed to the large-scale capital increase by several domestic commercial banks and to the establishment of some new banks. The foreign banks' share of deposits remains at about 1% although a small increase in this share was recorded in 1990.

An analysis of the sources of funds for foreign banks clearly indicates the reliance on inter-office accounts and, to a lesser extent, on certificates of deposit. The easing of the restrictions on the issue of CD's during 1990/91 resulted in a 644% increase over 1989. The foreign bank share of total CD issuance increased to 10.6% in 1991 from 8.8% in 1989.

Table 1: Assets and deposits of Deposit Money Banks, end-year.

Assets (bn won)	1988	1989	1990
Deposit money banks	104,664	124,723	158,444
of which			
Commercial banks	62,646	75,075	110,306
Nationwide commercial banks	46,192	54,798	83,837
Regional banks	9,790	13,188	18,273
Foreign banks	6,665	7,090	8,196
Specialized banks[1]	42,017	49,648	48,139
Deposits (bn won)	**1988**	**1989**	**1990**
Deposit money banks	57,894	67,106	84,266
of which			
Commercial banks	34,042	38,035	51,374
Nationwide commercial banks	26,904	29,163	39,257
Regional banks	6,596	8,380	11,290
Foreign banks	542	492	828
Specialized banks[1]	23,852	29,071	32,892

Source: The Bank of Korea

Table 2: Market share of Deposit Money Banks, assets and deposits as % of Deposit Money Banks.

Assets (bn won)	1988	1989	1990
Deposit money banks	100.0	100.0	100.0
of which			
Commercial banks	59.9	60.2	69.6
Nationwide commercial banks	44.1	43.9	52.9
Regional banks	9.4	10.6	11.5
Foreign banks	6.4	5.7	5.2
Specialized banks[1]	40.1	39.8	30.4
Deposits (bn won)	**1988**	**1989**	**1990**
Deposit money banks	100.0	100.0	100.0
of which			
Commercial banks	58.8	56.7	61.0
Nationwide commercial banks	46.5	43.5	46.6
Regional banks	11.4	12.5	13.4
Foreign banks	1.0	0.7	1.0
Specialized banks[1]	41.2	43.3	39.0

Source: The Bank of Korea

[1] The Industrial Bank of Korea, The Citizen National Bank, The Korean Housing Bank, National Agricultural Cooperative Federation, The National Federation of Fisheries Cooperatives

Table 3: Sources and uses of funds, Deposit Money Banks, 1990, bn won.

Sources of funds	Total	Nationwide Commercial Banks	Speci-alized Banks	Regional Banks	Foreign Banks
Deposits	84,266 (100.0)	39,257 (46.6)	32,892 (39.0)	11,290 (13.4)	828 (1.0)
Certificates of Deposit	6,804 (100.0)	3,813 (56.0)	1,092 (16.0)	1,291 (19.0)	608 (8.9)
Borrowings from BOK	11,110 (100.0)	8,190 (73.7)	1,955 (17.6)	954 (8.6)	12 (0.1)
Paid-In Capital	6,903 (100.0)	5,101 (73.9)	382 (5.5)	1,057 (15.3)	363 (5.3)
Inter-office	3,775 (100.0)	26 (0.7)	0 (0.0)	0 (0.0)	3,749 (99.3)
Other	45,586 (100.0)	27,450 (59.7)	11,818 (24.6)	3,681 (9.5)	2,636 (6.2)
Total assets/ Liabilities	158,444 (100.0)	83,837 (52.9)	48,139 (30.4)	18,273 (11.5)	8,196 (5.2)
Uses of funds	**Total**	**Nationwide Commercial Banks**	**Speci-alized Banks**	**Regional Banks**	**Foreign Banks**
Loans in Won	74,029 (100.0)	33,352 (45.0)	29,184 (39.4)	8,378 (11.3)	3,114 (4.2)
Loans in foreign curr	8,278 (100.0)	5,925 (71.6)	399 (4.8)	138 (1.7)	1,816 (21.9)
Foreign Assets	6,829 (100.0)	5,436 (79.6)	269 (3.9)	261 (3.8)	863 (12.6)
Securities	14,393 (100.0)	8,203 (57.0)	3,031 (21.1)	2,914 (20.2)	238 (1.7)
Other	54,915 (100.0)	30,921 (56.3)	15,256 (27.8)	6,582 (12.0)	2,165 (3.9)

Source: Bank of Korea

TREATMENT OF EC CREDIT INSTITUTIONS

Korea has applied in the past years significant restrictions on the establishment and operation of foreign banks. However, important progress has taken place in recent years, and in March a package of specific liberalization measures was announced for enactment during 1992. A blueprint for the mid to long-term deregulation and market opening of Korea's financial markets affecting both the banking and securities industries was announced in February 1992.

In addition to the blueprint, the Korean government has continued to take measures during 1990 and 1991 to deregulate and open up the financial market, improving the busines environment for foreign financial institutions in particular.

Some measures include, among others, increased access to the trust business, elimination of the ceiling on branch capital, expansion of CD issuance limit, suspension of swap reductions, recognition of multiple branch networks as a single entity, revision of the criteria for multiple branching, and improvements in the call market.

Despite these improvements, access by foreign banks to the Korean market continues to be subject to a number of restrictions; some of them are legal restrictions which may not cause important problems in the short term to EC banks operating or wishing to operate in Korea; on other occasions, problems arise from the specific features of banking regulation in Korea, even if these regulations are applicable in the same manner both to foreign and domestic banks; a number of market difficulties have also been reported.

Establishment

Korea applies a test of economic needs for the establishment of foreign banks; according to the Korean authorities, this test applies in the same form both to domestic and foreign banks, and its rationale is essentially prudential, to prevent an over-banked market, and is conceived as a reserve power and therefore not applied in practice.

Foreign banks cannot establish subsidiaries in Korea: there is a 10% limit on foreign participation in existing commercial banks; foreign participation in domestic merchant banks is allowed. However, foreign banks may establish branches, which has so far constituted a suitable mode of gaining access to the Korean wholesale market, the main market of interest for foreign banks. However, although there are no restrictions on foreign banks entering the retail market through branches, and some are doing so, the authorization of subsidiaries or of the acquisition of controlling shareholding in banks incorporated in Korea is important for those foreign banks wishing to operate in the retail market in particular.

Foreign banks wishing to establish branches must be among the top 500 in the world (measured by assets) and have been operating as a representative office for at least one year. Recent legislation relaxed the criteria on multiple branching and the Korean authorities have commented that the same criteria and procedures as apply to Korean banks now apply to foreign banks wishing to set up additional branches, thus effectively eliminating any restrictions on expanding operations and that in 1992 all requests from foreign banks for additional branches were approved.

Activity

Korea's laws and regulations generally grant fair treatment to the operation of foreign banks' branches, and a number of improvements and greater flexibility on certain regulations have recently taken place:

- they were allowed in June 1991 to expand through the creation of additional branches under national treatment conditions and multiple branch networks are recognized and regulated as a single entity; however there is a minimum capital requirement of 3bn won for each new branch at the time of its establishment;

- rules on mandatory loans to certain sectors of the economy have been relaxed; foreign banks are now required to lend 25% of the increase in their loan portfolio to SMEs, whereas domestic firms are obliged to lend 45%;

- rules on concentration of risk to single borrowers apply to individual and legal persons, but not to groups of borrowers. While Korean banks may normally lend up to 20% of equity capital to a single borrower, foreign banks are not subject to such a limit. Instead, they are eligible for special approvals, upon the recognition of need.

However, a number of problems in the operation of foreign banks in Korea have been reported, affecting in particular funding in local currency, competition for loans to domestic enterprises and for deposits in terms of interest rates, and access to ATM and clearing house networks:

a) As regards funding conditions, until 1986 the presence of foreign banks was instrumental in supplying the necessary foreign currency to cover trade deficits and to finance development. This policy was achieved through allowing "swap" facilities to the foreign banks. Between 1987 and 1989, however, the current account was in surplus and in order to curb capital inflows the Ministry of Finance cut the "swap" facilities by 10% each year. This curtailed a major source of funding for foreign banks operating in Korea.

   The limits on the issuance of Certificates of Deposit (CDs) were raised to offset the "swap" reductions, but this proved unsatisfactory due to the higher rates of interest that foreign banks must offer depositors to attract funds and the limited maturity structure allowed. The call market was not considered to be a feasible alternative, as foreign banks are reported to be frequently charged rates higher than domestic banks, and since maximum maturities were too short.

   However, in June 91 the progressive reductions of the swap facility for funding in won by foreign banks were suspended, and the CD issuance limit was increased to 200% of local capital; it was raised again to 225% (or 17.5bn won whichever is the greater) in May 1992; although the Ministry of Finance indicated that ceilings on CDs cannot be eliminated, since interest rates are still regulated in Korea and a massive issuance of short term instruments could destabilise the structure of savings; in addition, the MoF announced in March 1992 that the maturity of certificates of deposit would be extended, and the unit of issuance lowered. The MoF also announced some improvements in the functioning of the call market, in particular the extension of the current maturity limit to one month from 15 days, to take effect

in July 1992, and the introduction of the "blind brokerage" system, where borrowers and lenders are unknown to each other, which should eliminate the interest rate differential applicable to foreign banks.

b) As regards competitive conditions, the Korean authorities operate a loan allocation system through which domestic credit to the group of the five largest and thirty largest Korean companies (as defined by the Bank of Korea) is subject to limits in relation to a bank's total domestic credit, different for each bank and reflecting the ratio at the date the limits were introduced in 1984; these limits were reduced in 1990. This system, which limits the ability of foreign banks to expand freely and operate in the areas where they are more competitive, was introduced to prevent the concentration of funds to the major business groups and to promote loans to small and medium sized enterprises. However foreign banks are treated more favourably in the application of this system. In 1991, for example, Korean banks' proportion of loans to the top 5 and top 30 business groups and their affiliates was 5% and 10% respectively, while the comparable figure for foreign banks was 16% and 24%, respectively.

c) Under the "prime banking system" the top 50 affiliates of the major business groups are required to designate one prime bank to manage their overall borrowing. This is designed to reduce econommic concentration in the major business groups but it limits competition for business and favours the long established Korean banks.

d) Interest ceilings are placed on both loans and deposits, eliminating the ability of foreign banks to compete for attractive small and medium deposits. However a four stage interest rate deregulation plan was announced in November 1991. Under the plan the fourth stage will be implemented beginning in 1997. However, most interest rates, including all lending rates, 70% of bank deposit rates, and 90% of non-bank deposit rates are expected to be liberalized by 1996.

e) Foreign banks have restricted access to Korea's Automated Teller Machine and electronic clearing house networks; negotiations are currently underway between the Korean and foreign banks regarding access to the CD/ATM networks. The Korean authorities have stated that access will be granted to the networks once the admission criteria are determined at the negotiations. Plans are also underway to enable foreign banks to become full members of the Korean Financial Telecommunications and Clearing Institute (FKTCI).

Transparency of banking laws and regulations has been mentioned as one of the problems in securing effective market access in Korea. The MoF announced in March a number of measures to increase, in the course of 1992, the transparency of banking laws and regulations, and providing for greater consultation of foreign banks, a compilation of those regulations and greater availability of circulars and guidelines, and more transparent procedures

Difficulties have also been reported as regards access to the trust business, which is limited to those banks having a "trust licence". This involves a double licencing system. However, at present there are thirty foreign bank branches, including eight from the EC, engaged in trust business.

Other problems quoted relate to the difficulty of foreign banks to own commercial and residential premises. The sale of property must be carried out either through the Korean Asset Management Corporation or by making a request to the courts to dispose of it through public auction (these rules also apply to domestic banks). Foreign banks need a special permit to realize these assets and take title to property and other types of assets. No special permit is necessary to realize other types of assets.

INSURANCE

Overview

The insurance industry in Korea grew very rapidly during the 1980s in both the life and non-life sectors. In 1990 total life and non-life premiums amounted to 16,043 and 3,589 bn won respectively compared to 603.6 and 387.7 bn won in 1980. This corresponds to annual average nominal growth rates of 38.8% and 24.9% respectively over the previous ten years, or in real terms, 30.6% and 17.6% respectively.

The insurance market in Korea is very tightly controlled with only very few new companies being authorized over the last twenty years. Tariffs and policy rules are strictly controlled particularly in the non-life sector. thus reducing the level of real competitions in the industry. Furthermore the Korean authorities do not see the need in these circumstances for the existence of independent brokers - where the broker is not tied to a specific company but negotiates and intermediates among a number of different insurance companies. Brokerage of this nature is therefore forbidden. Howevert exclusive agencies where the agent acts for only one insurer and sells only that company's policies and products are permitted.

Table 5: Indicators of Insurance Business

	Year	Life	Non-Life	Total
Premiums (bn won)	1980	603.6	387.7	991.3
	1985	3,987.3	1,016.6	5,003.9
	1988	9,379.1	1,921.8	11,300.9
	1989	11,865.6	2,638.8	14,504.3
	1990	16,043.6	3,589.6	19,633.2
Premiums as % of GDP	1980	1.6	1.0	2.6
	1985	5.3	1.4	6.7
	1988	7.3	1.5	8.8
	1989	8.3	1.9	10.2
	1990	9.5	2.1	11.6
Total assets (bn won)	1980	988.8	607.9	1,596.7
	1985	6,921.5	1,236.0	8,157.5
	1988	17,067.0	2,660.0	19,726.9
	1989	22,643.5	3,642.0	26,285.5
	1990	31,001.7	4,836.0	35,837.7

Source: Bank of Korea

Foreign insurance companies

The life insurance sector has been further opened to foreign participation since 1988 and three EC companies have now been granted full operating licences. However, the granting of further licences appears to depend on market needs.

Foreign insurance companies play a very small role in this market. As of the end of May 1990 there were only 13 life and 16 non-life foreign insurance companies operating in Korea. Fourteen of the non-life companies were operating as representative offices. Foreign companies only accounted for 1.8% of total life assets and 0.9% of non-life assets in the same year and 2.7% and 0.9% of premiums respectively.

Table 6: Presence of foreign insurance companies in Korea

Form of establishment	Life	Non-life
Joint venture	6	0
Subsidiary	3	0
Branch	4	2
Office	0	14

Source:Ministry of Finance, Korea

Table 7: Market share of foreign insurance companies

	Life	Non-life
Assets	521.3	39.5
(% of total market)	(1.8)	(0.9)
Premiums	404.1	28.9
(% of total market)	(2.5)	(0.9)

Source: Bank of Korea

TREATMENT OF EC INSURANCE COMPANIES

Access to the Korean insurance market has been difficult in the past years. Although the situation has improved recently, there are still a number of restrictions to the establishment and operation of foreign insurers in Korea; some of them are discriminatory, but in most occasions these are the result of a degree of regulation which is higher than in a majority of other markets.

Establishment

Conditions for foreign establishment have been relaxed, and a number of EC insurance firms have recently been admitted. As regards life insurance,

permission is granted to qualified foreign life insurance companies to set up a presence in Korea without regard to their form of establishment - branch, joint venture or subsidiary; the conditions of licensing are more flexible than for domestic firms (6 billion won minimum capital, whereas domestic firms must put up 10 bn won).

However, Korea applies criteria based on the economic needs to grant new insurance licenses, aimed at preventing over-competition and at ensuring that insurance companies have a critical mass and a minimum size; according to the Korean authorities, these criteria are applied also to domestic firms. As a consequence of this policy, the criteria for authorization are tight: foreign companies must have a 10 years' experience in the home market, and the total world-wide volume of premiums and total assets must exceed half of the average of premium income and total assets of Korean life insurance firms (i.e., they need to have a world-wide premium volume of about 1.5 bn $ a year to establish in Korea).

In order to prevent economic concentration in Korea, joint ventures with the top fifteen business groups are prohibited, and those with the top sixteen to thirty groups are permitted only if the foreign participation ratio exceeds 50%.

Foreign non-life insurance companies may enter the Korean market in the form of branch, representative office and through equity participation of less than 20% in existing non-life insurance companies. Joint ventures and wholly owned subsidiaries are not permitted.

In 1991 Korea reversed its policy and allowed State-owned insurance companies to establish in Korea, which has benefited some Community insurance companies.

Activity

The main problems faced by EC insurance companies in Korea stem more from the tight and exhaustive regulation of insurance business in Korea, which is in most instances applicable in the same manner both to foreign as well as to domestic insurance companies; these regulations affect in particular the ability of foreign insurance companies to operate with full freedom in those areas where they are most competitive. Among these regulatory problems are the following:

a) regulation of insurance policies is very tight, extending to tariff controls for many insurance policies, commissions paid to agents, as well as to the prior approval or systematic notification in many cases; although in 1988 a new system of notification (no approval, "use and file" and "file and use" systems) was introduced, leaving prior authorization for new insurance products, it is reported that the "file and use" system is still burdensome; the limitation of tariff controls only to statutory insurance and possibly also to motor insurance would facilitate the ability of foreign insurance companies to compete; also related to the introduction of new products, pension funds do not exist and cannot be introduced in Korea;

b) there is no system of insurance brokerage in Korea, and agents are tied to a single company; the formation of an agent network for foreign companies is difficult for foreign firms; however, foreign brokerage firms were allowed in 1988 to enter the domestic market as "exclusive agents" acting on behalf of one company only;

c) any company - foreign or domestic - wishing to offer motor insurance needs to have a nation-wide network of agencies for claims services, which is difficult for newly established companies;

d) there is a so-called voluntary agreement whereby a portion of all non-life re-insurance premiums must be placed with the Korean Reinsurance Corporation (KRIC); if a company does not comply with the "voluntary agreement", reinsurance must first be offered to all Korean reinsurers before it can be offered to a non-established reinsurer; this constitutes a limitation not only on cross-border reinsurance, but also on the ability to foreign insurance companies to exploit their overseas expertise or use their in-house capacity to seek the best reinsurance cover;

e) the purchase of real estate by foreign insurers is subject to restrictions, although the use of real estate is categorized as one of the forms of asset management authorized by the domestic insurance acts;

f) foreign insurance companies' branches in Korea shall have their licenses renewed every two years; although licenses are normally renewed automatically unless there are solvency problems, this requirement does not favour confidence among foreign insurance companies.

SECURITIES MARKET

Overview

Turnover in the securities market rose sharply over the last decade peaking at 81.2 thousand billion won in 1989 and falling to 53.5 thousand billion won in 1990 before rising to 62.5 billion won in 1991. New listings also peaked in 1989 at 4.9 thousand billion won but fell sharply to 423 billion in 1990. The number of listed companies has followed an upward trend throughout the period reaching 686 by 1991. Membership of the stock exchange however has also increased from 25 in 1983 to 31 in 1991.

Foreign participation

In May 1991 there were 24 offices of foreign securities companies operating in Korea. In addition three foreign securities companies hold an equity stake in two local firms of 2.5% each. However following the publication of guidelines by the ministry of finance on the opening of the securities industry to foreign brokers four foreign firms, two of which are EC firms, received "welcome letters" in March 1991 that allow them to establish branches. Foreign participation in stock exchange activity, measured by the proportion of shares held by foreigners remains low. It rose to a peak of 2.7% in 1988 but fell back to 2.0% in 1990.

TREATMENT OF EC SECURITIES FIRMS

Korea has only recently opened its securities markets to foreign participation, and has done it in a cautious way. The main liberalization moves which have taken place so far refer to the permission of the establishment of branches by foreign securities firms, and a partial opening of the Seoul stock exchange to foreign investors. The most

important remaining restrictions are the application of a quota system for the admission of new foreign securities firms in Korea and limitations to their branch expansion, as well as restrictions stemming from specific features of the regulation of Korea's stock markets and from constraints applied in the same manner both to domestic and foreign firms; a third important area of problems for foreign firms originates from restrictions imposed on foreigners investing in Korean stock and bonds.

Establishment

Permission is dependent on discretionary criteria decided upon by the Korean authorities. "Since February 1991 nine foreign securities companies out of 17 eligible firms applied to establish local branches. Taking into consideration the state of the domestic economy and securities markets, the level of reciprocal entry, the degree of contribution to the domestic securities market, trade imbalances with the countries concerned, etc. the Korean government gave licences for the establishment of local branches to four securities firms, two from the U.S. and two from the United Kingdom"[1]. This policy has resulted in quantitative limitations on the number of foreign securities firms allowed to operate in the Korean market.

Foreign securities firms may establish only branches, or joint ventures in which foreign shareholding cannot exceed 50%, and are granted in most instances national treatment as regards their operating conditions. Foreign securities firms' branches are subject to quite stringent minimum capital requirements, considerably higher than in most other jurisdictions, and which are not risk-adjusted; however, those capital requirements imposed on foreign securities firms are lower than those imposed on domestic securities firms: foreign firms are required to constitute an operating fund of 10 to 20 bn Won (about 14-28 m US $) depending on the lines of business they enter, whereas domestic securities firms must have a minimum of 50 bn Won, which is considered by domestic firms to be preferential treatment. At present, foreign securities firms may not establish multiple branches.

Membership of the Seoul stock exchange is extremely expensive: full partnership costs 9.7bn won (10.9m ecu) and special membership 2.2bn won (2.5m ecu) and an annual fee of 750 million won (840,000 ecu). Membership of Korea's SE is decided by the existing members.

Activity

Foreign securities firms are subject in general to the same restrictions on dealing as those imposed on domestic firms; thus, they cannot broke in unlisted stocks; they can deal in bonds only for residents, since foreigners are not allowed to purchase domestic bonds. Foreign purchase of domestic equity is limited to 10% of total equity of Korean firms, with exceptions allowed up to 25% in certain firms.

