

INSTITUTIONAL STRENGTHENING OF THE OFFICE OF INSURANCE OVERSIGHT

(TC-99-04-04-1-BO)

EXECUTIVE SUMMARY

Requester:	República de Bolivia	
Executing agency:	Superintendency of Pensions, Securities and Insurance (SPVS) through the Office of Insurance Oversight (IS)	
Amount and source:	Modality:	Grant – Window I
	MIF	US\$ 840,000
	Local counterpart:	<u>US\$ 560,000</u>
	Total:	<u>US\$1,400,000</u>
Objectives:	<p>The project's principal objective is to consolidate insurance market operations in Bolivia, thus indirectly accelerating the economic growth of the country's private sector. This objective would be achieved by supplementing the legal, regulatory and supervisory framework for insurance activities pursuant to the Core Principles of Insurance Supervision for Emerging Markets established by the International Insurance Supervisors Association (1997), which will also serve to bolster the capital market. The specific technical cooperation objectives are to: (i) implement the new insurance law; (ii) draft implementing regulations to adapt the current rules to the new insurance law; (iii) bring Bolivian insurance companies in line with the new regulatory provisions; and (iv) strengthen the supervisory capacity of the IS by introducing information technology, staff training, and methods and procedures of supervision and oversight.</p>	
Exceptions to Bank policy:	None	
Special contractual clauses:	<p>Prior to the first disbursement of resources, the IS must submit, to the Bank's satisfaction: (i) evidence that the Republic of Bolivia has signed an agreement with the SPVS for the latter to act as program executing agency; (ii) the designation of a project coordinator; (iii) an action plan for the executing unit; (iv) evidence of the availability of counterpart resources and their allocation to the program; and (v) a tentative disbursement schedule for project execution.</p>	

I. ELIGIBILITY

A. Country eligibility

- 1.1 On October 6, 1993, the Donors Committee of the Multilateral Investment Fund (MIF) declared the Republic of Bolivia eligible for all MIF financing modalities.

B. Project eligibility

- 1.2 The proposed operation is consistent with the financing criteria set forth in Article III, Section 2 (d) and (e) of the Agreement Establishing the MIF, which provides, among other things, for the possibility of granting financing with MIF resources to government agencies of eligible countries—in this case, the Office of Insurance Oversight of the Government of Bolivia—to promote development of financial systems, particularly through the establishment of minimum prudential standards, and the strengthening of the institutions of supervision and oversight of companies in the sector, which is within the framework of the Technical Cooperation Facility (Facility I).

II. BACKGROUND

- 2.1 The new Insurance Law 1883 of June 1998 and its regulations contained in Supreme Decree 25201 of October 1998 supersede Insurance Law 27 of September 1904 and Decree 15516 of June 1978. The new law introduces substantial reforms to the country's insurance sector, which necessarily require the creation of new systems for regulation, oversight and supervision of insurance companies, based on modern principles of transparency, efficiency and creditworthiness of the participating companies. These systems will offer increased and higher quality coverage to insured companies, activities and individuals, and will facilitate the process of channeling to the capital market the savings captured by the Bolivian insurance sector, which, in 1999, totaled approximately US\$80 million.
- 2.2 Significant expansion of the insurance market is anticipated in the next few years, since the Pension Fund Administrators (AFP) created by Pension Law 1732/9 are expected, starting in early 2000, to purchase approximately US\$45 million each year in death and disability insurance contracts, as well as insurance workers compensation, for which the Bolivian insurance system is not yet properly prepared.
- 2.3 In the last five years, insurance premiums issued by the Bolivian insurance sector grew by 31%, much faster than the country's economic growth. However, total premiums are still among the lowest in Latin America (ASSAL Annual Statistics for 1999), equaled only by Honduras. The per capita premium is small (approximately US\$10 per inhabitant), and which is evidence that the purchase of insurance contracts has not gained a strong foothold in Bolivian society. At

ABBREVIATIONS

AFP	Administradora de Fondos de Pensiones [Pension Fund Administrator]
ASSAL	Asociación de Seguros de América Latina
IS	Intendencia de Seguros [Office of Insurance Oversight]
SPVS	Superintendencia de Pensiones, Valores y Seguros [Superintendency of Pensions, Securities and Insurance]
SIREFI	Sistema de Regulación Financiera [Financial Control System]
VMAF	Vice Ministerio de Asuntos Financieros [Office of the Deputy Minister for Financial Affairs]

present, insurance services in Bolivia are offered by 19 insurance institutions, 35 insurance brokerage firms, 17 insurance adjustment and settlement agencies, 9 mathematical actuaries, 4 insurance appraisers and 16 external auditing companies authorized by the IS to audit insurance companies.