The most important operating restriction for foreign securities firms are related to the limits on foreign investment in Korean securities; access to stock market activity is effectively limited by an overall limitation of 10% foreign share ownership and 3% individual foreign ownership of Korean companies; foreign ownership of Korean bonds is not permitted. These rules

1 "Fiscal and Financial Policy of Korea, Ministry of Finance, August 1991.

also apply to domestic firms but their impact on the activities of foreign firms is significant. Furthermore the means used to monitor and implement these limits are burdensome. However the Korean authorities argue that in implementing and monitoring these limits, the on-line system is preferred over order placements by phone, since phnone orders are difficult to monitor and leave open the possibility of illegal transactions. Difficulty in monitoring the limits is also the reason why ceiling checks are made on an order basis rather than on an execution basis.

A certain improvement was announced in March, when the MoF indicated that foreign securities firms' branches will be granted from July 1992 national treatment as regards their investments in Korean shares, and therefore exempting them from the 3% and 10% ceilings; these limits will be lifted for all branches in Korea of foreign financial institutions including banks. The practical application of these measures needs to be known before their effective impact can be assessed.

Other improvements being considered for implementation in July 1992 refer to the ability of foreign securities firms to trade domestic bonds through the over-the-counter (OTC) markets, a limited possibility to trade in OTC currency and foreign exchange options, and increased facilities for hedging foreign exchange exposures.

Access to the investment trust business is not yet liberalized, and foreign firms and banks do not have automatic access to this activity.

A number of other problems, stemming from regulations which are not discriminatory, have been reported to burden the operation of foreign securities firms in Korea:

- at present many investors are exempted from the 40% entrustment deposit requirement; in order to facilitate dealing, this exemption could be extended to all investors or, at least, the deposit requirement could be reduced and allowed to be made in foreign currency; the Korean authorities have indicated that the entrustment deposit is also required of domestic non-institutional investors and argue that entrustment deposits cannot be made in foreign currency because securities firms are not allowed to engage in foreign exchange business;

- custodians of securities are not allowed to act as agents for settlement purposes and other proxy activities, thus requiring the involvement of two different parties in securities transactions, with the ensuing additional burden and costs; however, in the event of a conflict with home country regulations, custodians of securities may carry out the activities of a proxy;

- when the foreign investment limits have been met or temporarily exceeded settlement of OTC trades must be made in Won; this involves additional administration costs for the brokers and exchange losses for the investor;

- non-member brokers must charge its customer the commission it is charged by the member broker through which it conducts the transaction, without being able to increase the commission rates in a more flexible way reflecting more appropriately the cost structure of the non-member broker; commission rates are determined by the Korea Securities Dealers Association;

- brokers settle with each others by bank cheques; to allow them use of telegraphic transfers would be more speedy and reduce risks.

Table 8: Securities Market Indicators

	1980	1985	1988	1989	1990
Turnover (bn won)	1,134	3,621	58,120	81,199	53,454
Turnover (% GDP)	3.0	4.8	45.4	56.8	31.5
Capitalization (bn won)	2,526	6,570	64,453	95,477	79,020
New listings (bn won)	-	75	1,681	4,883	423
Trading volume (million)	1,645	5,564	3,037	3,398	3,162
No of listed companies	352	342	502	626	669
Foreign share-ownership (%)	2.0	2.6	2.7	2.1	2.0

Source: Bank of Korea

PROSPECTS FOR IMPROVEMENT OF FOREIGN MARKET ACCESS

In February 1992 a blueprint for financial deregulation and market opening was announced by the Ministry of Finance. This blueprint, to be implemented in three stages ending in 1997, proposes a number of measures aimed at modernizing the Korean banking and securities markets and dealing with the most relevant market access problems and restrictions faced by foreign banks and securities firms.

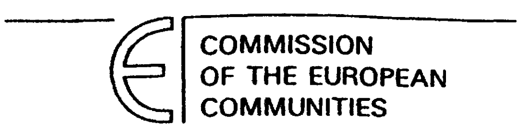
The first-stage measures, which are to be implemented during 1992, include the relaxation of criteria on CD issuance, national treatment for foreign financial firms in stock investment, diversification of call maturities, and widening of the exchange rate fluctuation range.

Of the second stage measures those closely related to macroeconomic developments, including the internationalization of the won and investment in overseas securities by Korean nationals, will be implemented between 1994 and 1996. Second stage reforms will also involve expansion of ATMs outside bank premises, the authorization of additional securities firms' branches and a partial opening of the investment trust business.

Interest rate deregulation, foreign investment in domestic bonds, development of the money market and the introduction of commercial loans must await the third stage which will begin in 1997. Approval of branches and subsidiaries for the investment trust business will also be considered during this stage.

Insurance sector liberalization will be pursued independently of and separately from the work on the blueprint.

The liberalization proposals of the blueprint are a very positive development. However, a number of questions remain for a number of reasons: first, the liberalization measures of the second and third stages are conditional on a number of economic indicators such as the balance of payments situation and other economic conditions including price stability; their effective impact on foreign firms cannot be assessed before the actual liberalization measures are known and adopted; second, in certain cases the deadlines for implementation of certain liberalization measures are very long, and their connection with certain economic indicators is not yet fully clear.



TREATMENT ACCORDED IN THIRD COUNTRIES
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TREATMENT OF FINANCIAL INSTITUTIONS IN THIRD COUNTRIES: MALAYSIA.

BANKING AND NON-BANK FINANCIAL INSTITUTIONS MARKET

A. BRIEF OVERVIEW:

The GDP in Malaysia was $M 110.2 bn(1) (32 bn ECU) in 1990. With a population of 17.8 mn, this represented $M 6,191 (1,798 ECU) per head. The banking sector (comprising of commercial banks, finance companies and merchant banks) accounted for 75 % of total assets of the financial sector at the end of 1990.

In 1990, there were 110 credit institutions in the Malaysian market. However, the market is highly concentrated. In 1990, the five largest commercial banks have over 56 % of the total banking assets and 63 % of the total banking deposits. On the other hand, the three largest Merchant banks holded over 65 % of the assets and 64 % of the deposits of the total Merchant banks market.

a. Commercial Banks

Total assets of the commercial banking industry have rapidly expanded with an increase of 14.7% to M$ 130.6 bn in 1990.

Increased competition for funds in the banking sector has resulted in commercial banks accounting for a decreasing proportion of new deposits as funds are attracted to alternative financial institutions, particularly finance companies. As a result the commercial banks only attracted 45.7 % of the new deposits in 1990, although they continued to account for 68.2 % of total deposits in the banking system.

b. Finance companies

Total assets of finance companies expanded by 42 % in 1989 and by a further 14 % in 1990 to reach M$ 39.5 bn at the end of 1990. Growth in total assets was possible due to the accelerated growth in total loans of 35.9 % in 1990 and an increase in total deposits of 38.7 % in the same period.

At the end of 1990, 45 finance companies were in operation of which 11 were wholly owned subsidiaries of domestic commercial banks, 2 were merchant bank subsidiaries and 5 were foreign-controlled (4 being subsidiaries of foreign banks).

c. Merchant Banks

There are 12 merchant banks in Malaysia. Total assets of the industry increased by 11 % to reach M$ 11.1 bn at the end of 1990. Pre-tax profits rose by 48.8 % to M$ 120 mn during the year, surpassing the 1984 peak. This improved profitability has resulted from an increase in non-interest income and a decline in bad debt provision.

(1) Yearly average value in 1988 1 ECU = 3.096 M$ (Malaysian $ or ringgit)
1989 1 ECU = 2.984 M$
1990 1 ECU = 3.444 M$

The activities of merchant banks have been widened. Restrictions on deposit-taking have been relaxed, enabling the merchant banks to compete more effectively with the other banking institutions. They may now invest in the shares of certain identified corporations, up to a limit of 10 % of the paid-up capital of the company or 10 % of the financial institutions' paid-up capital and reserves, whichever is lower.

d. Discount Houses

Total resources of the discount houses during 1990 were M$ 4,871 mn, which represents a fall of M$ 176 mn which was due to rising domestic interest rates resulting from tighter liquidity conditions. Total deposits mobilised by discount houses fell by M$ 140 mn or 2.9 % to M$ 4,673 mn at the end of 1990. However this fall was partially offset by the increase in deposits placed by business enterprises.

In June 1990, the maximum maturity of instruments held by discount houses was increased from five to ten years while the restriction on their portfolio investment was abolished. They are no longer required to invest a minimum of 75 % of their portfolio investments in Government papers and are now allowed to lend money to commercial banks, finance companies and merchant banks in the interbank market of upto twice the shareholders' funds or M$ 50 mn, whichever is lower. Discount houses are now required to comply with a risk-weighted capital ratio of 8 % replacing the previously applied gearing ratio.

e. National Savings Bank

Total assets of the National Savings Bank stood at M$ 3.2 bn by the end of 1990. Total deposits were M$ 2.7 bn in 1990. The share of total deposits for by the National Savings Bank were 2.1 % of the total banking sector in 1990.

Table 1 - Number of credit institutions

	1988	1989	1990
Commercial Bank	38	38	38
Finance Companies	47	47	45
Merchant Banks	12	12	12
Discount Houses	7	7	7
National Savings Banks	8	8	8

Source : The Kuala Lumpur Bankers Directory

Table 2 - Assets and deposits in credits institutions, end year			
Assets (M$ bn)	1988	1989	1990
Commercial Bank	98.1	113.9	130.6
Finance Companies	24.3	34.5	39.4
Merchant Banks	7.8	10.0	11.1
Discount Houses	3.3	5.1	4.9
National Savings Banks	8.7	9.5	10.0
Deposits (M$ bn)	1988	1989	1990
Commercial Bank	65.7	74.8	82.4
Finance Companies	19.3	22.6	31.3
Merchant Banks	5.9	6.8	7.1
Discount Houses	3.0	4.5	4.7
National Savings Banks	2.2	2.5	2.7

Source : Bank Negara Annual Report 1990

B. PRESENCE AND MARKET SHARE OF EC FINANCIAL INSTITUTIONS:

Foreign presence is very important in certain segments of the market ; in the commercial banking business, there are 16 foreign banks out of a total of 38 banks ; foreign banks accounted in 1989 for 38.7% of total assets and 54% of pre-tax profits. In the same year, EC owned or controlled banks accounted for 18.3% of total assets and 12% of total deposits, therefore achieving a strong assets to profits ratio.

In 1990, the ratio of the number of domestic to foreign branches rose, since the number of domestic branches increased by 47, while no permission for foreign bank branches was granted.

Table 3 Market share of EC & foreign owned/controlled commercial banks[1]		
	1989	
	Foreign	EC
No. of institutions	16	4
Assets (M$ bn)	44.1	20.9
%	38.7	18.3
Deposits (M$ bn)	18.3	9.05
%	24.4	12.0

[1]) % are calculated on the total figures both for foreign shares and EC shares. Number of institutions and figures in bn of EC institutions are part of the figures of total foreign institutions.

Source : The Kuala Lumpur Bankers Directory 1990/1991 and Bank Negara Annual Report 1990

C. MARKET ACCESS PROBLEMS FACED BY EC CREDIT INSTITUTIONS

a. Establishment and acquisition

Under existing policy no new bank licences (including those for merchant banks and finance companies) are issued to foreign and domestic companies. The Malaysian Government believes that the banking needs of the country are already adequately served. Since 1976, no new merchant banks have been allowed to operate in Malaysia.

Foreign owned banks' shareholdings in an existing domestic bank are limited. If the foreign bank is licensed under the Banking and Financial Institutions Act 1989, it is prohibited from holding shares in another licensed bank. If a foreign bank is not licensed to operate in Malaysia it may aquire a maximum equity stake of 20% in a domestic bank. Although this limit applies to both domestic and foreign equity participation in a domestic bank, foreign ownership interests are further limited by national foreign ownership policy, which imposes an aggregate maximum of 30% on the total foreign ownership interest in a single entity.

Under the Banking and Financial Institutions Act 1989, only public companies (ie companies incorporated in Malaysia under the Companies Act, 1965) that hold a valid banking licence may conduct banking business in Malaysia. As a result, all foreign bank branches have to locally incorporate themselves as public companies. A five-year period during which bank branches must incorporate has been prescribed in the 1989 legislation and will expire on October 1st 1994, unless extended by the Minister of Finance. Foreign banks have been allowed to keep a 100% shareholding in the newly incorporated banks.

Additional branches, whether of foreign or domestic banks, are not permitted unless approval has been granted by the Central Bank. No approval for additional branches has been given to foreign owned banks in the last 15 years. During 1990 47 new domestic branches were opened. The number of foreign branches has remained fixed at 146.

b. Activity

Non-resident controlled companies (NRCCs), which includes those companies where the majority of paid up capital is owned or managed by foreigners or a branch of a company incorporated outside Malaysia, may only obtain up to 40% of loans from foreign bank branches operating in Malaysia. Under exchange control regulations (ECM 8), 60% of credit facilities obtained by NRCCs must be from finacial institutions which are incorporated in Malaysia and are controlled by Malaysians. Malaysian authorities have indicated that this regulation is aimed at preventing restrictive business practices and that NRCCs may exceed the 40% limit if they can prove that the terms offered by foreign banks are not worse than those offered by domestic banks.

Foreign banks have to maintain a risk-based capital adequacy ratio of 10%, as opposed to 8% for the domestic banks.

Malaysian authorities indicate that the higher ratio imposed is due to a different calculation of the foreign banks' capital adequacy ratio, which is based on "net working funds", rather than on shareholders' funds as in the case of local banks.

Upon local incorporation by 30 September 1994, the same capital adequacy ratio will apply both to foreign and domestic banks.

The employment of foreign expatriates by financial institutions requires prior approval by the Bank Negara. Under existing policy foreign banks may employ one expatriate if the bank employs less than 500 workers and may employ one further expatriate for every additional 500 employed. Additional expatriates may be permitted if they are specialists required to carry out a technical task for a specific period.

Banks and finance companies (both foreign and domestic) are required to comply with lending guidelines that require that at least 20% of their loan portfolios must be allocated to priority sectors which comprise of loans to the Bumiputra community and the small-scale enterprises.

Foreign-owned banks are not allowed to participate in the ATM network, since ATMs are deemed to be branches, and the opening of new branches is at present not allowed. Similarly, they are not permitted to join ATM networks, since this would be treated as branch expansion ; however, domestic banks are not subject to this limitation.

INSURANCE MARKET

A. OVERVIEW

The Malaysian insurance industry is highly fragmented.

At the end of 1990 a total of 58 companies were registered under the Insurance Act, 1963 to transact insurance business in Malaysia. This number includes 3 life companies, 39 general and 15 composite companies (transacting both life and general insurance business), one reinsurance company and one Islamic insurance company. The total number of insurance companies fell from 60 to 58 between 1989 and 1990, while the number of foreign-incorporated companies remained unchanged at 9.

a. Life insurance

Total assets of the life insurance industry were M$ 6941 mn in 1990. At the end of 1990, total pre-tax profits in the life insurance sector increased to M$ 935.9 mn from a profit of M$ 806 mn in the previous year. This profit was achieved following a total income of M$ 2,150.1 mn and total expenditure of M$ 1,214.2 mn. Aggregate revenues of life insurance companies increased by a smaller rate than in 1989, by 14.5% compared with 24.7% in the previous year, to M$ 2,150.1 mn.

Total life insurance benefit payments in 1990 increased by 9.8% to M$ 536.8 mn, compared with M$ 488.9 mn in 1989. In 1990 total direct life premiums were M$ 1.6 bn, which represented 1.4 % of GDP and M$ 78 per capita (22.6 ECUs). There were 3 registered life companies.

b. Non-life insurance

The assets of the non-life insurance sector accounted for 25% of the total assets in the insurance industry. In 1990, total assets stood at M$ 2,317 mn. Total non-life premiums written in 1990 increased by 12.9% to M$ 1.8 bn. This represented 1.6 % of GDP and M$ 90 per capita (26.1 ECUs). The motor insurance sector dominated the general insurance market, accounting for 39.1% share of total written premiums.

The aggregate operating profit of the general insurance industry increased significantly in 1990, from M$ 13.9 mn in 1989 to M$ 75.1 mn. This increase was largely due to an improvement in the industry's overall claims ratio.

Table 4 Indicators of insurance business

	Year	Life	Non-Life	Total
Direct premiums (M$ bn)	1988	1.08	1.3	2.38
	1989	1.34	1.6	2.94
	1990	1.6	1.8	3.4
Premiums as % of GDP	1988	1.2	1.4	2.6
	1989	1.3	1.6	2.9
	1990	1.4	1.6	3.0
Premiums per capita (M$)	1988	70	82	152
	1989	75	92	167
	1990	78	90	168
Assets (M$bn)	1989	6 1	2.0	8.1
	1990	6.9	2.3	9.2
Profitability (M$ mn)	1988	608	(48)	560
	1989	806	13.9	819.9
	1990	936	75.1	1011.1

Source : Bank Negara Annual Report

B. PRESENCE, MARKET SHARE AND PROFITABILITY OF EC AND OTHER FOREIGN FINANCIAL INSTITUTIONS:

Of the 58 companies reporting results in 1990, only 9 were foreign incorporated companies. All EC insurance companies were locally incorporated with the European partner holding a minority share.

C. MARKET ACCESS PROBLEMS FACED BY EC INSURANCE COMPANIES

a. Establishment and acquisition

Foreign investors may acquire shares in existing insurance firms, but a limit is imposed on existing foreign insurers who may in principle hold no more than 30% of the equity. Branches of foreign companies are being required to locally incorporate and to reduce foreign share ownership in line with NDP (NEP)*) Policy ; this means that in principle foreign companies will be able to hold up to 30% of the equity, although no fixed deadline for this conversion has been set and in individual cases foreign participation beyond 30% may be allowed.

The use of expatriate managers require the prior approval of the Bank Negara Malaysia which follows specific guidelines. These include the limitation that only one expatriate may be employed in foreign controlled insurance companies where there are less than 200 staff and one further expatriate is allowed for each additional 200 staff employed. Furthermore, for insurance companies with Malaysian equity of at least 51%, the Chief Executive Officer must be Malaysian (unless it is judged that a suitable Malaysian candidate is not available). The Bank Negara indicates that these guidelines may be applied flexibly. The employment of an expatriate must also be approved by the Permanent Committee of Citizenship and the Immigration Department.

b. Activity

The activities of Lloyds Underwriters are limited to re-insurance business and surplus line direct business, the latter being subject to prior authorisation by the insurance authority. These measures aim at optimising retention capacity of the Malaysian insurance industry and at developing the expertise of the local workforce. Reinsurance abroad is permitted only where there is insufficient capacity or expertise in Malaysia.

Section 34A of the Insurance Act 1963 requires that all ships aircraft and property policies must be insured with insurers registered under the Act. This includes both domestic and foreign insurers who have registered.

The Malaysian Government gives certain fiscal incentives to promote the domestic insurance market, although these incentives are available to both domestic and foreign branches and foreign insurance firms operating in Malaysia.

All insurance companies operating in Malaysia are required to maintain at least 80% of their assets in Malaysia. In addition 25% of their total assets must be maintained in Government securities. Furthermore, the existence of the Government's compulsory employee's provident fund has partly hampered the development of pension-fund schemes offered by insurance companies, despite the fact that individuals are permitted to purchase additional policies.

*) This is a general policy applying to all sectors of the economy, according to which the Government intends to keep a balance between the different races in the country ; thus, 30% of the shares in any company are reserved to native Malaysians, 40% to non-indigenous Malaysians, and up to 30 to foreigners.

SECURITIES MARKET

A. OVERVIEW

The Malaysian stock exchange was strengthened by the separation of the KLSE and the Stock Exchange of Singapore and the installation of a self-automated trading system (SCORE). All Malaysian incorporated companies were removed from the SES, while Singapore based companies were removed from the KLSE by the 1st of January. The number of transactions on the KLSE increased by 29.3% to a volume of 13.1 billion units which were valued at M$ 29.5 bn, representing an increase of 59.3% on the previous years value. Despite the immediate M$ 46.1 bn fall in the market capitalisation to M$ 110 bn on January 2nd 1990, following the implementation of the reform, trading on the KLSE increased throughout the year.

The increase in the volume of transactions has led the Minister of Finance to introduce capital adequacy rules. This has resulted in the restructuring of the sector, particularly by mergers or flotation on the KLSE. The KLSE has introduced guidelines for the merging of stockbroking firms which limit foreign brokers to a maximum 30% shareholding of stockbroking holding company (which is not allowed to control more than three stockbroking companies,) or 45% if special approval is granted.

B. ACTIVITY

Total net funds raised in the capital market by the public and private sectors increased from M$ 7.1 bn in 1989 to M$ 14.7 bn in 1990. The private sector dominated the market for new issues. Equity and equity-related issues accounted for 74% of the total funds raised in 1990,an increased proportion than in the previous year.

There were 31 unit trust companies in operation under 9 management companies at the end of 1990.The total investment of these funds increased from M$ 7,006 mn in 1989 to M$ 11.7 bn in 1990. The unit trust industry is now regulated by the guidelines laid down by the Informal Committee on Unit Trust Funds which provide that the management of a unit trust fund must be a subsidiary of financial institutions being supervised by the Central Bank or of another institution permitted by the authorities. The Central Bank has also appointed 23 commercial banks as principal dealers for Malaysian securities.

Table 5 Securities market indicators				
		1988	1989	1990
Turnover (market value of trading)	M$bn	6.76	18.53	29.52
Turnover as % GDP	%	7.4	18.2	26.7
Capitalisation (Market value)	M$bn	62	107	129
Trading volume (Nr of shares traded)	mn	3,980	10,140	13,060
Nr of listed companies		295	305	271
Nr of companies newly listed		6	11	19
New funds raised-public and private in equity shares	M$bn	-	7.1	14.7
% of total	%	-	65	74

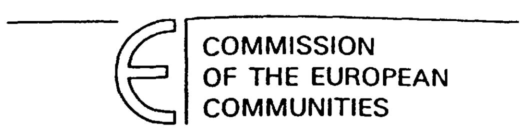
Source : FIBV

C. MARKET ACCESS PROBLEMS FACED BY EC SECURITIES COMPANIES

a. Establishment and acquisition

Under current Government policy, no new brokerage licences are issued both to foreign or domestic firms. The Malaysian Government argues that the securities market is currently adequately served by the existing number of securities firms.

Foreign interests may acquire existing firms on a joint-venture basis, but foreign brokerage houses may hold a maximum of 30% equity share at the beginning of a joint venture agreement. If the participation of the foreign firm can be shown to have resulted in a contribution to the local stockbroking industry, for example, by bringing in foreign institutional investors or improving research techniques, this participation may be increased to a maximum 49% equity share. At present there are 4 brokerage firms set up with foreign partners. The Malaysian authorities consider that it is necessary to limit foreign participation in the securities industry to maintain market stability and to promote the development of domestic securities firms.



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

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Overview

Malta produced a GDP of 734.8 mn MTL (1,798.4 mn ECU[1]) in 1990. With a population of 350,000, this amounted to a per capita GDP of 2099.43 MTL (5,138.28 ECU). The Central Bank estimates that GDP reached 805.2 mn MTL (1,994.35 mn ECU) in 1991. GDP growth was estimated at a nominal 9.6% (1990: 9.6%), or at 5.6% in real terms (1990: 5.9%).

BANKING

The establishment and operations of banks in Malta are regulated by the Central Bank of Malta Act of 1967, the Banking Act of 1970, the Malta International Business Act of 1988 and legal notices issued thereunder.

The Central Bank of Malta is a body corporate whose functions are the issue of currency; the maintenance of the country's external reserves; the supply of credit so as to promote the orderly and balanced economic development of Malta and a rising level of employment and income consistent with the maintenance of monetary stability in Malta and the external value of the currency; the development of a capital market; the provision of banking services and financial advice to the government; other functions assigned to it by law (for example, the administration of exchange controls on behalf of the Minister of Finance).

The Central Bank may grant temporary advances to the Government, the total amount of which must not exceed at any one time 15% of the estimated recurrent budget revenue; such advances are repayable at the latest by the end of the financial year in which they are granted.

The Board of Directors of the Central Bank, under the chairmanship of the Governor, is responsible for the policy and general administration of the bank. The Central Bank has to keep the Minister of Finance informed of the policy of the bank. The Minister may, if he thinks it necessary in the national interest, and after consultation with the Governor of the Central Bank, give to the bank directions in writing which the bank has to comply with. The only such directive ever issued related to a national incomes policy affecting the Central Bank's employees.

The Central Bank is the supervisory authority in charge of banks (except for offshore banks; see below), acting through inspectors who are Central Bank officers appointed by the Minister of Finance under the Banking Act.

1 Maltese liri (MTL) were translated at the December "infor écu" exchange rates:
1990: 1 ECU = 0.408586 MTL
1991: 1 ECU = 0.403741 MTL

commercial banks which may operate current (cheque accounts) and other financial institutions which include all other banks, are regulated by the Banking Act. In order to carry out banking business in Malta, a valid licence granted by the Minister of Finance is required. According to Section 4(6) of the Banking Act, the Minister may refuse to grant such licence if he considers this not to be desirable in the public interest. After consultation with the Central Bank, the Minister may subject licences granted to him to any conditions concerning savings and time deposits that he may consider fit. A written consent of the Minister is also necessary to open a new branch, agency or other office in Malta or outside Malta in the case of banks incorporated in Malta.

The Minister of Finance may, if he thinks it to be in the public interest, after consultation with the Central Bank, determine the maximum amounts and maturities of loans, the purposes for which loans may not be made and the maximum interest rates that banks may charge. At present, commercial banks are prohibited from granting loans with a maturity of over five years. Investment banks may not grant loans with a maturity period shorter than five and longer than twenty years.

As regards reporting, banks are required to publish audited balance sheets and profit and loss accounts not later than four months after the close of their financial year.

An offshore financial services market covering banking, insurance and trading activities is established by the Malta International Business Activities Act of 1988. This act provides for the Malta International Business Authority (MIBA) to promote, monitor and supervise offshore activity, that is any business or other activity carried out from Malta in a foreign currency by persons and with persons not resident in Malta. The Banking and Insurance Acts apply to offshore companies with the exceptions provided for in Sections 28 and 29 of the Malta International Business Act. Offshore companies enjoy a particularly favourable income tax regime and they are exempt from exchange control, customs duties, certain social security contributions, death and donation duties, and stamp duties. There are provisions regulating the particular status of offshore companies in legal proceedings.

The Malta International Business Act provides for four types of banking companies which operate exclusively offshore:

1) a banking offshore overseas company which is a branch of a bank of international standing established in Malta exclusively for offshore activities;

2) a banking offshore subsidiary company which is a subsidiary of a bank of international standing formed and registered in Malta as a private company exclusively for the business of offshore banking;

3) an offshore local company which is a subsidiary company of a bank licensed under the Banking Act formed and registered in Malta exclusively for the business of offshore banking; and

4) any other offshore company which expressly restricts its objects to the business of banking.

The first offshore bank was registered by MIBA in 1991.

Banking in figures and foreign presence

Eight credit institutions are operating in Malta. Out of the seven domestic institutions, there are four commercial banks, one mortgage credit institution and two investment banks. One community credit institution has got an offshore banking subsidiary in Malta. The total number of branches, agencies and foreign exchange bureaux was 104 at the end of the year 1991.

The banking system's total assets were 5,125.938 mn MTL (12,685.39 mn ECU) as of end-March 1992. Out of these, the domestic credit institutions held 4,670.646 mn MTL (91.12%), while the EC banking subsidiary held 455.291 mn MTL (8.8%). By contrast, this institution's share in the total deposits of 3,172.477 mn MTL amounts to only 0.03%.

There is a high degree of concentration in the Maltese banking market. The largest two commercial banks, which are domestic, hold 77% of assets and 97% of deposits.

Obstacles to business activities carried out by EC banks

1. Establishment

The Banking Act applies to banks irrespective of who owns them and does not restrict the establishment of foreign banks. However, any transfer of shares in a local bank which would raise the equity holding of non-residents to over 20% of the share capital of the bank must be approved by the Minister of Finance after consultation of the Central Bank and in consonance with the government's economic and other policies.

There is no economic needs test applied, but the Minister of Finance may refuse to grant a licence if he thinks that this is desirable in the public interest (see above).

2. Activity and cross-border services

Only commercial banks which are appointed Authorised Dealers under the Exchange Control Act are authorised to buy and sell foreign currency in terms of the Act and have delegated authority to approve all current payments. Capital payments require Central Bank permission.

More detailed information has not been provided by the Maltese authorities.

INSURANCE

Overview

Insurance business in Malta is regulated by the Insurance Business Act of 1981 and by regulations which are made thereunder, that is the Insurance Business Security Fund Regulation of 1986, the Insurance Business (Fees) Regulations of 1981 and the Life Insurance (Statutory Notice) Regulations of 1989. Insurance companies are licensed by the Minister of Finance. The Insurance Supervisory Division which is organised within the Ministry of Finance is encharged with the supervision and regulation of the insurance business.

Insurance in figures and foreign presence

The importance of Malta as a market for EC insurers is highlighted by the fact that out of 31 insurance companies operating in Malta on 1 January 1992, 25 were Community undertakings. There were four non-domestic non-Community and only two domestic undertakings.

Out of the gross direct premiums of 17,927,827 MTL accepted in 1991, 3,209,311 MTL (18%) came in the form of life insurance, while 14,718.516 MTL (82%) were non-life insurance premiums. Community insurers accounted for 2,220,680 MTL (69.2%) of premiums earned in life insurance and 13,977,680 MTL (90.5%) of non-life insurance premium income. Total reinsurance premiums accepted amounted to 3,230,643 MTL, out of which 164,004 MTL (5%) were from abroad. By comparison, 13,296725 MTL in premiums were ceded abroad, 94.5% of which to Community countries.

Obstacles to establishment and insurance activities by EC insurers

1. Establishment

According to the Maltese authorities, any foreign insurance company is free to apply in writing to the Minister of Finance for a licence under the Insurance Act. "Where the company complies with the provisions of the law and regulations, a licence is normally granted."

The Insurance Act does not deny foreign insurance companies the right of establishment in the form of a subsidiary or a branch. As restrictions in the law apply to both foreign and local companies, the Act does not discriminate against foreign insurers. Establishment is not subject to an economic needs test.

2. Activity

The Minister of Finance may by order in writing require a licensed company (local and foreign) acting as principal to cede to any licensed company named in the order such percentage not exceeding 30% of the risk insured and situated in Malta as is stated in the order (Section 15 Para. 3 of the Insurance Business Act). Consequently, such order provides for mandatory re-insurance and co-insurance, respectively.

Section 26 of the Insurance Business Act establishes a Security Fund for the payment of any claims against a licensed insurance company remaining unpaid by reason of insolvency of such company, and in order to compensate victims of road traffic accidents in specified circumstances. In view of this provision, the Ministry of Finance requires that the base capital of a foreign company should not be les than the unimpaired assets required of a local company by law.

SECURITIES

The Malta Stock Exchange commenced its operations on 8 January 1992. It is a corporation with a distinct legal personality and is managed by the Council of the Exchange. Its main legal basis is the Stock Exchange Act of 1990. This Act requires that listed securities are marketed at the Stock Exchange through licensed stockbrokers. A license is also required in order to offer the services of a financial consultant or adviser pursuant to Section 33 of the Act. Licenses are granted by the Central Bank of Malta, which also acts as the supervisory authority over the stock exchange and securities firms.

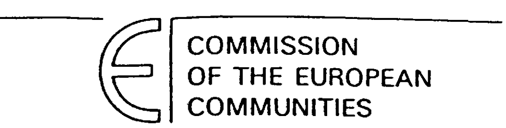
According to the Legal Notice 108 of 1972, a licence under the Banking Act is required for the following securities-related activities:

1. the borrowing or raising of money, even if this is done by the issue of debentures or debenture stock, with the intention of lending such money to others at a profit, or the lending to others at a profit of money so borrowed or raised;

2. the issue or sale of units, shares or bonds in evidence of money invested in a unit trust or mutual fund for the purpose of acquiring property of any kind to the equal benefit of each investor;

3. the writing or issue of any equity or property-linked life insurance policies.

The prospectus to be published in case of a share issue is regulated by the Commercial Partnerships Ordinance of 1982.



TREATMENT ACCORDED IN THIRD COUNTRIES
TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

MEXICO

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BANKING

Introduction

Mexico has a population of 86 million and had a GDP of 668,836 bn Mexican pesos (Mxp)[1] in 1990. This represented 7.8 million Mxp (2,178 Ecu) per head. GDP grew by 3.9 % in real terms and inflation was 29.9 % during 1990.

The Mexican economy has opened considerably over the past three years with greater trade and investment opportunities for foreigners. This process is expected to continue in the context of the free trade accord with the USA and Canada (NAFTA).

Legal framework

Mexican banks were nationalized in 1982 under Article 28 of the Mexican Constitution. The Mexican Congress approved a constitutional amendment in 1990 to return the commercial banking system to private investors. Under the legislation a minimum of 70 % of the shares must be held by Mexicans. Foreigners can hold up to 30 % of voting shares.

Banking in Mexico is highly consolidated with only 20 commercial banks in 1991 compared to about 200 banks in 1975. The two largest banks dominated the industry in the 1980s. The industry was heavily regulated by the financial authorities, but in 1989, the degree of control was reduced, allowing commercial banks to set interest rates and reduce obligatory lending to the public sector.

The sector is made up of Development Banks and Commecial Banks.

a) Development banks

Mexican development banks will remain under state control. In December 1990, their assets were 100,389 bn Mxp and the deposits were 9,740 bn Mxp. In March 1991, the assets reached 101,947 bn Mxp and the deposits 12,236 bn Mxp.

There are seven development banks and they specialize on specific economic sectors, like import-export, agricultural, small and medium sized enterprises, etc. .

(1) Average exchange rate :
in 1989 : 1 ECU = 2,711.9 Mxp
in 1990 : 1 ECU = 3,581.65 Mxp

b) **Commercial banks**

These banks, offering both commercial and investment banking services, may trade securities, including securities not listed on the stock exchange. Such trades executed for the bank's own account must comply with regulatory restrictions and are subject to the joint surveillance of the National Securities Commission and the National Banking Commission.

Mexican commercial banks are divided into three types, national, multiregional and regional. The six national banks are permitted to open branches anywhere in Mexico. Their charter is to provide financing for large investment projects in the social and private sectors, finance and strengthen foreign trade operations, and promote the development of technological innovation. The eight multiregional banks are concentrated in the nation's largest production and consumption centers. These banks offer integrated financial service packages primarily to industry and business. Regional banks are intended to help implement the Government's strategy of encouraging decentralized economic activity by concentrating their resources on business in the regions in which they operate.

By early 1990, there were 18 nationalized commercial banks, plus two banks which were not nationalized (Banco Obrero and Citibank). As result of new legislation Mexican commercial banks are being privatized. The first privatizations began in June 1991, and all banks are likely to pass into private hands before end-1992.

The sale of the commercial banks has coincided with new legislation permitting the formation of integrated financial services groups. Such groups will be required to organize as holding companies and to own at least 51 % of any financial subsidiary, including warehouses, financial leasing companies, brokerage firms, money exchange offices, facturing institutions, commercial banks, finance companies, insurance companies and mutual fund managers. Nearly all of the acquirers of the first privatized banks have announced their intention to form financial groups.

Mexican commercial banks reported in December 1990 total assets of 268 bn Mxp pesos and deposits of 158 bn Mxp. The market is highly concentrated. About 60 % of total deposits are in the three largest banks (Bancomer, Banamex and Serfin).

Table 1 - Total assets of the banking sector (bn Mxp)			
	1989	1990	end-March 91
State development banks	102,705	100,389	101,947
Multiple banking institutions	161,590	268,003	292,805
Table 2 - Total deposits (bn Mxp)			
State development banks	7,141	9,740	12,236
Multiple banking institutions	100,942	158,166	165,008
Table 3 - Number of institutions			
State development banks	7	7	7
Multiple banking institutions	20	20	20

Source : Comisiòn Nacional bancaria

Table 4 - Concentration of the market deposits (%)			
	1989	1990	end-March 91
State development banks (seven)	6,4	5,3	6,1
Commercial banks (five largest)	70,2	65,3	63,7

Table 5 - Total of profits of the banking sector (mn Mxp)			
	1989	1990	end-March 91
State development banks	315,181	(371,550)	(53.561)
Commercial banks	2,137	3,034	948

Source : Comisiõn nacional bancaria

MARKET ACCESS PROBLEMS FACED BY EX CREDIT INSTITUTIONS

Mexico is closed to foreign bank entry with the exception of one grandfathered USA bank branch ; foreigners may be authorized to own up to 30 % of voting shares in Mexican banks. There are no EC institutions in the Mexican financial market except for thirty-two EC banks with representatives offices.

SECURITIES MARKET

Brief economic overview

The Mexican's security market has two main branches : the stock market and the money market.

The securities market in Mexico is very active, but trading is concentrated in the short-term money market, particularly in government instruments (Treasury bills) because of high inflation and economic uncertainties. In 1990 this represented over 90 % of the market activity. In contrast, the stock market is much smaller and less active, in 1990 it represented over 2.4 % of financial market trading.

Global turnover in the securities market rose sharply over the past three years 2,245,945 bn Mxp in 1990 compared to 965,608 bn Mxp in 1988, an increase of more than 230 %.

Mexico has one securities exchange market, with about 25 brokerage houses. All the brokerage firms are majority Mexican-owned.

Mexico does not have a futures or options market.

MARKET ACCESS PROBLEMS FACED BY EC SECURITIES FIRMS

Like banks and other financial intermediaries, foreign brokerage firms are not permitted to establish in Mexico. Foreigners may acquire up to 30 % ownership interest in voting shares of brokerage firms and open representative offices.

Table 6 Securities market indicators - Shares			
	1988	1989	1990
Turnover (Market value of trading) (bn Mxp)	17,545	35,778	54,600
Turnover % GDP	4.4	7.2	8.2
Capitalization (1) (Market value of shares) (bn Mxp)	54,822	71,507	120,919
Trading volume (2) (No of shares traded) (in mn)	-	7,404	10,673
No of listed companies	309	354	390
No of companies newly listed	49	50	49

(1) Excluding investment funds
(2) ExcludeS trades in mutual funds

Source : Bolsa Mexicana de Valores S.A.

Table 7 Securities market indicators - Bonds			
	1988	1989	1990
Turnover (Market value of trading (bn Mxp)	9,875	8,455	13,099
Turnover % GDP	2.5	1.7	2
Capitalization (1) (Market value of shares) (bn Mxp)	3,877	3,907	4,738
Trading volume (Number of transactions in bonds and debentures	30.931	14.362	-
No of bonds and debentures listed	60	110	119
No of new listings bonds and debentures	38	58	65

Source : Bolsa Mexicana de Valores

INSURANCE

Overview

The Mexican insurance market is highly regulated and restricted to Mexican citizens. This situation has reflected in the fact that the resources handled by Mexican insurance companies just represent 1.1 % of GDP, 3.7 % of the total assets of Mexican Financial System and 2 % of the total resources handled by Financial Intermediaries.

The insurance industry in Mexico grew around 30 % over the previous years. In 1990, total premiums were 7,724 bn Mxp and premiums per head reached 89,658 Mxp (25 ECU), being non-life premiums higher than life premiums (15 ECU and 10 ECU respectively).

Since 1990, the insurance companies operations are regulated by the "Ley General de Instituciones y Sociedades des Mutualistas de Seguros". The main issue of this law is to impel long term savings through life insurance instruments.

Table 8 Indicators of insurance business

	Year	Life	Non-Life	Total
Direct premiums	1988	1,646	2,890	4,536
(bn Mxp)	1989	2,127	4,056	6,183
	1990	2,823	4,901	7,724
Premiums as % GDP	1988	0.4	0.7	1.1
	1989	0.5	0.8	1.3
	1990	0.4	0.7	1.1
Premiums per capita (Mxp)	1988	19,870	34,886	54,756
	1989	25,175	48,006	73,181
	1990	32,768	56,890	89,658

Source : Sigma. Swiss Reinsurance

Table 9 Reinsurance

	Year	Life	Non-Life	Total
Premiums	1989	27	554	581
(bn Mxp)	1990	32	471	503
Premiums as % GDP	1989	0.005	0.11	0.1
	1990	0.005	0.07	0.07

Source : Ministerio de Hacienda

Table 10	Total assets	
	Unit	1990
Public companies	bn Mxp	13,496
Private companies	bn Mxp	3,445

Source : Ministerio de Hacienda

MARKET ACCESS PROBLEMS FACED BY EC INSURANCE COMPANIES

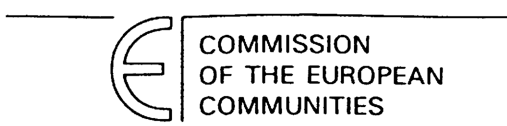
Establishment

Mexico is closed to foreign insurance companies entry. Participation in local insurance companies is generally limited to 30 %, although it may be of up to 49 % with authorization of Minister of Finance.

Activity

With certain exceptions, the insurance of risks which are situated in Mexico can only be concludes with insurance companies which are authorized in Mexico.

State-owned enterprises are obliged to insure themselves with state-owned insurance companies and Government employees must contract their life insurances with a state-owned insurance company.



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

NORWAY

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Norway is a signatory to the agreement between the countries of the European Community and the countries of the European Free Trade Area, establishing the European Economic Area and which enters into force on 1 January 1993. In accordance with that agreement, Norway in common with the other EFTA countries, will apply Community legislation relevant to financial services. Thus EC firms will have in relation to establishment and the carrying on of activities the same rights and obligations as they have within the Community. EC and EFTA countries will operate within a single market in financial services.

Introduction

GDP in Norway reached 690bn NOK in 1991 representing 164,000 NOK (20,510 ecu) per head. The economy remains in an extended period of contraction which began in late 1987. Non-oil economic activity is expected to revive during 1992 and to gain strength the following year. However, difficulties in the financial sector that might lead to a credit crunch could delay recovery.

CREDIT INSTITUTIONS

In 1990 there were 26 commercial banks, 142 savings banks and 13 state and postal banks operating in Norway, accounting for total assets of 1107.7bn NOK.

Table 1: Banking Sector indicators, 1990

	No. of Banks	Assets (bn NOK)	Deposits (bn NOK)
Commercial Banks	26	392,5	198.2
of which foreign	8	9.5	2.9
Savings Banks	142	246.0	177.7
State and Postal	13	251.0	70.6
Other institutions		218.2	na

Foreign banks

The Norwegian bankig sector was closed to foreign banks until 1985-86. There are now 8 foreign owned subsidiaries operating in the market mainly specializing in international/foreign exchange business and other areas of special expertise. Since 1990 foreign bank subsidiaries have been permitted to open branches under the same conditions as Norwegian banks. The market share of foreign banks is very low, with 0.9% of assets and 0.7% of deposits.

Under the terms of the EEA Agreement transitional arrangements which allow Norway to restrict foreign ownership of, inter alia, financial institutions and securities firms, will apply until 1995.

INSURANCE

Gross insurance premiums in Norway reached 36,159m NOK in 1989, composed of 11,487m NOK life premiums and 24,672m NOK non-life premiums. This represented in total 5.8% of GDP and 8,500 NOK per head of population. The market value of investments made by insurance companies in Norway amounted to 210bn NOK in 1990.