- 2.4 Insurance companies in general have low capitalization, high administrative costs (between 43% and 69% of the premiums depending on the insurance company), low profitability (less than 8%), despite low claims rates. Insurance companies also lack up-to-date claims rate tables that are essential for actuarial computations, have few technical and professional staff trained in insurance, suffer from a lack of transparency, and reserves excessively locked-up in real estate. An integral systematic process of sector restructuring should therefore be undertaken, based on comprehensive modern regulations under the current legislation, and fine-tuning of regulatory methods and procedures, supervision and oversight of participating companies.
- 2.5 For its part, the IS has no diagnosis procedures, no comprehensive, current information with respect to the insurance sector, and no database of insurance activity in Bolivia. The IS lacks supervision and inspection methodologies, guidelines and manuals. It needs a corps of inspectors and analysts, and regulations under the current laws need to be devised through resolutions that will create an adequate framework to foster effective, transparent activities, and increased coverage for more companies, activities and individuals.

III. THE PROJECT

A. Objectives

- 3.1 The project's principal objective is to consolidate insurance market operations in Bolivia, thus indirectly accelerating the economic growth of the country's private sector. This objective would be achieved by supplementing the legal, regulatory and supervisory framework for insurance activities pursuant to the General Core Principles of Insurance Supervision for Emerging Markets established by the International Insurance Supervisors Association (1997), which will also serve to bolster the capital market. This program will also enable the Superintendent of Pensions, Securities and Insurance to design a more effective and more accurate strategic sectoral plan that will keep pace with future market needs.
- 3.2 The specific objectives of the technical cooperation are to: (i) implement the new insurance law; (ii) draft implementing regulations to adapt the current rules to the new insurance law and thus complete the sector's regulatory framework; (iii) bring the Bolivian insurance companies in line with the new regulatory provisions; and (iv) strengthen oversight capacity of the IS by introducing information technology

(hardware and software), staff training, and methods, manuals and procedures of supervision and oversight.

B. Description of the project and its main components

- 3.3 The project consists of activities grouped into four subprograms to be executed over a two-year period, aimed at strengthening the operational, supervisory and oversight capacity of the Office of Insurance Oversight, thereby consolidating and expanding insurance activities in Bolivia. The four subprograms are: Subprogram I: Studies, development and modification of guidelines; Subprogram II: Audits of insurance institutions; Subprogram III: Training of IS technical and professional staff; and Subprogram IV: Computer systems and database. A detailed description of the four subprograms is set forth below. Technical and administrative project management within the executing unit (IS) will be entrusted to a coordinator, whose appointment must have the Bank's nonobjection.

Subprogram I: Studies, Development and Modification of Guidelines (US\$480,000)

- 3.4 This subprogram consists of: (i) comprehensive diagnosis of the sector's current situation and evaluation of future prospects; (ii) analysis of the Bolivian insurance market structure and a comparison with other countries; (iii) studies concerning the interrelation between the insurance market and the pensions sector, particularly in the field of life insurance, disability insurance, occupational accident and workers compensation insurance and life annuities; (iv) study of the interrelation between the insurance sector and the capital market; (v) consulting services on various technical aspects, in particular: (a) minimum capital, (b) guarantee funds, (c) solvency ratios, (d) establishment of legal technical reserves as provided by Law 1883/98 and Supreme Decree 5201/98, (e) investment limits and procedures for insurance companies, (f) consulting services to advise the IS on actuarial studies (preparation of new mortality tables for Bolivia), (g) preparation of inspection manuals and guidelines, (h) study on risk assessment and the creation of claims rate tables according to activity; (i) proposals for regulations with respect to penalties, policy registration and investments, and (j) reinsurance guidelines proposal.

Subprogram II: Audits of insurance institutions (US\$400,000)

- 3.5 This subprogram involves due diligence procedures and an initial specialized audit of 19 insurance companies in Bolivia to determine their capital position, economic-financial situation, profitability level, establishment of reserves and investments, and claims filed, among the most relevant issues. The audit would be conducted by international independent auditing firms, as a first step for the IS to grant permanent licenses to operate in the country as insurance companies.

Subprogram III: Training of IS staff (US\$100,000)

- 3.6 This subprogram consists of seminars, courses and internships for technical and professional staff in the three operational areas within the IS: Analysis and Development, Inspection and Oversight, and Legal. Internships for IS staff are based on contacts already formalized by the SPVS with the Insurance Superintendencies of Chile, Mexico, Colombia and Argentina.