Foreign insurance companies

There are no foreign life insurance undertakings operating in Norway and out of a total of 165 non-life undertakings there are 3 foreign subsidiaries and 34 branches and agencies of foreign undertakings. These foreign operators accounted for 13.7% of direct non-life premiums in 1989.

Table 2: Indicators of Insurance Business

	Year	Life	Non-Life	Total
Premiums (m NOK)	1985	10,932	16,677	27,609
	1988	12,093	22,813	34,906
	1989	11,487	24,672	36,159
	1990	12,944	19,783	32,727
Premiums (% GDP)	1985	2.2	3.3	5.5
	1988	2.1	3.9	6.0
	1989	1.8	4.0	5.8
	1990	1.9	2.9	4.7

Source: OECD Insurance statistics and national sources

SECURITIES TRADING

There were 121 companies listed on the Oslo Stock Exchange at the end of 1990 compared with 129 the previous year. The total market value also showed a decline from 167.3bn NOK in 1989 to 154.4bn NOK in 1990.

There are 32 brokers presently active on the Norwegian market, five of which are partly or wholly owned by foreigners or foreign owned Norwegian banks. These five brokers reported profits of about 8.5 million NOK for 1990.

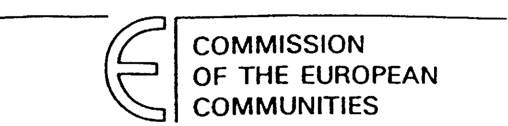
Table 3: Securities Market Indicators		
	1989	1990
Turnover (NOK bn)		
- in equity shares	86.2	88.2
- in bonds and debentures	180.9	296.7
Turnover (% GDP)		
- in equity shares	13.8	14.2
- in bonds and debentures	29.0	44.9
Capitalization (NOK bn)		
- equity shares[1]	167.3	154.4
- bonds and debentures	287.7	309.5
New listings (NOK m)		
- in equity shares[2]	7,300	6,716
- in bonds and debentures	na	na
Trading Volume (million)		
- in equity shares[3]	775.5	1032.1

Source: F.I.B.V. Statistics 1990

[1] Domestic companies

[2] Gross amount of new capital raised by domestic companies

[3] Number of shares traded



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

PHILIPPINES

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Introduction

GDP in the Philippines reached 1,066 bn of Pesos[1] (34.4 bn ECU) in 1990. With a population of 61.48 mn this represented 17,339 Pesos (560 ECU) per head. Inflation rose to 12.6 % during 1990.

A welcoming attitude toward foreign investors was reinforced in 1990-91 by the passage of a new Foreign Investment Act that permits foreign participation in developing the country's infrastructure. However, direct investment in the banking sector is still restricted to 30 % of voting stock and the insurance sector is subject to a maximum of 40 % foreign-owned equity.

CREDIT INSTITUTIONS

Overview

The banking industry is highly regulated partly as a response to bank failures in the 1980s. It is characterized by small banks, high intermediation cost and high profits. At the end of 1991, a Bill to liberalize the entry of foreign banks and broaden the scope of their operations was placed before Congress. Its purpose is to help complement the recent Foreign Investing Act, by increasing the efficiency and competitiveness of domestic banking operations, and promoting a greater transfer of technology in banking.

Total resources of the financial system (excluding the Central Bank) registered aggregate resources of 798 bn of Pesos in 1990, which exceeded the previous year's total by 25 %. The growth was bolstered mainly by the expansion in resources of commercial banks. The financial system also makes available substantial credit through operations of trust and other fiduciary activities which are considered off-balance sheet accounts. These accounts, which are recorded as contingent accounts, registered significant growth from 81 bn of Pesos in 1990 to 140 bn of Pesos in 1991.

The financial system is dominated by commercial banks with 67.6 % of the total resources, followed by non-bank financial institutions, thrift banks, specialized government banks and rural banks. At the end of 1990 the number of financial institutions were of 7,482 (head office plus branches).

Total deposit liabilities of banking system grew at an annual rate of 22 % in 1990. Commercial banks accumulated total deposits of 311 bn of Pesos (89.1 % of total) and total assets 540 bn of Pesos (67.6 % of total).

The five largest commercial banks hold by far the main market share of assets (46 %) and deposits (50 %).

In 1990, there were 17 foreign bank representative offices, of which 4 came from EC countries.

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1) Yearly average value in 1989 : 1 ECU = 23.94 Pesos
1990 : 1 ECU = 30.95 Pesos

Table 1 Number of institutions	
	1990
- commercial banks	30
- Savings banks	7
- Private Developmment banks	40
- Stock savings and Loan Associations	56
- Specialized Government banks	3
- Rural banks	804
Total	940

Source: Central Bank of the Philippines

Table 2 - Assets and deposits of Credit Institutions				
Assets (bn Pesos)	1989	%	1990	%
Total assets of which :	638	100	798	100
- Commercial banks	420	66	540	67.6
- Thrift banks[1])	32	5	37	4.5
- Specialized Government banks	14	2	18	2.2
- Rural banks	13	2	14	1.7
- Non-bank Financial institutions	159	25	189	24
Deposits (bn Pesos)	1989	%	1990	%
Total deposits of which:	287	100	349	100
- Commercial banks	252	87.8	311	89.1
- Thrift banks[1])	26	9.1	26	7.5
- Specialized Government banks	3	1	5	1.4
- Rural banks	6	2.1	7	2

[1]) Thrift banks include saving banks, private development banks and stock savings and loan associations.

Source: Central Bank of the Philippines. Statistical bulletin.

Presence of foreign Banks

There are very few foreign banks operating in the Philippines' market, compared to other countries in the region. In 1990, there were 4 fully owned foreign commercial banks, of which 2 were from EC countries. EC commercial bank assets reached 14 bn Pesos (2.6 % of all credit institutions) and their deposits were about 6 bn Pesos (2 % of the total) in 1990. The 4 fully owned foreign commercial banks are those "grandfathered" banks established before 1946 and which have full banking licences (though with severe restrictions on branches).

On the other hand, there are ten foreign banks (mainly Americans and Japanese) who have important participation in commercial domestic banks. Their share was estimated at 8.1% of total assets and 9% of total deposits in 1990. Non EC banks have any important participation in the Philippines market. Recently, the Philippine National Bank (PNB), one of the largest public banks, was being partly privatized. However, no information is available on foreign bank participation.

Moreover, there were 19 offshore banking units, which include 6 EC banks. Their total assets were estimated at 2,376 m USD in 1990. That represented a decrease of 372 mn USD on the previous year.

Table 3 Market share of foreign credit institutions in 1990

	Number	%	Assets	%	Deposit	%
Foreign owned Commercial Banks[1]) (bn Pesos) of which :	4	13	64	12	23	7.3
EC owned Commercial banks	2	6	14	2.6	6	2
Domestic banks with foreign participation (bn Pesos)	10	32	162	30	108	35

[1]) % of total Commercial banks
Source: Central Bank of the Philippines. Annual Report.

MARKET ACCESS PROBLEMS FACED BY EC CREDIT INSTITUTIONS

Establishment and acquisition

Although, there is no constitutional nor statutory prohibition against the establishment of foreign bank, the banking law of 1948 establishes that only banks incorporated in the Philippines may accept deposits, and therefore foreign bank branches are not allowed to engage in deposit-taking. Foreign banks are limited to 30 % equity on voting stocks in existing domestic banks, which may be raised up to 40 % if special permission is obtained from the President of Republic. Foreign banks may choose to increase its equity holdings beyond 30% - 40% through preferred shares which are non-voting.

However, since 1946 foreign banks have not been authorized to establish themselves, although the Central Bank has indicated that new foreign entry would be welcomed.

Four foreign banks, established prior to 1946, continue to operate as deposit-taking commercial banks as branches. In April 1991, the Central bank offered them the opportunity of bidding for the opening of two new branches outside Manila on very strict terms, including a restriction to the ability of those new branches to take deposits.

Branches of foreign banks which perform full commercial banking functions appear to be generally granted national treatment ; in some cases, they enjoy certain advantages concerning the application of capital requirements ; for instance, they are allowed to consider the so-called "Net Due to Head Office" accounts as capital for purposes of determining compliance with various capital requirements as against fixed paid-in capital required for domestic banks.

In October 1991, a banking bill was introduced ; if approved in its present form, it would allow deposit-taking by foreign banks other than the 4 grandfathered ones, would allow foreign equity in local banks up to 70%, and would permit the establishment of wholly-owned foreign bank subsidiaries. Regulations permitting offshore banking units (OBUs) were adopted in 1976. Regulations have been gradually liberalized, and, since January 1992, OBUs are authorized, subject to certain conditions, to negotiate export letters of credit, extend foreign currency loans and advances, and refinance trust receipts, among other powers.

INSURANCE MARKET

Overview

By the standards of developed economies, the Philippines insurance industry is very weak. There is a relatively large number of small and medium-size insurance companies, with the result that the sector has not experienced the same kind of cartelisation as is seen in banking. At the end of 1989, a total of 130 insurance companies carried out insurance business in the Philippines. The 5 largest companies accounted for 37 % of total premium income.

In 1989, the total premium income reached 10,796 mn of Pesos (ECU 451 mn), which represented an increase of 19 % versus the previous year. Mesuring the market in terms of premiums as percentage of GDP, total premiums represented 1.1 %. In terms of total premiums per capita were about 180 Pesos (7.5 ECUs), being the non-life the most important sector.

Table 4 Number of insurance companies in 1990					
	Life	Non-life	Composite	Reinsurances	Total
Domestic company	21	91	2	3	117
Foreign company	2	10	-	1	13
Total	23	101	2	4	130

Source: Department of Finance. Insurance Commission. Annual Report 1990

Table 5 Indicators of insurance business				
	Year	Life	Non-Life	Total
Gross premiums (mn of Pesos)	1989	4,791	8,309	13,100
Premiums as % of GDP	1989	0.5	0.9	1.4
Premiums per capita (in Pesos)	1989	80	138	218
Total assets (mn of Pesos)	1989	21,335	13,825	35,160

Source: Insurance Commission. Annual Report 1990

Presence of foreign insurance companies

In 1989, there were 13 foreign insurance companies, among them 4 from EC countries. Their total share in the domestic premiums market were of 20 %, 2,599 mn Pesos (108.5 mn Ecus). EC owned insurance companies participation reached 2.5 % of the total premiums market with a value of 213 mn Pesos (9 mn Ecus).

Table 6 - Market share of foreign owned insurance companies in 1989				
	Life	Non-Life	Total	%
Foreign share of premiums (mn Pesos) of which :	941	1,658	2,599	20
Share of EC insurance	-	214	214	2.5

Source: Insurance Commission. Annual Report 1990.

MARKET ACCESS PROBLEMS FACED BY EC INSURANCE COMPANIES

Establishment and acquisition

New foreign establishment is not allowed.

Since 1974, foreign shareholding in domestic insurance companies is limited to 40%, and the new Foreign Investment Act of June 1991, has confirmed this limitations. 13 foreign companies established prior to 1974 have been grandfathered.

Activity

Foreign insurance companies established in the Philippines appear to be generally granted national treatment with certain exceptions. For instance, foreign companies are not permitted to insure government property and to provide contract bonds for public sector contracts. In the reinsurance market, there is a priority cession requirement to local companies.

Similarly, special deposit requirements are imposed ; for instance, foreign insurance companies are required that their corresponding deposits to be made with the Insurance Commission should have an actual market value not less than the minimum paid-up capital required of domestic insurance companies. While it is required that such deposit should be in the form of securities acceptable to the Commissioner, it is specifically required that at least fifty percent thereof should represent evidences of Government debt.

SECURITIES MARKET

Overview

There are in Manila two Stock Exchanges : the Manila Stock Exchange (MSE), established in 1927, and the Makati Stock Exchange (MKSE), created in 1963.

The two have roughly the same size, and are very active competitors. Both stock exchanges list the same securities and most brokers have seats on both exchanges. The consequence is a duplication of capital spending needed to improve trading, clearing and settlement.

Most foreign securities firms operating in the Philippines are affiliated with MKSE. However, the exchanges are not so different and big institutional investors trade on both. MKSE has 91 members, while MSE has 90.

Recently, some steps have been taken towards the unification of both stock exchanges by the Securities and Exchange Commission (SEC), the Philippines authority. But, for the moment, it is not expect much progress.

The Philippines exchange market has been growing steadily in the last 4 years, despite being very volatile.

In 1990, the turnover value of MKSE was 15,355 mn of Pesos, reaching 21,718 m of Pesos in 1991. On the other hand, in 1990 the MSE turnover was 13,213 mn, of Pesos, which was a substantial decrease from the previous year of 15,182 mn. of Pesos. The global ratio turnover as percentage of GDP was 2.6% in 1990, small in relation with other Southeast Asian markets.

Table 7 Securities Market Indicator in 1990 - Shares

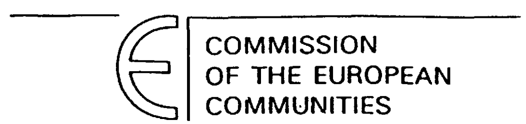
	MKSE	MSE
Turnover (mn of Pesos)	15,355	13,213
Turnover as % GDP)	1.4	1.2
Capitalization (mn of Pesos)	-	161,218
Volume turnover (mn shares)	124,842	141,929
Nr. of listed companies	153	-

Source: Makati Stock Exchange and Manila Stock Exchange. Annual Reports

MARKET ACCESS PROBLEMS FACED BY EC SECURITIES COMPANIES

Activity

Foreign companies established in the Philippines appear to be generally granted national treatment with certain exception, for instance, foreign-owned companies are not allowed to trade in Government securities for the account of their customers, but they are allowed to trade on their own account.



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

POLAND

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Introduction

GDP in 1990 amounted to 606,726 billion Zlotys (50.153 million ECU[1]). With a mid-year population of 38.18 million inhabitants, GDP per capita amounted to 15.891 million Zlotys (1313.57 ECU). Among the variety of macroeconomic issues to be tackled by recent Polish governments, overcoming hyperinflation has proved to be the major challenge.

BANKING

A two-tier banking system was established on 1 January 1990. Currently, four main categories of commercial banks are operating.

1) The first banking group comprises nine regional commercial banks. These are the former corporate banking branches hived off, according to regional principles, of the National Bank of Poland which had a monopoly over banking. There is no regional restriction of the activities of these state-owned universal banks. Five of the regional banks have entered into "twinning" arrangements with banks from EC member countries. These are supposed to render technical assistance to their Polish partners in return for gaining exposure to the Polish market.

2) Private banks of which more than 80 have been licensed so far, although not all of them are operating yet. Five are joint ventures with foreign capital and two banks are wholly foreign-owned (as of December 1991).

3) The specialised banks, such as the Polish Development Bank which channels international development funds to the country, the state-owned Bank for the State Economy which acts as the government's debt issuer, and the recently privatised Bank for Export Development.

4) The former state monopoly banks which comprise: Bank Handlowy, the foreign trade bank; the General Savings Bank (Powszechna Kasa Oszczednosci BP), which offers domestic retail banking services; the Polish Welfare Bank (Bank Polska Kasa Opieki SA), which handles private international payments; and the Bank for the Food Industry (Bank Gospodarki Zywnosciowej), which serves farmers and the agricultural industry and acts as the central bank for the 1,600 small rural cooperative banks.

The National Bank of Poland (Narodowy Bank Polski, NBP) is the central bank which pursues monetary, interest and exchange rate policies. It daily fixes the exchange rate of the zloty. NBP has the monopoly of issue of banknotes and coins, manages the country's foreign exchange reserves and acts as the banking supervisory authority.

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1 All Zloty-denominated amounts were translated at the official average annual exchange rate.

The main problems faced by commercial banks in Poland currently resemble very much those of the other Eastern European emerging market economies. On the one hand, there is a huge amount of bad loans inherited by the nine regional commercial banks. On the other hand, all banks see themselves confronted with an endless chain of indebtedness between companies (a phenomenon often referred to as "standing in row"). Until the latter problem is tackled - either by imposing "hard budget constraint" on or liquidating defaulting companies, the assessment of creditworthiness and investment opportunities cannot properly be done by commercial banks.

A new Bank Act was passed in October 1991 which gives extensive supervisory powers to the National Bank of Poland (NBP). NBP may demand from a commercial bank's board that a manager be dismissed for infringement of rules.

The privatisation of the Polish banking sector has been initiated by the transformation of all state-owned commercial banks into corporations owned by the Treasury. There are plans to permit minority foreign capital participation in the banks. Part of the shares is to be offered to employees, and the state will remain a significant shareholder.

Banking in figures

As of year-end 1991, the consolidated balance sheet total of the Polish banking system amounted to 280,949.4 bn PLZ (20 bn ECU). The amount of total credit outstanding was 223,794.2 bn PLZ (15.94 bn ECU), about 20% of which came in the form of credit for the private sector and individuals. Personal savings were at 163,176.4 bn PLZ (11.61 bn ECU), out of which 100,429.1 bn PLZ (7.15 bn ECU) were local currency and 62,747.3 bn PLZ (4.46 bn ECU) were foreign currency deposits.

Foreign presence

There has so far been less interest among foreign banks to invest in Poland than in Hungary and the CSFR. In December 1991 there were five joint venture banks with Western participation; EC credit institutions participated in one of these. There were two banks wholly owned by foreigners and the Minister of Finance had issued permits to open two subsidiaries of Western banks, one of these being a Community credit institution. Out of the ten foreign bank representative offices, seven were held by Community banks.

The European Bank for Reconstruction and Development (EBRD) holds an office in Warsaw.

Obstacles to market access and activities faced by foreign banks

Foreign banks are required to have at least one Polish national on the management board.

INSURANCE

Overview

For about 40 years insurance business was carried out by a monopoly state insurer, Panstwowy Zaklad Ubezpieczen (PZU). After other insurance institutions had been admitted for the first time in 1984, the legal basis for a market-oriented insurance system was laid in July 1990 when the Law on Insurance Activity was passed which largely follows EC regulations. The insurance market was opened to new domestic and foreign insurance companies, while insurance companies were barred from pursuing any business other than insurance. Insurance cover is now only compulsory for motor vehicle, fire and agricultural fire and liability insurance. This -- together with the still low recognition of the need for insurance cover -- is likely to reduce the overall volume of insurance taken out in Poland for some time to come. Though the law has laid the foundation for a competitive insurance sector, the former monopoly insurer PZU's market share is still well above 90%. Presently, there are 24 insurance companies operating on the Polish market, however, more than 40 licences have been granted by the MOF since 1990. The still low state of development of the Polish capital market has so far been a major obstacle to a profitable investment of assets. Most assets have so far been held in the form of deposits with the state, bearing low or no interest at all.

Premiums accepted in the Polish insurance market in 1988 and 1989 may be gathered from Table 1. Taking into account the hyperinflation affecting Poland in 1989, the Polish insurance market suffered a substantial contraction over that period.

Table 1: Premiums Accepted in the Polish Insurance Market (Bn PLZ)

	1988	1989	Real change
Life Insurance	59.534	106.357	-49.1%
Non-Life Insurance	253.924	496.885	-44.3%
TOTAL PREMIUMS	313.458	603.242	-45.2%

Foreign presence

Under the new insurance law, foreign insurers can conduct business in Poland through the establishment of a joint venture stock company, founded together with Polish partners.
Out of the 24 insurance companies operating on the Polish market, five are joint-ventures with foreign partners from EC member states; these are the only firms with foreign participation for the time being.

Obstacles to market access and activity faced by foreign insurers

At present foreign insurance companies can establish themselves in Poland only by entering into a joint venture with local partners. No wholly owned foreign subsidiaries are allowed. Full liberalisation of the Polish insurance market -- including the permission to establish branches and subsidiaries of foreign insurance companies -- was supposed to come into effect on 1 January 1993. Pursuant to a recent proposal by the Ministry of Finance, however, liberalisation is to be postponed till 1 January 1997.

SECURITIES

Primary issues of securities, secondary trading as well as the activities of stockbrokers and trust funds in Poland are regulated by the Law on Public Trading of Securities and Trust Funds of 22 March 1991. Trading on the Warsaw Stock Exchange started on 16 April 1991, and after six months of practical trading experience, the law underwent some amendments in autumn 1991. Securities issues as well as trading are supervised by a Securities Commission. The Central Depository is entrusted with issuing the depository certificates which investors receive instead of printed securities, and it acts as a clearing house.

The stock exchange is modelled upon the Bourse de Lyon and trading also follows the French model, where offers to buy and to sell are matched to fix a price without any active market making by brokers. Membership of the Warsaw Stock Exchange, established as a joint stock company, is limited to brokers, banks and the Ministry of Finance. Trading may only be done through a brokerage firm, usually a bank or bank subsidiary. Orders on the stock exchange are matched by "specialist brokers", which typically are banks as well. The stock exchange sessions take place on a weekly basis and there is one fixed price for a stock in a given session. This price is set at the level of the highest possible turnover. Share prices can only move 10% either way during a single trading session. Though at present only eleven companies are listed on the stock exchange, the securities markets are likely to be stimulated by the privatisation of state enterprises currently under way. The April 1992 turnover on the Warsaw Stock Exchange was about 8 mn ECU.

Market access problems faced by foreign investors

Foreigners are not permitted to hold more than 10% of the share capital of Polish companies. The regulations of the transfer of dividends and capital gains seem at best to be unclear. As regards investment in securities, the purchase of Treasury bonds by foreign investors has not been allowed so far.

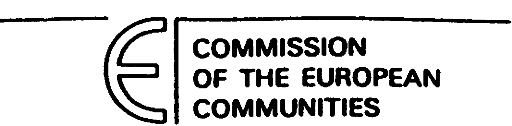
NOTE

Under the Europe Agreements concluded at the end of 1991 with the European Community, the CSFR, Hungary and Poland agreed to grant national treatment for the establishment of Community banks and other firms and nationals providing financial services, subject to normal prudential requirements. This obligation must be put into effect at the latest by the end of the transitional period of ten years from the date of entry into force of the Agreement, foreseen for 1 January 1993.

In addition, the CSFR, Hungary and Poland will grant national treatment for any such firms and nationals already established in those countries, immediately from entry into force of the Agreement. The CSFR, Hungary and Poland have also agreed to a standstill, i.e. not to adopt any new regulations or measures which introduce discrimination as regards the establishment and operations of Community companies and nationals in its territory in comparison with its own companies and nationals.

The CSFR, Hungary and Poland further accepted an obligation to ensure that their legislation will be gradually made compatible with that of the Community inter alia as regards banking law, and the law relating

to other financial services.



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

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BANKING

Overview

There is a very large foreign bank presence in this small country of 2.7 million people. According to the Monetary Authority of Singapore there are 194 foreign banks and merchant banks from more than 30 countries accounting for 57% of non-bank loans to residents and 45% of non-bank deposits from residents, as well as for 73% of the trade financing business and 60% of total banking profits.

Offshore banking operations in the Asian dollar market (ADM) are the main activity of these banks. At the end of 1991 total ADM assets were SGD 600bn which results in a ratio of 5:1 compared with the SGD 120bn of the domestic Singapore market.[1]

Legal framework

There are 134 commercial banks operating in Singapore. They operate on the following basis:

- 13 local and 22 foreign banks hold "full" licences which allow them to offer a complete range of banking services;
- 14 banks hold restricted licences;
- 85 banks hold offshore licences; the bulk of the activities of these banks is in the Asian dollar market; they undertake relatively limited operations in the domestic Singapore dollar market.

Table 1: Total assets of banks in Singapore

	1990	1991
Commercial Banks[1] (SGD bn)	134.0	136.1
Asia Currency Units (US$ bn)	390.4	357.7
Non-bank Financial Institutions		
- Merchant Banks [1] (SGD bn)	7.3	6.7
- Finance companies (SGD bn)	11.4	12.5

Source: Monetary Authority of Singapore
[1]Domestic banking units only

1 Exchange rate: year-end
1990, 1 ecu = 2.3539 SGD
1991, 1 ecu = 2.1254 SGD

In addition to the commercial banks there are 75 merchant banks with operations in Singapore. They do not require banking licences, although they need permission to establish operations in Singapore. Merchant banks conduct a wide range of activities ranging from commercial banking, mergers and acquisitions and corporate finance to securities and other fee-based activities. In addition, there are a number of non-bank financial institutions specializing in housing, construction, consumer purchases and leasing.

A Post Office Savings Bank was established in 1972. One hundred and ninety two banks operate Asian Currency Units, a separate accounting unit in addition to their Domestic Banking Unit, and relating to their activities in the Asian dollar market. The Asian dollar market is supervised by the Monetary Authority of Singapore.

Presence and market share of EC financial institutions

The Monetary Authority of Singapore does not publish data which quantify the relative market shares held respectively by local and foreign banks.

MEASURES AFFECTING THE PROVISION OF FINANCIAL SERVICES BY EC FINANCIAL INSTITUTIONS

Establishment

The Monetary Authority of Singapore (MAS) has confirmed that no new full banking licence has been issued since 1974 to either local or foreign applicants. One explanation offered by the MAS is that with 22 foreign full banks, 14 restricted banks and 13 local banks, Singapore's domestic banking market is already overbanked. The MAS also argues that it is imprudent to allow all 134 banks in Singapore to provide full banking services in a small domestic market as the ensuing intense competition would threaten the stability of the banking system.

Fully licensed foreign banks have not been permitted to open new branches for several years.

Activity

Offshore banking licences are designed to allow banks to focus on offshore business. Only limited domestic Singapore banking activities incidental to their main offshore business are allowed. Offshore banks may not accept local currency deposits from non-bank residents. Accepting local currency fixed deposits from non-residents is subject to a minimum amount of SGD 250,000. They may not lend more than SGD 50m to local residents in local currency at any one time. This limit was increased from SGD 15 - SGD 30m in 1978 and again in 1988 to SGD 50m. Credit facilities such as forward exchange contracts, guarantees, futures contracts etc are excluded from the SGD 50m limit. Also, 33 offshore banks have merchant banking arms in Singapore which can grant some local currency loans which are excluded from the SGD 50m limit.

Approval by the Monetary Authority of Singapore is needed for automated teller machines (ATMs). Only full licence banks have so far received such approval for their installation in places other than a bank's own premises.

The maximum foreign holding of a bank is 40% of the capital; there is a limit of 5% for any individual or group of foreign shareholders.

INSURANCE

14 direct life insurers and eight life reinsurance companies operate in the market, giving a total of 22 life insurance companies. There are 80 non-life insurance companies (excluding captive insurers).

EC Presence

Of 22 life insurance companies in 1991, 14 were foreign owned, 6 of which were EC undertakings. There were a total of 80 non-life companies operating in the same year, 62 of which were foreign-owned, 28 of them by EC companies.

Table 2: Indicators of insurance business

	Year	Life	Non-Life	Total
Premiums (SGD m)	1990	1,126	1,415	2,542
	1991	1,387	1,615	3,002
Premiums as % of GDP	1990	1.8	1.4	3.2
	1991	2.0	1.4	3.4
TOTAL Assets (SGD m)	1990	4,184	3,689	7,873
	1991	5,014	4,178	9,192
Assets of foreign companies (% of total market)	1991	43.6	46.6	45.0
Assets of EC companies (% of total market)	1991	14.5	20.1	17.0

Source: Monetary Authority of Singapore

MEASURES AFFECTING THE PROVISION OF INSURANCE SERVICES BY EC COMPANIES

Establishment

All insurers operating in Singapore have to be registered under the Insurance Act. No new companies are being registered for the time being. The MAS states that the presence of 14 life insurers operating in Singapore's small domestic market is broadly sufficient to meet needs. Further fragmentation would in its view lead to excessive and unhealthy competition. The MAS stresses, however, that foreign reinsurers of strong financial standing and good market reputation are welcome to set up in Singapore.

Activity

MAS has said that licensed foreign insurers are subject to the same supervision and controls as local insurers. There is no discriminatory restriction on the conduct of insurance business by foreign companies. The MAS states that regulation of insurers is for prudential reasons and not used to protect local insurers against foreign insurers.

SECURITIES

Overview

Singapore's securities industry remains for the time being on a fairly modest scale despite determined government policy to encourage the development of a large international market. The small size of Singapore's domestic economy and the splitting of the Stock Exchange of Singapore and the Kuala Lumpur stock market in 1989 are obviously contributory factors.

Presence of EC Securities Firms

The presence and market share of foreign and EC securities firms is illustrated in the table below.

Table 3: EC presence in the securities market

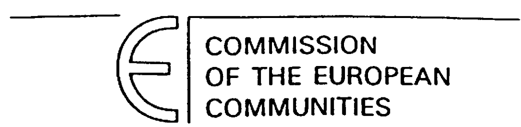
	1990	1991
Total assets of dealers (SGD bn)	8.8	11.4
- foreign dealers	7.4	9.6
- EC dealers	0.7	0.8
Total number of dealers	62	71
- foreign dealers	36	45
- EC dealers	9	11
Total assets of investment advisers	10.4	10.7
- foreign advisers (SGD bn)	10.2	10.4
- EC advisers (SGD bn)	4.8	4.5
Total number of investment advisers	77	90
- foreign advisers	55	66
- EC advisers	21	22

Source: Monetary Authority of Singapore

MEASURERS AFFECTING THE PROVISION OF SECURITIES SERVICES

Establishment

Foreign investors may initially acquire up to 49% of a local stock broker. After three years of successful operation, this may be increased to 70%, although the 49% limit would be raised only for joint ventures approved before October 1990. However, the Stock Exchange of Singapore (SES) announced in October 1990 that a special membership ("international" membership) of the Exchange would be possible in response to foreign securities houses' request in particular to be able to trade on behalf of non-residents. As regards residents, international members may trade only for transactions greater than SGD 5m. The MAS stresses that international members can trade with related companies without being limited by that amount. Such firms may not become members of the SES Committee.



**TREATMENT ACCORDED IN THIRD COUNTRIES
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SWEDEN

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Sweden is a signatory to the agreement between the countries of the European Community and the countries of the European Free Trade Area, establishing the European Economic Area and which enters into force on 1 January 1993. In accordance with that agreement, Sweden in common with the other EFTA countries, will apply Community legislation relevant to financial services. Thus EC firms will have in relation to establishment and the carrying on of activities the same rights and obligations as they have within the Community. EC and EFTA countries will operate within a single market in financial services.

Introduction

GDP in Sweden was 1,430bn SEK in 1991 representing 165,000 SEK (22,300 ecu) per head. The economy is currently facing severe difficulties with output expected to have fallen by 1.1% in 1991 and by 0.4% in 1992. This is reflected in weak bank profitability with credit losses more than doubling from 11bn SEK in 1990 to 25bn SEK in 1991, equivalent to almost 2.5% of bank loans.

CREDIT INSTITUTIONS

At the end of 1991 there were 314 credit institutions operating in Sweden. This included 17 commercial banks, 101 savings banks, 1 cooperative bank, 23 mortgage credit institutions, 20 securities dealers and 152 finance companies. Mortgage credit institutions are not allowed to acccept deposits directly from the public. These institutions finance themselves through the issue of bonds and certificates. However they play a very important role in the financial system accounting for 30% of the total balance in the credit market.

The savings banks are presently reorganizing and 11 banks will merge into one bank, Sparbanken Sverige, during 1992.

The 12 cooperative banks merged during 1991 to form one bank, Sveriges Föreningsbank AB.

Concentration of activities is significant with the four major commercial banks controlling about 60% of all banking operations. The savings banks and the cooperative banks control a further 31% with the balance being held by other banks and financial institutions.

Table 1: Banking Sector indicators, December 1991

	No. of Banks	Assets (bn SEK)	Deposits (bn SEK)
Commercial Banks	17	1,224.1	464.3
of which foreign	7	22.0	2.0
Savings Banks	101	254.4	164.4
Co-operative Banks	1	95.2	58.7
Mortgage Credit Institutions	23	1,177.4	1,165.9[1]

[1] June 1991

Foreign banks

Foreign banks have been allowed to establish subsidiaries since 1986. While initially 12 foreign banks entered the market in this way a lack of profitability meant that by 1990 only 7 remained, 5 of which are from the EC. Direct branching has been allowed since August 1990 and restrictive rules on foreign investment have been virtually abolished. Foreign banks accounted for 0.3% of deposits with all banks (excluding mortgage institutions) in 1991; alternatively 1% of the total balance sheet of all banks.

INSURANCE

Gross insurance premiums in Sweden reached 84,550 million SEK in 1989, composed of 37,999 million SEK life and 46,551 million non-life premiums. This represented 6.3% of GDP and 9,947 SEK per head putting Sweden on a par with the more highly insured Community countries. The market value of investments made by insurance companies in Sweden amounted to 595bn SEK in 1991.

Foreign insurance companies

There are no foreign life insurance undertakings operating in Sweden and out of a total of 237 non-life undertakings there is only one foreign subsidiary and 13 branches and agencies of foreign undertakings. These foreign operators accounted for 1.1% of direct non-life premiums in 1990.

Table 2: Indicators of Insurance Business

	Year	Life	Non-Life	Total
Gross Premiums (m SEK)	1985	22,810	26,175	48,985
	1988	31,972	37,313	69,285
	1989	43,648	41,526	85,174
	1990	37,999	46,551	84,550
Gross Premiums (% GDP)	1985	2.6	3.0	5.7
	1988	2.9	3.3	6.2
	1989	3.6	3.4	7.0
	1990	2.8	3.4	6.3

Source: OECD Insurance statistics

SECURITIES TRADING

There were 127 companies listed on the Stockholm Stock Exchange at the of 1991 compared with 132 the previous year. The total market value, having declined from 744bn SEK in 1989 to 525bn SEK in 1990, rose to 540bn SEK in 1991. The unlisted market showed similar trends with the number of companies with shares traded falling from 74 in 1989 to 66 in 1990 and 50 in 1991. Their market value also declined to 5.8bn SEK in 1991.

There are only a few restrictions left on the cross border securities activities particular to foreign banks. Trading in foreign securities must be transacted through a securities institution authorized by the Riksbanken. Moreover such securities must be deposited with an authorized institution. It has recently been proposed that these restrictions be replaced by new legislation in conformity with the EEA obligations.

Table 3: Securities Market Indicators

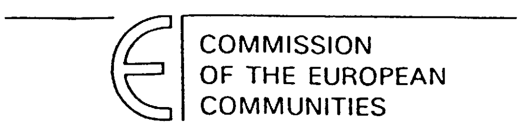
	1989	1990	1991
Turnover (SEK bn)			
- in equity shares	112.8	93.5	124.6
- in bonds and debentures	801.0	1030.0	1870.0
Turnover (% GDP)			
- in equity shares	9.2	7.0	8.7
- in bonds and debentures	65.4	76.8	130.6
Capitalization (SEK bn)			
- equity shares[1]	742.5	524.3	540.0
New listings (SEK m)			
- in equity shares[2]	8,308	9,923	14,425
- in bonds and debentures	102,388	146,277	228,559
Trading Volume (million)			
- in equity shares[3]	637	601	966

Source: F.I.B.V. Statistics 1990

[1] Domestic companies

[2] Gross amount of new capital raised by domestic companies

[3] Number of shares traded



TREATMENT ACCORDED IN THIRD COUNTRIES
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Switzerland is a signatory to the agreement between the countries of the European Community and the countries of the European Free Trade Area, establishing the European Economic Area and which enters into force on 1 January 1993. In accordance with that agreement, Switzerland in common with the other EFTA countries, will apply Community legislation relevant to financial services. Thus EC firms will have in relation to establishment and the carrying on of activities the same rights and obligations as they have within the Community. EC and EFTA countries will operate within a single market in financial services.

Introduction

GDP in Switzerland was 312bn SFr in 1990 representing 47,000 SFr (26,500 ecu) per head of population. The economy entered recession in the first quarter of 1991 and output is estimated to have fallen by 2.5% (on an annual basis) in the first half of that year. However, economic activity stabilized in the second half of 1991 and conditions are likely to improve slowly over the next two years.

CREDIT INSTITUTIONS

The Swiss banking system is made up of a large number of different types of banks and bank-like finance companies. Except for the savings banks most banks are involved in every type of banking and finance operation, either directly or through subsidiaries. The Big Banks dominate the Swiss banking market and at the end of 1991 accounted for about 50% of the total assets of the banking system. The cantonal banks are mainly state-established institutions and are generally involved in acceptance of savings and the issue of mortgages and debentures. Their funds are primarily used to finance local commercial and private needs and to extend loans to public authorities.

Table 1: Banking Sector indicators, Dec 1991

	No. of Banks	Assets (bn SFr)	Deposits (bn SFr)
Banking System (of which)	592	1114.8	661.6
Big Banks[1]	4	543.2	323.8
Cantonal Banks	28	228.3	153.5
Regional & Savings Banks	189	92.7	64.6
Foreign Banks	146	107.5	31.9

Source: Swiss National Bank

[1] Union Bank of Switzerland, Swiss Bank Corporation, Swiss Credit Bank, Swiss Volksbank

Foreign banks

Switzerland has traditionally operated a liberal policy regarding foreign establishment of credit institutions. There is generally free access given to foreign banks, except for a mandatory reciprocity clause, which is applied in a flexible manner, as well as full national treatment. The main problems concern access given to personnel and restrictions on foreign ownership of registered shares in many companies. In 1991 there were 146 foreign bank subsidiaries accounting for 9.6% of all banking assets in Switzerland.

INSURANCE

Gross insurance premiums in Switzerland were 37,150 million SFr in 1989, composed of 15,561 million SFr life and 21,589 million non-life premiums. This represented almost 13% of GDP and 5,586 SFr per head of population placing Switzerland among the highest insured countries in the world. This strong performance is partly due to the very high levels of reinsurance business accepted by Swiss undertakings, particularly non-life business.

Foreign insurance companies

There is no reciprocity regime with respect to third countries in the insurance sector. Foreign companies play a relatively strong role in the Swiss insurance market. In 1989 of the 26 life and 89 non-life companies in operation 5 and 32, respectively, were of foreign origin. Foreign undertakings accounted for 2.6% of gross life and 10.2% of gross non-life premiums in the same year.

Table 2: Indicators of Insurance Business

	Year	Life	Non-Life	Total
Gross Premiums (m SFr)	1985	9,952	17,297	27,249
	1988	14,238	20,077	34,315
	1989	15,561	21,589	37,150
Gross Premiums (% GDP)	1985	4.4	7.6	12.0
	1988	5.3	7.5	12.8
	1989	5.4	7.4	12.8

Source: OECD Insurance statistics

SECURITIES TRADING

At present stock exchanges in Switzerland are controlled at cantonal level but proposals have been made to introduce federal legislation in the near future. There were 1220 companies listed on the Basel, Geneva and Zurich Stock Exchanges at the end of 1990 compared with 1189 the previous year. The Swiss exchanges play an important international role with about 60% of the quoted companies being of foreign origin.

Table 3: Securities Market Indicators
Basel, Geneva and Zurich exchanges

	1989	1990
Turnover (SFr bn)		
- in equity shares,(a)	740.1	589.8
Capitalization (SFr bn)		
-equity shares[1]	696.6	602.0
-bonds and debentures,(b)	399.7	415.6
New listings (SFr m)		
- in equity shares[2],(c)	5,309	3,306
- in bonds and debentures,(b)	48,875	50,260

Source: F.I.B.V. Statistics 1990

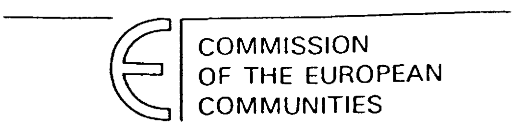
1 Domestic companies

2 Gross amount of new capital raised by domestic companies

(a) Basel and Zurich

(b) Geneva and Zurich

(c) Zurich only



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

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Introduction

GNP in Taiwan was NT $ 4.346 bn[1] in 1990 (1.6 bn ECU), an increase of 9.5 % over 1989. Since 1986 Taiwan's economy has advanced at an annual average rate of almost 9 %. GNP per capita in 1990 was NT $ 214.993 (5.740 ECU) compared to 14.400 ECU in the Community. Total population amounted to 20.4 mn at the end of 1990.

CREDIT INSTITUTIONS

Establishment

Entry to Taiwan's banking market is restricted. Foreign bank involvement in Taiwan is restricted to branches and representative offices. In the beginning of 1992, 39 foreign banks had 52 branches in Taipei and Kaohsiung, of which 14 from the Community. These foreign banks carried out from 20% to 25% of foreign exchange business even though they only accounted for about three % of the total assets of the overall banking system. Moreover, 22 foreign banks have established representative offices in Taiwan, of which 5 from the EC.

In 1989 amendments were made to the Banking Law (NBL). They were followed by Guidelines for Screening and Approval of Establishment of Branches and Representative Offices in April 1990 which improved the entry conditions of the 1986 Guidelines only marginally.

To obtain a license to set up a branch, a foreign bank must fulfil one of the following conditions : a) it must have had correspondent relationships with domestic banks for at least 10 years and demonstrate a business volume with the banks and major companies of the country of at least US $1 bn in the prior 3-year period, of which at least US $180 mn represents medium and long term credit ; or b) must have maintained a representative office in Taiwan for at least one year and demonstrate a business volume with the banks and major companies of the country of at least US$ 1bn, and be one of the 500 biggest banks in assets in the free world during the year prior to the request.

To obtain a license to set up a representative office, a foreign bank must have had business dealings with Taiwan banks for at least 5 years and demonstrate a business volume with the banks and major companies of at least US $300 mn over the 3 preceding calendar years.

If the criteria described above are not met, the MoF might grant a license (for a branch or representative office) so long as the foreign bank fulfils the following conditions : a) no other bank of that country is already established in Taiwan as a branch ; b) more than 60% of the parent company's shares are in the possession of nationals from the bank's country of origin which bank has not had a branch in Taiwan yet ; c) the bank has to be among the 100 largest banks in assets of the free world ; in the event of these criteria not being fulfilled, the MoF might grant the license (for branch or representative office) on the basis of reciprocity.

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1) 1 New Taiwan dollar = 0.0267 ECU (end 1990)

If a foreign bank has owned a branch for more than five years and if the latter has not been penalized for breach of the provisions of the banking law during the preceding year, a request to set up an additional branch may be made ; a foreign bank, however, may not apply for a new branch in the town in which it is already established. If there is a market need, this restriction may be lifted by MoF ; the number of foreign branches approved by the MoF is limited to three per year ; a foreign bank can establish only one representative office.

Foreign banks are not permitted equity holdings (either minority or majority) in domestic banks and may not establish wholly-owned subsidiaries.

Foreigners are not allowed to establish a finance company.

The possibilities for the capital endowment of foreign banks are limited by the State. An increase in remittance of capital by foreign banks is subject to the approval of MoF and the Central Bank of China. So far approval has always been given.

Activity

Despite the liberalization provided for in the NBL and the 1990 Guidelines, foreign banks are still not accorded national treatment in Taiwan.

Foreign banks cannot establish themselves as subsidiaries in Taiwan, but have to remain subject to the domestic laws of their parents. The restriction limiting foreign banks to three branches is significant because Taiwan's regulatory authorities define foreign bank capital as branch capital for most significant purposes making competition difficult with most domestic banks, which have extensive networks. It also limits the size of local loans and guarantees. The Taiwanese government has stated that such limitations apply to domestic banks as well as foreign banks in terms of a single customer's local currency exposure. However, the application of this limitation is more flexible for foreign banks than domestic banks.