Subprogram IV: Systems (US\$220,000)

- 3.7 This subprogram includes: (i) the procurement of computer equipment and the development of specific programs for this activity, to be integrated into the computer network and linked with other superintendencies and administrative agencies in the financial control system (SIREFI), as well as with the Office of the Deputy Minister for Financial Affairs and market operators; (ii) creation of updated sector databases, and ongoing update procedures; (iii) establishment of a risk monitoring center for insurance institutions; (iv) creation of an early warning system and procedures for IS internal monitoring and follow-up; (v) system for electronic dissemination and disclosure over the Internet (transparency), in addition to the insurance market report published twice a month by the IS.

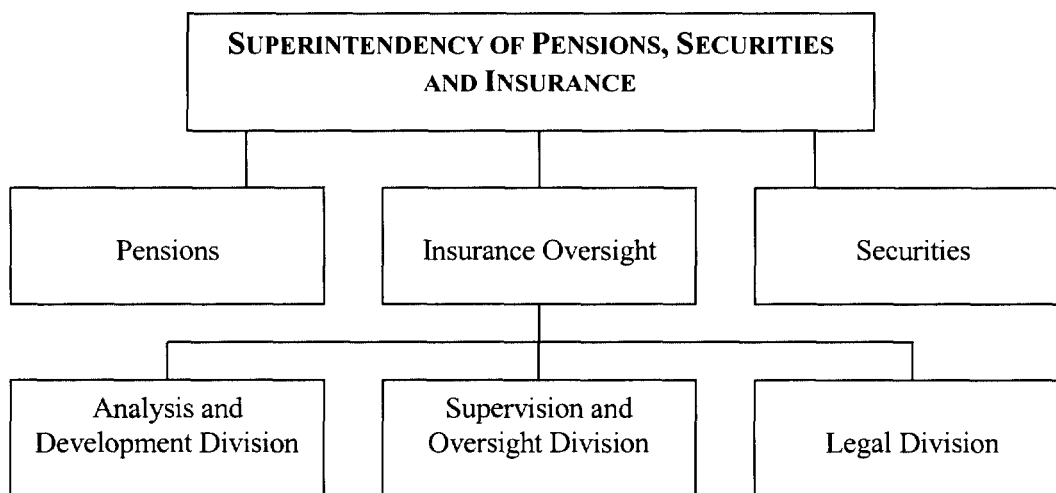
Coordination (US\$100,000)

- 3.8 The technical and administrative coordination of the program is expected to be carried out by a professional selected by competition, having at least five years' experience in project management, and whose appointment should have the Bank's nonobjection. He or she will perform these duties for 30 months, and will be responsible for the preparation of reports, schedules, and the selection and hiring of consultants, as well as the organization and supervision of administrative and support activities necessary to implement the project's four subprograms. His or her duties will be performed at IS headquarters.

C. Executing unit

- 3.9 The executing unit responsible for implementing the program will be the Office of Insurance Oversight (IS) under the Superintendency of Pensions, Securities and Insurance (SPVS), which, in turn, is part of the SIREFI (Law 1883, Art. 40).
- 3.10 The SPVS was created in June 1998 (Law 1864, Art. 35), as the result of a merger of the three then-separate superintendencies, one for each of these financial markets (pensions, securities and insurance). The three offices (pensions, securities and insurance) within the SPVS now oversee each of these activities. The SPVS is the public institution responsible for supervision and oversight of the insurance sector in the Republic of Bolivia.

- 3.11 SPVS funding comes from a contribution equivalent to 2% of the net premiums from general insurance, bond insurance, personal accident, health and prepaid insurance, and 1% of net premiums from statutory insurance, social and life insurance (Regulations of Supreme Decree 25201, Art. 23). The SPVS has the following structure, with the IS comprising three functional areas:



IV. COST AND FINANCING

- 4.1 The total cost of the project has been estimated at US\$1,400,000, of which the MIF will provide US\$840,000 (60%) and the remaining US\$560,000 (40%) will be covered by local counterpart funds, contributed by the Superintendency of Pensions, Securities and Insurance, from its annual revenues generated from the contributions mentioned in paragraph 3.11.
- 4.2 A summary of costs by component, activity and funding source is set forth below, with a detailed breakdown available in the project files.