Foreign banks are only allowed to accept New Taiwan dollar deposits of 15 times their paid-in capital and guarantee commercial paper only up to ten times their net worth. They are subject to a foreign liabilities ceiling which restricts their foreign currency deposits, including borrowing from Head Office. They are not allowed to raise capital locally by issuing bonds. Neither are domestic commercial banks, only savings banks and specialized banks.

High liquidity ratios are imposed e.g. 23% on checking accounts, 21% on demand deposits and 10 % on time deposits. Permission from the local authorities is required for the transfer of capital ; after this 70% of profit is transferable.

Foreign banks have no voting rights in local banking associations and can only be observers if they are members of the banking committee of the American Chamber of Commerce or the European Chamber of Commerce.

The distribution of business loans, as well as deposits and credit balance, is about 97 % with Taiwan domiciled entities and 3 % with foreign institutions. Local funding of foreign bank branches generally comes from interbank borrowings, while domestic bank funding generally comes from time and savings deposits. Due to restrictions on local currency holdings, foreign bank branches have recently increased local bank acceptance activities in place of extending local currency loans.

A comparison of total foreign bank branch deposits and loans to those for all Taiwan financial institutions follows :

	1989	1988	1987
Total Taiwan financial institution deposits (A)	5,944	5,074	4,209
Total foreign bank branch deposits (B)	57	52	42
of which EC.	-	-	-
Percentage (B/A)	1.0 %	1.0 %	1.0 %
of which EC	-	-	-
Total Taiwan financial institution loans (C)	4,373	3,355	2,420
Total foreign bank branch loans (D)	183	138	120
of which EC	-	-	-
Percentage (D/C)	4.2 %	4.1 %	5.0 %
of which EC	-	-	-

A profile of total foreign bank branch figures for the five-year period 1985-1989 follows (all amounts NT$1 million) :

	1989	1988	1987	1986	1985
Total assets (net)	**242,795**	**193,437**	**222,041**	**142,449**	**114,125**
Foreign assets	35,904	38,169	20,351	18,123	24,135
of which EC	-	-	-	-	-
Loans and discounts	182,731	137,789	120,134	101,154	82,744
Securities and investments	8,454	9,683	67,806	16,135	2,332
Claims on financial institutions	15,296	7,444	13,443	6,852	4,695
Cash on hand	410	352	307	185	219

Source: KPMG Peat Marwick, October 1990.

SECURITIES

Establishment

The Securities and Exchange Commission (SEC) is the regulatory agency of the capital market which was established in September 1960. The Taiwan Stock Exchange was incorporated in 1961 and started operation in February 1962. When the Taiwan Stock Exchange was first established, there were 18 companies listed with a total registered capital of USD 135 mn. By November 1991, the total market value of 233 listed companies on the Taiwan Stock Exchange has reached approximately USD 131.06 bn.

With regard to the securities industry, as of April 1992, there were 331 securities brokerage firms, 61 securities underwriters, and 54 securities dealers registered with the SEC. Additionally, there are four securities investment trust companies and 84 securities investment consulting companies operating in the Territory.

Foreign securities firms do not receive national treatment.

The Securities and Exchange Law (SEL) is the primary statute by which the MoF and the SEC regulate the securities market in Taiwan. SEL was substantially amended in 1988 also relating to access and treatment of foreign securities firms without these amendments coming anywhere near national treatment.

Subsidiary brokerage operations in Taiwan are not allowed, nor are joint venture arrangements, except where foreign investors individually and cumulatively do not own more than 10% or 40% respectively of a local securities company. A foreign firm cannot invest in more than one firm.

By April 1992 eleven local securities firms had foreign shareholders under joint venture arrangements. SEC had allowed six foreign securities firms to set up representative offices in Taiwan.

In 1990 SEC gave the go-ahead for the establishment of three brokerage branches of foreign firms. However, the requirements to qualify for a branch license are very strict : a foreign broker must put up capital of NT $ 1 bn (26.7 mn ECU), it must have a parent with capital of NT $ 2 bn and total assets of more than NT $ 20 bn, have membership on the New York, Tokyo and London Stock Exchanges and the appropriate information transmission facilities for these exchanges.

By April 1992 two foreign securities firms had been allowed to operate branch business in Taiwan.

Although foreign ownership is permitted in integrated securities firms and in Securities Investment Trust Companies (SITCs), such ownership, relating to SITCs, may not exceed 49%.

Activity

By April 1992, 18 applicaitons for foreign institutional investors have been approved and the total amount of approved investment fund was US$ 706.01 mn. These investments are limited to listed stocks and beneficiary certificates, government and corporate bonds and other securities approved by the SEC. However, any capital gains and income earned can be remitted only once a year.

Foreign securities cannot list on the SEL and there is a ban on foreign securities firms serving as traders or underwriters.

Money paid onshore can only be paid legally to an off-shore fund through the trust company (subsidiary of a bank) which is authorized to deal in foreign exchange.

A Securities Investment Consultancy Enterprise (SICE) cannot market products where the fund manager has been present for less than two years and he is responsible for less than US$ 1 bn or the equivalent. Furthermore, one third of the directors of a SICE must be licensed securities analysts and acceptable to SEC.

INSURANCE

The Taiwan insurance market is all but closed to foreign, other than US, insurance companies. Although the existing insurance law permits the establishment of foreign branch offices, the Ministry of Finance has so far refused to issue any license to foreign, other than US, companies. The establishment of subsidiaries is prohibited to all foreign insurers.

Licensing takes place only once a year, usually in February following applications which have to be made until the end of August of the preceding year. Due to US trade pressure, the number of licenses for US insurers has been increased to a total of 6 for life and non-life combined. Two applications from European insurers (one EC) were turned down in 1990.

The Taiwanese government has stated the following :

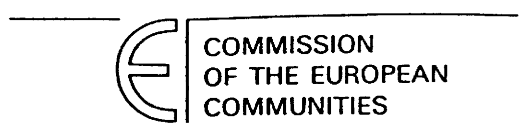
"The Insurance Law amendments were promulgated on February 16, 1992. The criteria for establishing new insurance companies were submitted to the Executive Yuan. The foreign insurers, including the Community companies, will be allowed to participate 49% in new domestic insurance companies. The Ministry of Finance will accept applications from June to December in 1992.

After permitting foreign insurers to participate in new domestic insurance companies, the Ministry of Finance will review the policy of allowing the foreign insurers, including the Community companies, to set up branch offices in Taiwan, Republic of China.

Foreign insurance companies may apply to establish liaison offices in the R.O.C. according to the "Guidelines for Foreign Insurance Companies to Establish Liaison Office in the Republic of China". Foreign insurance agents, brokers and adjusters may apply to establish branch offices or to invest on the newly established or the existing local companies according to "The Rules Concerning Agents, Brokers, and Adjusters".

Numbers of Insurance Companies in Taiwan			
Type	Life	Non-Life	Total
Domestic Insurance Companies	8	14	22
Foreign Branch Offices	14	8	22
Foreign Liaison Offices	1	20	21
T O T A L	23	42	65

Source : Taiwan Ministry of Finance



**TREATMENT ACCORDED IN THIRD COUNTRIES
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BANKING AND NON-BANK FINANCIAL INSTITUTIONS MARKET

A. BRIEF OVERVIEW

In 1990, GDP at current prices in Thailand was 2,082 bn baht*) (ECU 63.9 bn). With a population of 56.7 mn, represented 36,696 baht per capita (ECU 1,126). The inflation were 6 %.

Over the last three decades the size of the financial services sector has tripled, measured in terms of the ratio of financial assets to GDP. The Bank of Thailand has been seeking to promote competitiveness in the financial sector. A series of reforms aimed at boosting savings to support future growth, increasing the competitiveness of the financial sector in international markets and promoting Thailand as a regional financial centre have been introduced, including the abolition of certain ceilings on interest rates and a relaxation of exchange controls.

Commercial banks, finance and securities companies and credit fonciers are supervised by the Bank of Thailand. Following the instability in the banking sector during the 1980's, the Central Bank has increased its supervision by imposing stricter controls concerning lending limits and the minimum percentage of assets which must be held in government bonds or instruments issued by the Central Bank.

a) Commercial Banks

Thailand's financial sector is dominated by commercial banks, which account for 74% of total financial assets. The 16 Thai commercial banks account for 95.3% of banking assets, 97.9% of total deposits with commercial banks and 90.6% of pre-tax profit in the banking sector. Bank deposits in 1990 grew by 26.9% in 1990.(1)

b) Finance companies

The second largest category of financial institutions are the 94 finance and securities companies, which accounted for assets of 366 billion baht in 1990, representing 14% of total financial assets.

Their activities include short-term finance, hire purchase, underwriting and security trade and other investment and advisory services, most of which commercial banks are not permitted to undertake.

At the end of 1990, the finance and securities sector maintained deposits of 257 billion baht. In the same year, pre-tax profits rose 50% above the figure recorded for the previous year to 4500 million baht.

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*) Yearly average in 1989 1 ECU = 28.317 baht
1990 1 ECU = 32.580 baht.

(1) Annual Economic Report 1990, Bank of Thailand,(p. 52)

The number of credit and securities firms has been falling following the decision to suspend the granting of new licences, the revocation of some of the existing licences and an active government policy to encourage mergers and takeovers to consolidate this segment of the financial sector. There are now 72 finance and securities companies and 22 finance companies.

c) Other

The remaining financial institutions account for 12% of financial assets. The most important of these are government-owned financial institutions, particularly the Government Savings Bank, which accounts for 5% of total assets in the financial sector and aims to mobilize primary household savings through an extensive branch network and the Government Housing Bank, which facilitates house purchases by persons of moderate income. Other financial institutions include the Industrial Finance Corporation of Thailand (IFCT), which is a privately owned development bank primarily financed by foreign borrowing; a large number of savings and agricultural cooperatives, credit foncier companies; life insurance companies and pawnshops.

Table 1 Assets deposits, and profits in the banking sector(1990)	Commercial banks	Finance companies
Assets (bn Baht)	1964	366
(% of total assets)	74%	14%
Deposits (bn Baht)	1503	257
Net Profits (mn Baht)	17115	4500
No. of institutions	30	94
domestic	16	
foreign non-EC	11	
EC	3	

Source : The Thai Bankers' Association.

Table 2 Share of total assets of financial institutions	
Commercial banks	74
Finance companies	14
Government Savings Bank	5
Government Housing Bank	1
Industrial Finance Corporation	1
Life Insurance Companies	2
Others	3

B. PRESENCE AND MARKET SHARE OF EC FINANCIAL INSTITUTIONS:

At the end of 1990 there were 14 foreign owned or controlled banks operating in Thailand. Of this number, 3 foreign owned banks were EC owned or controlled. There were also a further 15 EC owned or controlled banks that maintained representative offices in Thailand, out of a total of 46 foreign representative offices.

At the end of 1989 banks incorporated in Thailand had 2128 branches within Thailand and they operated a wide network of automated teller machines. During 1990, 158 new commercial bank branches were opened within Thailand and 159 new Automatic Teller Machines were installed. The 14 foreign banks operating in Thailand had a total of 16 branches within Thailand.

Measured in terms of assets and deposits, foreign banks incorporated abroad play a marginal role in the Thai banking system accounting for only 4.7% of total assets and 2.1% of deposits. EC owned or controlled banks accounted for assets of $20.05 million, or 1.02% of total banking assets in Thailand. In contrast, the banking sector is highly concentrated, with the five largest domestic banks accounting for two thirds of total banking assets.

The profits recorded by EC and other foreign firms were relatively low when compared with the total foreign presence measured in terms of the number of foreign banks in existence in Thailand. EC owned or controlled banks achieved a profit of $482 million, or 2.83% of total profits in the banking sector, while non-EC foreign banks accounted for 6.6% of the total.

Table 3 Share of assets, deposits and profits in the banking sector held by foreign banks-1990	EC owned / controlled	Total foreign owned/ controlled
Assets (% of total assets)	1.0%	4.7%
Deposits (% of total deposits)	-	2.1%
Pre-tax profits (% of total)	2.8%	9.4%

Source : The Thai Bankers' Association.

C. MEASURES AFFECTING THE PROVISION OF FINANCIAL SEVICES BY EC FINANCIAL INSTITUTIONS:

a) Establishment and acquisition

New foreign bank entry into commercial banking system is not allowed in Thailand. During 1989 discussions were held with foreign banks interested in being awarded banking licences. However the Royal Thai Cabinet has deferred a decision on the recommendation by the Finance Minister that five additional licences should be granted. Further applications for licences will be considered by the Finance Minister if certain conditions are met.

Foreign banks are not permitted to open branches in Thailand. Each foreign bank is permitted to operate only one branch, with the exception of those branches granfathered in the 1950's. Since Automated Teller Machines are considered by the Thai authorities to be branches, foreign banks are, in practice, denied access to the ATM network since foreign banks may only operate one ATM within its own branch.

The limitation on branching and the use of the ATM network severely hinders the right of establishment of foreign banks and their ability to gain effective market access, since this discriminatory treatment prevents foreign banks from competing effectively with domestic banks. It also results in higher financing costs for foreign banks in relation to the inter-bank market due to the inability to operate an effective retail network.

The limitation on licences and branching might be avoided by the purchase of existing domestic banks and finance and securities companies. However, total foreign ownership of commercial banks and financial companies is limited to 25% of the shareholder capital ; in addition, the non-discriminatory limitation on shareholdings prevents this. Both Thai and foreign entities are limited to a maximum equity shareholding of 5% in a locally incorporated commercial bank and a 10% shareholding in a locally incorporated finance company, while .

b) Activity

Stringent loan-to-capital ratios and the limit on lending to one individual of 25% of branch capitalization, place foreign banks at a relative disadvantage. The Royal Thai Government also requires that capital of foreign banks must be invested in Government securities or held in deposits in State financial institutions. Similar requirements apply to domestic banks.

The Thai revenue code imposes a 10% withholding tax on foreign funds brought into Thailand but exempts Thai-owned banks with branches overseas from the withholding. There is a 10% witholding tax on interest on off-shore loans from banks and 25% in cases of loans from non banks. However there is no withholding tax if the lender is a state agency, a branch of a Thai bank, or the lender is in a country which has double taxation agreements on loan interest with Thailand.

Strict limitations on the use of expatriate staff (five expatriate managers for branches and two for representative offices) and the inability for foreign companies to own land create difficulties for the operation of foreign banks.

INSURANCE MARKET

A. BRIEF OVERVIEW:

At the end of 1989, a total of 74 insurance companies carried out insurance business in Thailand. This included 69 companies that were locally registered of which 7 were life companies, 4 were composite companies and 58 were non-life companies. A further 5 companies carried out insurance business through foreign branches, 1 of which was carrying out composited insurance business and the remaining 4 were transacting non-life insurance business.During 1990 82 new life insurance branches were opened, bringing the total number of branches to 853.(1)

Table 4 Indicators of insurance business — Year ending 1989

	Life	Non-Life
Total direct premiums (bn Baht)	14.8	12.5
Premiums as % of GDP	0.7	0.6
Premiums per capita (baht)	261	220
Reinsurance paid to established insurers by residents (mn Baht)	335	5695(2)
Total investments of insurance companies (bn Baht)	30.9	10.5
Net profits (mn Baht)	571	860

Source: Insurance Department, Ministry of Commerce

B. PRESENCE MARKET SHARE AND PROFITABILITY OF EC AND OTHER FOREIGN FINANCIAL INSTITUTIONS

Foreign insurance companies play a very large role in the Thai insurance market. At the end of 1989 foreign life insurance accounted for 43% of total direct premiums in the life insurance sector and 77.8% of total profits. Foreign non-life insurance companies played a smaller role, accounting for 10% of non-life premiums and 13.7% of total profits in the non-life insurance sector.

(1) Annual Economic Report, 1990, Bank of Thailand, (p. 59)
(2) Includes 41% of Industry's written premiums and 4053 million Baht paid to foteign companies.

Table 5 Foreign share of insurance business, Year ending 1989		
	Life	Non-Life
Foreign share of premiums (%)	43%	10%
Foreign share of total profits (%)	77.8%	13.7%

Table 6 Local registration and branches Year ending 1989		
	Locally registered	Foreign branches
Life	7 4 58	- 1 4

MARKET ACCESS PROBLEMS FACED BY EC INSURANCE COMPANIES

a) Establishment and acquisition

For the time being new licences to operate non-life insurance companies are not being granted. Foreign participation in insurance companies is restricted to 15%. In life insurance and MAT insurance, the only form of commercial presence allowed is a up to 25% participation in joint ventures.

b) Activity

A branch of a foreign insurance company is not allowed to conduct the business of insurance brokerage and agent.

SECURITIES MARKET

A. BRIEF OVERVIEW

The Securities Exchange of Thailand (SET) was founded in 1975 and has been growing steadily, despite suffering a crash in 1979. The ratio of market capitalization with respect to GDP has risen from less than 4% in 1980 to 29% in 1990.

In 1990, the average daily turnover value of the SET was Baht 2,539.7 million, which was a substantial increase from the previous year's average of Baht 1,526.6 million.

Supervision of the equity market is divided amongst several governmental departments: the Ministry of Finance has the power to approve the stocks to be listed on the SET; the Bank of Thailand supervises finance and securities companies; and the SET Board regulates the operations of the stock exchange. Legislation is currently being drafted to establish a separate and independant institution which will be similar to the US Securities and Exchange Commission (SEC) to supervise the stock exchange.

Both finance and securities companies operate in the Thai securities market. The SET is currently served by 35 member securities companies. At the end of 1990, the SET had 214 listed and authorized companies, an increase of 39 new listed companies over the year.

Table 6 The securities market indicators		1989	1990
Turnover on the Stock Exchange			
Equity shares - volume (units)	mn	3,258	8,243
- value (baht)	bn	377.9	627.3
Turnover as % GDP	%	21	30
Volume of new securities issued			
Equity shares			
No of companies issueing new shares		-	82
Total nominal value (baht)	mn	-	17253
No of new quoted companies		35	39
Total market capitalization (baht)	bn	660	613.5
Number of listed companies(1)		175	186

Source: The Stock Exchange of Thailand (1990).

B. MARKET ACCESS PROBLEMS FACED BY EC SECURITIES COMPANIES

a) Establishment and acquisition

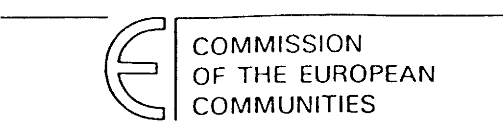
The maximum foreign ownership in a finance company is 25% in the case of finance companies and 49% in the case of securities firms.

(1) Source: IMF Occasional Paper 85 (August 1991).

b) Activity and acquisition

Foreign citizens are prohibited from taking part in brokerage activities by the Alien Business Law of 1972. Only those finance and securities firms with less than 25% foreign ownership may participate in brokerage activities, with the exception of those companies established before 1979, which may have up to 50% foreign ownership.

Seats in the SET have been made available to successful bidders by auction. Prices paid for seats varied between 200 million and more than 300 million Baht.



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Introduction

GNP in Turkey in 1990 was 287,254 billion Turkish Lire (TRL)(*) (86 bn Ecu), with a real growth rate of 9.2%. With a population of 56.4 million, this represented 5 million of TRL (1,530 Ecu) per head. In 1990, retail price inflation reached 60.6 %.

Turkey's financial sector has been increasingly liberalised and the authorities have gone a long way towards bringing financial services legislation in line with that of the Community. Liberalization of currency convertibility previsions has stimulated foreign investment in the capital market.

CREDIT INSTITUTIONS

Overview

The Turkish financial system is dominated by banks. The implementation of the new monetary policy, the establishment of foreign exchange and interbank money markets, and the liberalization of the foreign exchange regulations have encouraged banks to improve their asset and liability management policies by introducing additional funding sources and new areas of use. Thus, they have been adopting advanced technology in their operations at an increasing rate. The outcome has been encouraging so far. The banks have been successful in adjusting to new circumstances and in performing modern banking practices.

The banking system comprises 41 national banks, 25 foreign banks and 1 central bank. Banking activities are regulated by the Banking Act of 1985. In May 1991, 18 foreign banks had representative offices in Turkey, among them 8 from EC.

In 1990, two state banks and one private bank have the main market share with assets representing 35 % of the total.

In early 1991, in an attempt to bolster the currency, the Central Bank lifted all restrictions on bank deposit rates.

(*) Yearly average value in 1989 1 ECU = 2,661.04 TRL
Yearly average value in 1990 1 ECU = 3,329.06 TRL

Table 1 Number of institutions	
	1990
- State commercial banks	8
- Private commercial banks	25
- Foreign commercial bank	23
- State development and investment banks	3
- Private development and investment banks	5
- Foreign investment banks	2
Total	66

Source : The Banks Association of Turkey

The state plays a dominant role in the banking sector. Eight commercial state banks still account for more than 40 % of the business volume in Turkish banking industry. In 1990, their assets were 90,692 bn TRL (52 % of the total).

The development banks grant medium and long term investment credits mostly to industry. These banks and the investment banks are not allowed to accept deposits.

Presence of foreign banks

In 1990, there were 23 foreign commercial banks of which 9 were from EC and two foreign investment banks operating in Turkey . Foreign banks are established as branches or subsidiaries or banks which are incorporated under Turkish law as joint stock companies. Most of them specialize in corporate banking and mainly involved in foreign exchange operations and trade financing. Some of these banks also engage in investment banking activities and take part in the privatization attempts which have started in recent years.

Despite their insignificant market share (3.4 % of total assets and 4.7 % of total profits), foreign banks have an important place in the Turkish banking system because of the new concepts and practices that they have introduced.

Total assets of EC owned commercial banks were 2,826 bn TRL (849 mn ECUs) which was equivalent to 1.6 % of total assets in the country. Their profits were 98 bn TRL (29.4 mn ECUs), representing 2.5 % of the total banking system.

Table 2 - Assets and deposits of Credits Institutions (end year)				
Assets (bn TRL)	1990	%	1989	%
Total assets of which :	174,469	100	112,838	100
- State banks	78,880	45.2	52,483	46.5
- Private banks	73,832	42.3	46,484	41.2
- Foreign banks	5,958	3.4	3,452	3.1
- State Development and Investment banks	11,812	6.8	7,716	6.8
- Private development and Investment banks	3,987	2.3	2,703	2.4
Deposits (bn TRL)	1990	%	1989	%
Total deposits of which :	95,318	100	62,400	100
- State banks	46,240	48.5	29,407	47.1
- Private banks	46,805	49.1	31,150	50
- Foreign banks	2,273	2.4	1,843	2.9

Source : The Banks Association of Turkey

Table 3 Profitability in the banking sector				
(bn TRL)	1990	%	1989	%
- State banks	1,431	36	726	36.5
- Private banks	2,106	53	1,028	51.7
- Foreign banks	194	4.7	138	7.1
- State Development and Investment banks	162	4.0	52	2.6
- Private development and Investment banks	93	2.3	43	2.1
Total	3,986	100	1,987	100

Source : The Banks Association of Turkey

Table 4 Market share of EC owned commercial banks		
	1990	% of total market
No of institutions	9	14
Assets (bn TRL)	2,826.5	1.6
Deposits (bn TRL)	1,164	1.2
Profits (bn TRL)	98	2.5

Source : The Banks Association of Turkey

TREATMENT OF EC CREDIT INSTITUTIONS

Establishment and acquisition

Foreign financial institutions face several restrictions in Turkey. Establishment of financial institutions and acquisition of shareholdings over 10% in domestic banks and insurance companies is subject to discretianory authorization and to a test of economic needs, which also applies to the establishment of domestic banks. Establishment is also subject to reciprocity requirements.

Foreign banks in Turkey are limited to five branches with only one branch permitted in each town. The first branch established must have at least US $ 10 million in capital, while each subsequent branch requires an additional US $ 5 million. Due to the high capital requirements and the increased cost of operating nationwide branch networks, new entrants and the existing small banks tend not to compete for deposit money banking activities with the well-established and large banks. However, the diversification of banking activities has created an environment where new entrants and other small banks can effectively operate in various areas, specially in the wholesale market.

To establish representative offices, foreign banks must submit a report containing an evaluation of the activities the office intends to engage in, the benefits expected from the representative office and its contribution to the host economy, as well as an account of the total amount of foreign currency needed to meet general expenses, rents and wages.

New offshore banking regulations were introduced in October 1990 with the aim of attracting foreign banks. Offshore banking units will be subject to a US $ 1 million initial minimum capital requirement. Foreign banks already established in Turkey may not apply to set up an offshore bank.

Activity

The value of foreign bank capital, which determines legal lending limits, has been eroded by inflation. Foreign banks cannot hedge against inflation through revaluation of fixed assets but banks incorporated in Turkey can do so, and they cannot use their global capital to meet lending limits.

If the maturity of a foreign credit to a Turkish resident is more than one year, the loan must be registered by the borrower with the Under-Secretariat of Treasury and Foreign Trade one month after signing.

Foreign credits, whose borrower is a public entity, may only be raised with the authorization of the "Foreign Investment Department".

SECURITIES MARKET

Brief overview

The reform process of the securities market began in 1981 with the enactment of the Capital Market Law. The Istanbul Stock Exchange (ISE) became operational in 1986. The privatization of the State Economic Enterprises, which started in 1988, contributed to the deepening of the capital markets by increasing the volume of new issues. The liberalization of capital movements in August 1989 and February 1990 has also contributed to the growth of the securities markets by allowing non-residents to invest in all domestic securities listed the Stock Exchange and the securities issued upon the permission of the Capital Market Board or issued by the public institutions. Further, the yield on bank deposits fell to below the rate of inflation and the stock-market began to be seen as the one instrument capable of beating inflation.

Despite significant progressed witnessed in the Turkish Capital Market, the contribution of the market to stabilized growth of the economy is not satisfactory. One problem is that tax deters institutions from buying shares. Earnings from Government bonds are free of tax, while those from other investments are subject to corporation tax at 46 %.

By the enactment of aforementioned Law, beside introducing some new capital market institutions and instruments, new regulations which are expected to increase efficiency in the market are made. Thus the legal framework of capital markets has become more flexible and ready to adjust itself to the EC directives.

As of March 1992, number of ISE members reached to 174 up from 44 in 1986, of which 114 are non-bank intermediary institutions and 60 banks.

It is estimated that the 10 top brokerage houses account for 70 % of trading. There are no forward nor options markets.

Table 5 Securities Market Indicators - Shares			
	1989	1990	1991
Turnover (bn TRL)	1,736	15,313	35,487
Turnover (% GNP)	1.01	5.3	8.8
Capitalization (bn TRL)	15,553	55,238	78,907
Nominal amount (bn TRL)	6,727	14,476	32,304
Trading volume (mn)	238	1,537	4,531
No of listed companies	730	916	1,092

Source : ISE Annual Report

TREATMENT OF EC SECURITIES COMPANIES

Establishment and acquisition

There is no discrimination to entry and establishment in the market against foreign financial institution. However, direct branches and representative offices of foreign securities firms are not allowed.

Activity

There are no important restrictions on foreign securities firms as compared with Turkish ones. However, a majority of the members of the board of directors of investment corporations must have Turkish nationality.

Issue, public introduction and sale of the securities in Turkey by non-residents are realized within the framework of the provisions of Capital Market Legislation.

Foreign investors are permitted to repatriate profits from share-holdings, and no longer need permission to buy shares in Turkish companies, provided they did not gain management control. Turkish residents are free to purchase through banks and special finance houses the securities, quoted at the foreign stock exchanges, as well as treasury bills and government bonds issued by foreign countries and to transfer abroad their purchase value.

INSURANCE MARKET

A. BRIEF OVERVIEW

The insurance industry in Turkey has been going through a period of rapid change, following the abolition of tariff regimes which has led to increased competition within the sector. Despite the increase in premium income, from 1,141,578 million TRL in 1989 to 2,694,590 million TRL at the end of 1990 it is still estimated that a very low percentage of insurable risks are insured. The largest increase of premiums has been in the non-life business especially in motor vehicles and fire and property damage. Turkey ranks very low on the international scales of per capita premium expenditure. In 1990, total premiums per head were 45,912 TRL (14 ECU) of which 7,701 TRL (2.3 ECU) correspond to life-premiums and 38,211 TRL (11.5 ECU) to non-life premiums.

The market is highly concentrated. In 1989, the five largest insurance companies holded over 53 % of the total premiums.

Table 6 Indicators of insurance business

	Year	Life	Non-Life	Total
Gross premiums (bn TRL)	1988	50	579	629
	1989	152	989	1,141
	1990	452	2,242	2,694
Premiums as % of GNP	1988	0.05	0.58	0.63
	1989	0.09	0.58	0.67
	1990	0.15	0.78	0.93
Premiums per capita (in TRL)	1988	920	10,704	11,624
	1989	2,680	17,440	20,120
	1990	7,701	38,211	45,912
Total assets (bn TRL)	1990	623	2,102	2,725

Source : OECD - Statistics on insurance

Table 7 Investments of insurance companies							
	Year	Life	%	Non-life	%	Total	%
Total investments (bn TRL)	1989	149.6	100	493	100	641	100
	1990	381	100	784	100	1,165	100
of which :							
- Bonds	1989	89	60	219	44.4	307	47.9
	1990	245	64	288	36.7	532	46
- Shares	1989	0.6	0.3	88	17.8	88	13.7
	1990	6	1.5	247	31.6	253	21.5
- Loans	1989	6	3.7	1	0.3	7	1.2
	1990	11	3	2	0.3	13	1
- Real Estate	1989	54	36	185	37.5	239	37.2
	1990	119	31.5	247	31.4	367	31.5

Source : Insurance Supervisory Office

B. PRESENCE AND MARKET SHARE OF EC FINANCIAL INSTITUTIONS:

There is growing foreign interest in the Turkish insurance sector. At the end of 1990 there were 42 insurance companies in Turkey, of which 17 have foreign shareholdings.

In 1990, foreign insurance companies accounted for 20.5 % of total assets and 20 % of premiums.

Table 8 Market share of foreign insurance companies	
	1990
Assets (bn TRL)	559
% of total market	20.5
Premiums (bn TRL)	553
% of total market	20

TREATMENT OF EC INSURANCE COMPANIES

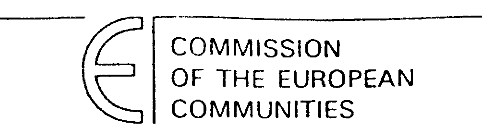
Establishment and acquisition

In general terms, there are no discriminations against foreign insurance companies. The establishment and their operations are governed by the same laws and regulations that govern national institutions. Foreign establishment is subject to a reciprocity test.

Activity

There is a requirement for compulsory cession to a Government reinsurance company.

The taking out of most classes of insurance with non-authorized insurers is prohibited.



TREATMENT ACCORDED IN THIRD COUNTRIES TO COMMUNITY CREDIT INSTITUTIONS AND INSURANCE COMPANIES

UNITED STATES

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Introduction

The US is the largest economy in the world. Its estimated total GDP in 1991 was 5.9 tn $ (compared with EC's estimated 6.4 tn $), and represents about one third of the OECD and one quarter of the world economy. It is, after the EC, the second world trading power. After being for three decades the world largest net capital exporter, large current account deficits, a low savings ratio and heavy foreign investment, have made that by mid-80s it has become a capital importer and is now the world biggest net debtor. Although its nominal GDP per head is now smaller than that of several European countries, its GDP per head in purchasing power parity terms is the highest in the world.

CREDIT INSTITUTIONS

1. Overview

Due to a number of factors, such as statutory or legal constraints on banks, technological change, the real property lending crisis in the early 80s, the savings & loan crisis which burst in 1988, and a low savings ratio, the relative importance of lending, borrowing and deposit taking and of credit institutions has been diminishing to the advantage of alternative forms of financing and investment and of other kinds of financial intermediaries.

Thus, on the one hand, the development and liquidity of the securities markets combined with pressure on banks to reduce their credit exposure among other factors, have been giving increasing importance to bond issues as an alternative to borrowing from banks, and to investments in the equities and bond markets and in other instruments such as mutual and money market funds as alternatives to bank deposits; banks have tended to streamline their balance sheets through the conversion of loans into asset-backed securities of many kinds. On the other hand, non-bank financial institutions, in many instances affiliated with commercial or industrial companies, have taken advantage of a less restricted regime to develop quickly, not least in the area of credit granting and consumer finance. In certain instances, however, banks have been able to enter these new areas of business.

As a consequence, the share in financial sector assets that is held by credit institutions has fallen from about 60 % in 1970 to around one third at present, and the credit and deposit market in the United States is smaller than the EC's and Japan's. In 1991 total banking assets in the US were 4.5 trillion $[1], as compared with 5.4 tn $ of total banking assets in Japan and 11.2 tn $ in the Community. The relative importance of banking activity is also illustrated by the ratio of bank assets to GDP, which in 1991 was 75 % of GDP in the US as compared with 175 % for the EC and with 159 % for Japan.

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1) Of which 2.6 tn $ were held by federally insured banks and 1 tn $ by savings & loans institutions.

Two of the main characteristics of the US banking market are its segmentation in geographical terms limiting the expansion of the activities of US banks across state boundaries, and strict specialization rules preventing banks from carrying out directly securities activities and preventing ownership of or affiliation links with other kinds of financial institutions or with industrial companies, in particular with insurance companies and securities firms. Such statutory and legal constraints have prevented US banks from diversifying their activities in these areas, and have been an important factor why US banks have had to expand their activities by taking significant risks in a number of activities, such as lending for the purchase and development of real estate. Tough competition conditions combined with shrinking margins and the poor quality of lending led to a series of banking failures of unprecedented scale. On other occasions, US banks have sought development in international markets as an alternative to securing a stronger home basis, with differing degrees of success ; however, many US banks have retrenched to their US base.

Statutory and legal constraints have also hindered a restructuring of US banks based on competition and market considerations reducing their access to capital markets for expansion of their activities. Finally, these restrictions have also contributed to the lack of concentration of the US banking market, which in 1991 had 12.000 federally insured banks and 2,200 savings & loan institutions; the size of US banks does not appear to correspond to the dimension of the US economy[2].

Nevertheless,the US market continues to be a crucial market for the development of the activities of banks with international aspirations. This is particularly the case for Community banks, because of the strong investment links between the Community and the US, the Community being the biggest foreign investor in the US, both in terms of direct investment and of portfolio investment. Financial flows have also closely followed the very considerable trade flows which characterize the Community's relations with the United States.

Despite the high rate of failures which still affects it, the US banking market has maintained a medium level of earnings over the last four years; in 1991, total net income of FDIC insured banks was 18.6 bn $, or 0.56 % of return on assets or 8.3 % return on equity (this contrasts, in the last seven years, with a low 0.11 % of return on assets in 1987 and a top 0.84 % in 1988).

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2) At end 1990, there was only one US bank among the first 25 banks in the world ranked either in terms of assets or of capital, and none among the top 10.

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Table 1 Comparison of US, EC and Japanese banking market		
	Assets in trillion US$ 1991	Ratio of assets to GDP 1989
US	4.5	75 %
Japan	5.4	159 %
EC	11.2	175 %

2. Presence, market share and profitability of EC and other foreign financial institutions

In June 1991, EC banks had a total of 202 offices in the US, with total assets of 202 bn $ (6 % of total banking assets in the US and a quarter of foreign banking assets in the US); in 1990 they had total deposits of 102 bn $ (4.5 % of total deposits). Most of this activity is conducted through branches (69 % of assets, 46 % of deposits) and agencies (7 % of assets), while only 23 % of EC bank assets were held by subsidiaries. US activities of EC banks in terms of assets and deposits represent about 2 % of their total world-wide business.

Table 2 Establishment and Market Share of foreign banks in June 1991					
	Number		Assets (in bn US$)		Share of EC assets by type of establishment
	Total foreign	EC owned	Total foreign	EC owned	
- Agencies	231	65	103	14	7 %
- Branches	377	103	539	139	69 %
- Subsidiaries	100	26	157	46	23 %
- Others	23	8	5	2.8	1 %
TOTAL	741	202	804	202	100 %

3. Treatment of EC credit institutions

a) Overview

The US has traditionally pursued a policy of national treatment, seeking to achieve a level playing field between US and non-US banks. This is the case of Federal regulations, which with one marginal exception grant non-US banks national treatment. It is also generally the policy at the state level, although there are a number of restrictions of a discriminatory nature concerning in particular establishment and expansion of activities.

Foreign banks may, with a number of exceptions, operate in the US, either with a Federal or with a state charter, in the form of subsidiaries, branches or agencies under national treatment conditions. Foreign banks may also set up representative offices organized under state law. Foreign bank branches have also traditionally operated under national treatment conditions and are not subject to lending limits based on endowment capital (although they are required to maintain a "capital equivalency deposit"). Foreign bank branches and agencies were governed exclusively by state law until the passage of the International Banking Act (IBA) in 1978; the IBA extended to foreign bank branches and agencies a number of restrictions already applied to US banks, but from which foreign banks were previously exempted, but grandfathered the operations of foreign banks already established and offered an option to operate under Federal charter.

Under the IBA, Federal branches and agencies generally are subject to the same laws and rectrictions that are applicable to US national banks. With regard to state branches and agencies, after December 19, 1992, they will be prohibited from engaging in any activity that is not permissible for Federal branches unless exempted by Federal US banking regulators. (This is similar to the restriction being placed on US banks chartered under state law. As of December 19, 1992, no US chartered state bank may engage as principle in any activity that is not permissible for a US national bank unless certain determinations are made by the banking regulators.) The IBA also provides that all foreign banks with branches, agencies and commercial lending companies in the US, or companies that control such foreign banks, are subject to the Bank Holding Company Act of 1956 (BHCA), including the restrictions on non-banking activities, to the same extent as US bank holding companies.

However, there is much debate among US policymakers concerning the status and operation of foreign bank branches in the US. The Federal Deposit Insurance Corporation Improvement Act (FDICIA) in 1991 introduced new restrictions on retail deposit taking, and also requires a review of foreign bank branch operations to be conducted this year in order to examine whether foreign banks should be required to conduct their US banking operations exclusively in the form of subsidiaries rather than branches. FDICIA also imposes new application procedures on applicants and generally provides for enhanced supervision of foreign bank activities in the US.

Among the main problem posed to EC banks in the US are restrictions applicable to foreign and US institutions alike which limit the scope of activities permissible to banks, or which prevent the combination of banking and non-banking activities within the same banking organization, notably in the form of affiliation or other ownership links of banks inside the US with firms carrying out non-banking activities. A second area of problems relates to non-discriminatory laws restricting the geographical expansion of banking activities across state boundaries, and to a number of discriminatory restrictions still operated by some states.

b) Sectoral segmentation

The US has a system of segmentation of activities, which restrict the ability of banks to be affiliated with other types of non-bank financial institutions, in particular securities firms and insurance companies.

The separation between banking and securities activities was established on the eve of the Great Depression, with the adoption of the Glass-Steagall Act in 1933, which places strict limits on banks' own securities activities and provides that banks may not be affiliated with firms engaged principally in securities underwriting and dealing activities. This restriction was declared applicable to non-US banks having operations in the US, both by the application of the Bank Holding Company Act (BHCA) directly to banks not incorporated in the US which control US banks, and indirectly through the IBA to all foreign banks with branches, agencies, or commercial lending companies in the US. A foreign bank with only a representative office presence in the US may not, however, be subject to such restrictions.

The restrictions on banks affiliating with insurance companies were strengthened by the Garn-St Germain Act, which amended the Bank Holding Company Act to provide that insurance activities are, with certain specific exceptions, not "closely related to banking" and therefore not permitted, subject to certain exemptions. Other statutes restrict the ability of banks directly to provide insurance services.

A number of historical as well as political reasons explain the imposition of those barriers: there are prudential concerns, such as the need to avoid risks arising mainly from securities activities affecting the solvency of the affiliated banks and resulting in losses to the deposit guarantee scheme, or to prevent conflicts of interest between the affiliated firms; there are also competition concerns, such as the prevention of tying practices; but there are also concerns of a more political nature, such as the avoidance of excessive "concentration of banking power" and ultimately the reservation for certain segments of the market for certain professions or kinds of institution.

These laws concerning combination of banking and non-banking activities are applied not only to ownership linkages or affiliations taking place inside the US between subsidiaries or branches of non-US companies. They also apply, by virtue of the BHCA, to foreign banks and companies that control a foreign bank organized under the laws of foreign countries, if the bank has branches, agencies or commercial lending company subsidiaries in the US. The practical consequence is that banks, insurance companies or securities firms incorporated in the EC and which are affiliated among themselves within the EC, may not each of them operate in the US because of the regulatory structure prevailing in the EC and because of ownership or affiliation links taking place outside the US. The effects of these regulations on the internal ownership structure of EC financial groups - which the Federal Reserve Board itself acknowledged was extraterritorial at the time it proposed and adopted Regulation K - may even lead to compulsory divestment of US operations in cases of affiliations inside the Community between e.g. a bank and an insurance company where both of

them have establishments in the US. Some major EC firms are at present facing this problem. These problems are likely to increase in the future for Community firms since, as a consequence of strategic decisions taken by Community financial institutions in preparation for competition in the EC internal market, an increasing number of EC banks, insurance companies and securities firms are becoming affiliated within the same organization.

Allowing non-US banks, insurance companies and securities firms to carry on, regardless of their affiliation links outside the US, separate operations in the US subject to US operating conditions concerning each of these activities, would not give them an unfair competitive advantage over their US counterparts in the US. In fact, because of these non-US affiliations, some EC firms encounter difficulties in gaining access to the US market and some of them may not even be allowed to operate in the US at all, let alone compete with their US counterparts.

However, some flexibility has been progressively introduced in the implementation of the legislation in several ways.

First, the separation rules between banking and securities did not apply to foreign firms until the enactment of the IBA in 1978. The IBA sought to put non-US banks on a level playing field with US banks, and declared applicable to non-US banks the restrictions on non-banking activities applicable to US banks. However, it grandfathered the operation of foreign securities firms affiliated with banks, allowing them to continue their operations under the then existing regime. At present there are 10 EC banks with grandfathered securities firms out of a total of 17 banks benefitting from grandfathering.

Second, in January 1990 some foreign banks were authorized to establish subsidiaries which may engage in underwriting and dealing in corporate debt and equity securities in the US on a similar basis as US owned bank holding companies ; like their US-owned counterparts, the new securities subsidiaries (called "section 20 subsidiaries") were subject to certain restrictions: in particular, total revenue of such subsidiaries could not exceed 10 % of the total revenue of the banking organization, and a number of funding, interlocking and other dealing restrictions ("firewalls") were imposed between the securities subsidiary and the banks in the same group*). Since then, other foreign banks have established section 20 subsidiaries in the US. The "firewalls" system has often being criticized as creating an unnecessary burden and preventing the most efficient organization of the firm.

*) In view in particular of differences in the regulatory structure of the country of origin of the bank, flexibility was introduced for foreign banks in terms of the restrictions that have been imposed on US banking firms with section 20 subsidiaries. For example, foreign banks are permitted directly to establish section 20 subsidiaries in the US, while US banks can only be affiliated with section 20 subsidiaries through a holding company structure.

Third, texemptions exist for certain non-banking activities to be carried out by banks and these have been expanded over the years. Thus, banks - directly or through a separate subsidiary - have been allowed to underwrite and deal in different kinds of Government securities, to engage in discount brokerage and to engage in futures transactions in financial instruments, to securitize and sell their own assets, and to act as agent in the private placement of debt and equity; banks have been allowed to engage in insurance brokerage and underwriting for certain kinds of insurance policies.

In addition, the Federal Reserve Board has been willing to exercise some flexibility, within the present tight regulatory framework, as regards the ability of foreign banking groups to maintain their banking as well as non-banking operations in the US under certain limited conditions.

Amendments introduced in April 1991 in Federal Reserve Board's Regulation K facilitated the ability of foreign banks to benefit from the QFBO (Qualifying Foreign Banking Organization) status and therefore to engage in the US in commercial (non-financial) activities. The revised Regulation K also stated that non-qualifying foreign banks or banking organizations could be granted case-by-case exemptions to be able to maintain in the US both their banking and non-banking activities. However, due to the clear prohibitions on the combination of banking and non-banking activities contained in the BHCA, in practice exemptions are not granted - or granted only for a limited time period - to allow the foreign banking organization to conduct in the US financial activities such as insurance underwriting which are not permissible to US banks and bank holding companies in the US, thus limiting radically the scope and impact of such exemptions.

c) <u>Restrictions to the geographical expansion of banks</u>

There are two main kinds of restrictions on the geographical expansion of banks: the prohibition of inter-state branching by banks, and restrictions existing in certain states on the establishment of and acquisition of banks by out-of-state bank holding companies.

i) <u>Inter-state branching</u>

As regards inter-state branching, under the IBA a foreign bank or its subsidiary not incorporated in the US cannot open a full-service branch in more than one State; since 1927, under the McFadden Act, domestic national banks are similarly restricted. However, foreign banks may set up across the state boundaries limited branches that only accept deposits permissible for so-called Edge Act corporations, agencies and loan production offices (LPOs). LPOs cannot take deposits from the public. This may give foreign banks a competitive advantage over some domestic US banks. For example, while a US national bank is permitted to establish a LPO, it cannot establish any branch offices outside of its home state.

Prior to the IBA foreign banks were exempt from McFadden Act, and the IBA generally extended to them that prohibition. However, the IBA grandfathered the inter-state operations by non-US banks existing in 1978. This limited grandfathering was consistent with the granting of similar grandfathering to US bank holding companies under earlier amendments expanding the coverage of the BHCA. Most Community banks do not have these privileges.

ii) Expansion through acquisition or subsidiaries

Under the "Douglas Amendment" of the BHCA, bank holding companies (either incorporated in or outside the US) are prohibited from establishing or acquiring control of a bank outside their "home state" unless the host state expressly permits. Although, a majority of States (33 in 1990) have enacted laws allowing out-of-state banks to set up subsidiaries in their territory, there are still some states (13 states as of October 1990) which do not permit, or impose restrictions on, establishment by bank holding companies which are not from the same State. At present, only 2 states (Hawaï and Montana) prohibit inter-state acquisition.

In some cases inter-state banking has been allowed only within groupings of several states - the "regional compacts" -; states members of "regional compacts" allow banks from neighbouring states to set up banking subsidiaries or acquire banks, but exclude from this possibility banks from other states not included in the region. Expansion within the "regional compact" may be accompanied by conditions which limit the ability of non-US banks to benefit from such facilities; thus, expansion is in some cases limited to banks which hold a large proportion of their deposits within the region, and in some cases the percent of total deposits in the State that may be held by an out-of-State depository institution is restricted. In other occasions, establishment of banking subsidiaries from other states is subject to reciprocal treatment.

These restrictions are applied in many instances in a non-discriminatory manner between US and non-US out-of-state banks. However, certain states explicitly exclude non-US banks from the possibility of expanding to other States in the "regional compact" to which they belong.

In addition, certain states prohibit foreign ownership of state chartered banks; as of December 1990, some 15 states had some type of restriction on foreign banks ownership of state banks.

d) Other restrictions

There are a number of other restrictions affecting mainly the establishment of foreign banks in certain states, although they are not applied in most instances by states with important banking centres. Among these, a number of states prohibit non-US banks from establishing branches and/or agencies within their borders, or do not allow them to take deposits in their territory, or impose special deposit requirements; similarly, several states prohibit or restrict

the ability of branches and agencies of non-US banks to serve as depositories for public funds; some states still restrict insurance companies from using for reinsurance purposes stand-by letters of credit issued by certain branches and agencies of foreign banks, or impose on them potentially more burdensome qualifications; and a number of state branches and agencies of non-US banks must satisfy certain registration requirements to engage in broker-dealer activities, from which US banks are exempt.

Some states impose reciprocity requirements for the establishment of branches or agencies of non-US banks. These reciprocity requirement do not appear to have constituted a significant problem for the establishment of EC banks.

A new restriction on the ability of foreign banks to operate in the US through branches was introduced by the Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991. FDICIA established that all foreign bank establishments which accept or maintain deposits of less than 100,000 $ will have to be in the form of a subsidiary, unless they are already in the form of Federally-insured branches. The details for the implementation of this provision have yet to be determined, and in particular whether this restriction will apply only to US domestic retail deposits with balances of less then 100,000 $ that require deposit insurance, or will also extend to non-retail deposits below 100,000 $; if this restriction applied not only to US domestic retail deposits, but also to deposits of enterprises, governmental units, international organizations, or non-residents, it would constitute a significant restriction to market access for foreign banks.

The FDICIA also contains provisions providing for enhanced supervision of foreign banks, requiring prior Federal Reserve Board approval for the establishment of branches, agencies, commercial lending company subsidiaries and representative offices by foreign banks. Although these provisions are of a prudential nature, some of them have raised concerns, such as the potential impact that the inability to convey some information because of secrecy laws of its country of origin may have on the ability of that foreign bank to operate a branch in the US, and the practical application of these provisions which could be unduly burdensome. Another concern is the requirement that the costs of yearly examinations by the Federal Reserve Board of foreign banks' branches have to be supported by the foreign bank in addition to the payment of an annual assessment ; such requirement does not apply to domestic banks or subsidiaries of foreign banks in the US that are examined by the Federal Reserve Board.

The FDICIA requires a report to be made by the end of 1992 on whether foreign banks should be required to conduct banking operations in the US through subsidiaries rather than through branches. If this study lead to further restrictions to the activities of foreign bank branches in the US, it would be inconsistent with the work of several international fora aimed at facilitating the liberalization of foreign banking operations, in which the US is actively participating. It could also constitute an important departure of the policy of granting foreign banks equal competititve opportunities, formally endorsed by

Congress when it passed the IBA[1], and also affect the way other countries regulate the operation of foreign bank branches in their territory.

There is only one case of discrimination at Federal level. It is the requirement that directors of foreign banks' national bank subsidiaries incorporated in the US must be US citizens, although the Comptroller of the Currency may waive this requirement for less than half the number of directors. Such citizenship requirements for incorporators or directors of banks also exist in a number of states.

INSURANCE

1. Overview

The insurance market in the United States is the largest in the world, although its relative share of the world market has been constantly diminishing (in 1960 the US insurance market represented 72 % of the world market in terms of total premiums, and in 1985 its total share was 47.7 %). Total premiums underwritten in the United States in 1991 are estimated to be 508 bn $. The US share of total world insurance premiums was in 1989 of 37.5 %; the share of non-life insurance premiums was 46 % in 1989 (265 bn $), whereas the US lost in 1989 its first place in life insurance to Japan (188 bn $ or 29.7 % of total world premiums, compared with Japan's 31.4 % of total world premiums). Insurance companies in the US had in 1989 total assets of 1,826 bn $, of which about two thirds belong to life insurance companies.

The US pension fund management business is also the largest of the world, with total assets at end 1988 of 1.65 trillion $ (excluding pension funds managed by life insurance companies, which amounted to 628 bn $); at that time total pension fund assets in the UK totalled 387 bn $ and in Japan were 134 bn $[2].

In recent years there has been an increase in the number of insolvencies and reorganizations, and attention has been publicly drawn to the need for improved supervision of insurance activities and particularly concerning the solvency of insurance companies and the quality of insurance companies' assets. In certain instances, there have been suggestions for a more important Federal role in the regulation and supervision on the insurance industry.

The US market is characterized by a relative low concentration of the market as compared with the main national markets in Europe and with Japan, and a large amount of insurance companies concentrating in local markets and niches[3]. It is also characterized by its segmen-

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1) cf. Department of the Treasury, National Treatment Study, 1990, in particular pages 31 and 32.

2) Source : Quarterly Bulletin of the Bank of England. Volume 31, August 1991.

3) The 10 largest life and non-life companies in the US accounted in 1989 respectively for 41 and 49% of total premiums, compared with 95% for both life and non-life in Japan, 59% and 47% in Germany, 78% and 66% in France, and 53% and 77% in the UK.

tation, since the states are competent for the regulation and supervision of insurance[1], and companies operating in several states need to meet the regulatory requirements prevailing in each state.

Unlike the banking sector, there are no restrictions on territorial expansion of insurance activities; a number of US insurance companies have a nation-wide network of branches and subsidiaries, and there is significant interpenetration of the state insurance markets. There are no restrictions concerning affiliation with companies operating in any sector other than banking, and a number of insurance companies in the US - foreign as well as domestic - are affiliated with securities or other financial firms.

Regulatory cooperation is facilitated by work carried out by the National Association of Insurance Commissioners (NAIC) through non-binding rules and guidelines recommended to state commissioners, such as model insurance contracts, guidelines concerning accounting rules, technical reserves, and other insurance regulations which have acted as models followed by state regulators and promoted uniformity across state lines. Inter-state activity has also been facilitated by the reliance by some state supervisors on the regulations and supervision carried out by some other states having a leading role in insurance regulation; in certain cases, such a reliance implies a degree of recognition by the host state of the supervision carried out by the home state, and leads to an easy admission by the host state of insurance companies authorized in certain states acting like "ports of entry". However, the regulation of the insurance industry varies greatly according to each individual state, and different regulatory systems coexist, concerning e.g. contract law and policy conditions.

There have been a number of attempts to establish a Federal regulation of the insurance industry, but none of them has been successful so far.

2. Presence, market share and profitability of EC and other foreign financial institutions

The US insurance market is relatively open to foreign companies. In 1987, foreign insurance companies established in the US received about 8.1 % of total US premiums; the foreign market share was 5.5 % for life insurance, and 10.5 % for non-life insurance. In 1989, it is estimated that one third of reinsurance premiums were underwritten by non-established firms, a major share of which was by Community undertakings. Also in 1989, total insurance premiums underwritten by EC insurance companies in the US in 1989 were 24 bn $, out of a total of 55 bn $ underwritten by foreign companies, and 453 bn $ of total premiums; EC insurance companies had 68 bn $ in assets in the US, out of a total foreign market of 171 bn $.

1) Although the Supreme Court ruled that insurance constitutes inter-state commerce and falls therefore within the legislative powers of the Federal Government, the McCarran-Ferguson Act of 1945 guaranteed that regulation and supervision of insurance would remain the competence of the states.

Community insurance firms have a strong presence in the US. Some of them operate a network of subsidiaries and are among the most active foreign insurers in the US, having a substantial share of total insurance business carried out in the US by non-US insurance companies; US insurance operations represent a very large share of the total business of certain Community insurance groups. Community insurance firms have been active in acquiring controlling interests in large US insurers. One of the five largest reinsurers in the US is a subsidiary of a Community reinsurance company.

Table 3 Indicators of insurance business				
	Year	Life	Non-Life	Total
Premiums (bn $)	1989 1991	188 -	265 -	453 508
Premiums underwritten by EC insurance companies in the US (bn $) (share of US total)	1989	-	-	24 (5.3 %)
Premiums as % of GDP	1989	3.6	5.1	8.7
Premiums per capita (bn $)	1989	760	1.071	1.831
Total Assets of insurance companies (bn $)	1989	-	-	1,826
- EC insurance companies in the US (share of US total)	1989	-	-	68 (3.7 %)
- Total assets of foreign insurers (share of total)	1989	-	-	171 (9.4 %)

3. Treatment of EC insurance companies

No significant discrimination or restrictions on establishment are applied by the states. All the states are open to foreign presence normally under national treatment conditions and, unlike the banking sector, non-US insurance companies may operate both branches and subsidiaries in all states. There have been a number of cases of takeovers or of acquisition of controlling shareholdings by EC insurers in major US insurance companies.

There are, however, a number of restrictions which, when looked at individually do not seem significant but which, taken together difficult market access by EC insurers.

One of the main problems faced by Community insurance companies is the inability to operate in the US market if they are affiliated outside the United States with a bank having a branch, agency or a commercial lending company subsidiary in the US, unless the bank decides to withdraw from the US. This problem is described in the banking section above.

Apart from the prohibition on the combination of banking and insurance activities within the same group, the other most important restriction is the fragmentation of the market between 54 different jurisdictions, with different licensing, solvency and operating requirements. However, the absence of an internal market in insurance is a barrier affecting US insurance companies as well.

Particular restrictions existing in some states include the following:

- A majority of states (27 of them) prohibit the operation and establishment of insurers owned or controlled in whole or part by a foreign government or State, although it has been argued that some States would apply this restriction also to US State government owned insurance companies (at present, US state government do not own insurance companies with very limited exceptions). This restriction has the objective of ensuring that foreign state-owned firms operate under normal competitive conditions, has normally been applied with flexibility, and has not prevented several EC state-owned insurance companies from establishing or to taking over US insurance companies. However, the practical implementation of these provisions needs to be monitored.

- A number of states require non-US insurance companies wishing to operate in their jurisdictions, either in the form of branches or of subsidiaries, to be licensed and establish a commercial presence first in other US states (the "port of entry" requirements). One of the main objectives of these requirements is for the host state to facilitate the regulation of non-US insurers, thus being able to rely in the licensing screening process carried out by the larger states with important insurance departments. This requirement does not constitute a major barrier, since EC firms may always have indirect access to those states through establishing first in the major states, and may indeed be seen as a way to facilitate access to the whole US market from the most important state markets. However, these requirements may act in certain cases as an obstacle to have direct access to certain important states (such as Texas or New Jersey).

- Certain states impose special deposit requirements or other specific requirements for the authorisation of non-US insurers; however, some of these requirements are imposed also on out-of-state US insurance companies and may be of little significance.

- Some states (including the state of New York) issue for non-US insurers only renewable licences of limited duration, although licence renewals are not limited in time or scope; again, most of these states apply the same regulations also to out-of-State US insurers.

- A majority of states impose reciprocity requirements for the establishment of non-US insurance companies; these requirements have not been a practical restriction to the establishment of Community insurance companies.

- A majority of states prohibit their established insurers from dealing with non-authorized reinsurers; this restriction applies both to US and foreign insurers.

SECURITIES TRADING

1. Overview

The United States securities market has been the largest in the world for several decades, and it is still the largest according to certain measures. As regards the equity market, the market value of shares of domestic companies listed in its biggest stock exchange - New York - was at the end of 1990 2,692 bn $ (as compared with 2,821 bn $ in Tokyo, 858 bn $ in London or 355 bn $ in Germany); trading in shares in New York amounted in 1990 to 1,325 bn $ (as compared with 1,304 bn $ in Tokyo, 587 bn $ in London or 554 bn $ in Germany); for 1989, trading in US exchanges totalled 2,233 bn $, of which 1,543 was accounted by New York, 44 bn $ by the American SE, 431 bn $ by NASDAQ, and 215 by regional stock exchanges. In the bond market, the market value of bonds listed in New York was at year end 1990 1,650 bn $ (as compared with 978 bn $ for Tokyo, and with over 3,000 bn $ for the whole EC).

The US Treasury bond market, valued at an estimated 3,400 bn $, is the largest single Government securities market in the world (in the EC the value of Government debt is 3,900 bn $, and in Japan 2,200 bn $ - est.-), and it is expected to continue its growth in the coming years.

The mutual fund business boomed during the last decade, to some extent as a consequence of regulatory constraints imposed in particular on credit institutions. Total assets held by mutual funds in the US were in February 1992 of 1.4 tn $ (up from 240 bn in 1980). Of these, almost 600 bn $ were held by money market funds investing in short term instruments, which developed steadily as alternative to bank deposits.

The US securities markets are highly innovative and specialized, and the underwriting business both in equities and bonds has been gathering pace in the latest years, sometimes at the expenses of banking finance.

Although most of the business done in the US securities markets is carried out in securities issued by domestic issuers, foreign participation both in terms of foreign securities listed in US stock exchanges and in terms of foreign investment in the US securities markets has increased steadily during the last decade ; at present the US has the second largest number of foreign listed companies of principal world exchanges. However, strict registration requirements for the admission of securities (both foreign and domestic) to the US market, including the application of tight accounting rules requiring equivalence with US generally accepted accounting principles (GAAP), has often deterred foreign companies to raise capital or list their shares in the US. Foreign firms have sometimes preferred to list their stock in those secondary markets whose listing standards are less vigurous, such as NASDAQ (National Association of Securities Dealers

Automated Quotation). However, flexibility is being increasingly introduced to facilitate listing of foreign securities, such as a requirement for semi-annual reporting instead of quarterly reporting for domestic firms. Recent moves have taken place to attract foreign issuers, for instance through more flexible rules on private placements with institutional investors (Rule 144a), and efforts are being made by the New York Stock Exchange to encourage further foreign participation.

The US futures and options exchanges (in particular the Chicago Board Of Trade and the Chicago Mercantile Exchange, where trading in options and futures started), represent almost half the world's trading in both financial and commodities futures and options, although their relative share has been diminishing in recent years. The launch of the Globex trading system by the two Chicago exchanges later this year may strengthen their position as leading futures and options exchanges, especially if foreign exchanges join the system, as some of them have announced they would do.

After several years of slow trading and low activity in the primary markets following the October 1987 crash, Wall Street has recovered to its highest levels of activity, and securities firms are reaching record fees and profits. Thus, revenues of securities firms members of the New York stock exchange in 1991 totalled a record 61.3 bn $, and their combined profits also reached a record of 3.8 bn $.

Table 4 Equity trading in US exchanges (in bn $)

	NYSE	AMEX	NASOAQ	Regional SE	TOTAL
1989	1,543	44	431	216	2,234
1990	1,325	38	452	178	1,993

Table 5 Securities Market Indicators - New York S.E.

	1990
Turnover (bn US$)	
- in equity shares	1,325
- un bonds and debentures	1,610
Turnover as % of GDP	
- in equity shares	24.4
- un bonds and debentures	29.7
Capitalization (bn US$)	
- in equity shares	2,692
- un bonds and debentures	1,610
Nr of listed companies	
- in equity shares	1,774
- un bonds and debentures	2,912

2. Presence, market share and profitability of EC and other foreign financial institutions

EC securities firms have an important presence in the US. About half of total foreign registered broker-dealers and investment advisers in the US are operations of EC firms; and most of the foreign firms availing themselves from the CFTC registration exemptions are EC firms.

3. Treatment of EC securities firms

a) Overview

The US securities market is reasonably open to foreign participation; national treatment is generally provided to EC firms, and there are no cases of significant discriminatory treatment. EC securities firms may establish freely in the US, subject to the same regulations as their US counterparts. Thus, foreign securities firms may register as broker-dealers or investment advisers, and may in principle establish both in the form of branches or subsidiaries.

However, the establishment of a branch in the US by a foreign securities firm to engage in broker-dealer activities, although legally possible, is in fact not practicable, since registration as a broker-dealer means that the foreign firm incorporated outside the US establishing the branch has to register and become itself subject to SEC regulation, whose requirements could superpose to or even conflict with the home country regulation. In addition, some major stock exchanges - the New York and American Stock Exchanges - limit membership to securities firms incorporated in the US.

There are a number of regulatory problems faced by EC securities firms in doing business in the US, most of them of a non-discriminatory nature; the most relevant of them are the separation between banking and securities activities, and reciprocity requirements imposed by mandatory US trade legislation.

b) Separation between securities and banking business

One of the most important restrictions faced by EC securities firms is the strict segmentation between banking and securities firms, described in detail in the chapter on banking. This restriction, which applies in the same manner both to US and non-US firms, has had the following repercussions because of the fact that in the EC many securities firms are part of banking organizations or are otherwise affiliated with banks; in some Member States, the securities firms are themselves banks.

In an increasingly globalized market, the separation between banking and securities activities is at odds with developments in many leading financial markets. In addition, it may constitute a potentially important limitation on the world-wide competitiveness of some EC firms operating in the securities markets: while US securities firms may fully compete in all the major securities markets in the world, EC firms would be restricted in engaging freely in world-wide dealing in securities because of restrictions in the largest securities market in the world.

However, the relaxation of the strict separation rules mentioned in the chapter on banking - grandfathering of EC securities firms operating prior to 1978, certain securities activities allowed to banks, and the ability to set up "section 20 subsidiaries" - has enabled EC banks or securities firms affiliated with banks to operate in the US, although with restrictions and in some cases under burdensome regulations.

c) Other restrictions

At the Federal level, the Primary Dealers Act (Section 3502(b)(1) of the 1988 Omnibus Trade Act) prohibits firms from countries that do not satisfy reciprocity requirements and which were not authorised before 31 July 1987 (with exception of Canadian and Israeli firms) from becoming or continuing to act as primary dealers of US government bonds. The Federal Reserve Board carried out an examination of three Government securities markets in the EC (Germany and the United Kingdom) and concluded that US firms were generally granted national treatment in dealing in Government securities in those Member States. A review is now being carried out on France.

However, the potential restrictions which the Primary Dealers Act may constitute needs to be reassessed in light of the opening in 1991 of the US Government securities market to firms which are not primary dealers.