Cost of components and proposed activities (in US\$)			
Activities	SPVS	MIF	Total
Subprogram I: Studies and Guidelines	180,000	300,000	480,000
Diagnostic procedures	50,000	70,000	120,000
Actuarial and risk studies	50,000	40,000	90,000
Preparation of manuals and guidelines	60,000	140,000	200,000
Proposal for rules and regulations	20,000	50,000	70,000
Subprogram II: Audits	180,000	220,000	400,000
Audit and due diligence with respect to 19 insurance firms in the country	180,000	220,000	400,000
Subprogram III: Training and Internships	40,000	60,000	100,000
Courses and Seminars	20,000	40,000	60,000
Internships	20,000	20,000	40,000
Subprogram IV: Systems	60,000	160,000	220,000
Hardware and software	30,000	90,000	120,000
Preparation of database		20,000	20,000
Creation of Risks Center		30,000	30,000
Follow-up procedures	15,000	10,000	25,000
Early alert system	15,000	10,000	25,000
Program coordination	50,000	50,000	100,000
Contingencies	50,000	50,000	100,000
Total	560,000	840,000	1,400,000
Percentages	40%	60%	100%

- 4.3 The itemized description and schedule for each of these activities is to be included in the program's action plan to be presented by the executing unit to the Bank for approval, as a condition precedent to the first disbursement of funds.
- 4.4 The procurement of goods and services and the submission of audited statements will be in accordance with Bank policies and rules. A revolving fund will be set up with an amount equivalent to up to 10% of total funding.

V. RATIONALE AND RISKS

- 5.1 The proposed project is consistent with the government's development strategy, which focuses on a comprehensive long-term macroeconomic program designed to promote Bolivia's economic competitiveness by strengthening the various financial markets, including the insurance market, which is currently the least developed in the country.
- 5.2 The project also supports the Bank's strategy in Bolivia, particularly in two strategic areas identified in the country paper: supporting modernization of the State

and greater economic growth. This strategy is realized by, among other actions, the institutional strengthening of agencies that regulate and oversee financial markets, which is in line with a process for consolidating the modernization of the role and organization of the State.

- 5.3 To that effect, and with funds from MIF Window 3, since 1997, the Bank has been working toward the institutional strengthening of other agencies in the financial sector (superintendencies and oversight offices) regulating the activities of banking, financial, insurance and pension institutions. The only remaining sector is insurance, undertaken by this project, which would round out the support for the regulation of activities relating to this financial sector of the country's economy.
- 5.4 The program's major risk involves procedural delays that may arise during its implementation. This risk would be mitigated by the SPVS's commitment to provide administrative support and to sufficiently strengthen the executing unit's operations.

VI. PERFORMANCE CRITERIA AND EVALUATION OF RESULTS

- 6.1 The project evaluation will be based on the criteria of quality and timely conclusion of the outputs expected from the various components' activities, as well as on macroeconomic terms through the project's impact on economic growth and private sector development in Bolivia. This aspect will be measured by taking into account the growth of the country's insurance operations, both in terms of annual premiums and the expansion of insurance services to new activities, sectors and regions of the country. A description of these results/outputs is included in the logical framework (Annex 1). The program's progress and the success of its outcome will be evaluated through semiannual and final reports to be submitted by the executing unit to the Bank.

VII. EXCEPTION TO POLICIES OR PROCEDURES

- 7.1 This project does not require any exception to the policies or procedures currently in effect for this type of operation.

VIII. SPECIAL CONTRACTUAL CONDITIONS

- 8.1 Prior to the first disbursement of funds, the executing agency shall submit, to the Bank's satisfaction: (i) evidence that the Bolivian government authorities have signed an agreement with SPVS for the latter to act as program executing agency (ii) the designation of a project coordinator; (iii) an action plan for the executing unit; (iv) evidence of the availability of the local counterpart resources and the

commitment to allocate such resources to the program; and (v) a tentative disbursement schedule for the project's total execution.

IX. COST RECOGNITION

- 9.1 Cost of up to US\$100,000 incurred by the Office of Insurance Oversight, after January 1, 2000, but prior to Donors Committee approval will be recognized against local counterpart funding.

X. ENVIRONMENTAL AND SOCIAL IMPACT

- 10.1 Since the program components will be executed in the financial sector, no environmental impact is anticipated. The profile was sent to CESI on December 7, 1999, for information and no comments thereon were received.

SIMPLIFIED LOGICAL FRAMEWORK
REFORM OF THE INSURANCE INDUSTRY FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

GENERAL OBJECTIVE

To strengthen the operations of the insurance market to promote private sector development

SPECIFIC OBJECTIVES

(i) implement the insurance law; (ii) prepare related rules and regulations; (iii) bring insurance companies in line with the new law;
(iv) strengthen oversight capacity of the IS

Program	Objectives	Activities	Indicators	Results/Outcomes
Development and implementation of insurance law	Supplement the legal framework to implement the new insurance law. Carry out the basic technical actuarial studies necessary to regulate the country's insurance sector	Hire consultants for: preparation of rules and regulations, inspection manuals and guidelines, risk assessment, and claims rate levels and tables	Increase in total per capita premiums Increase of the annual premium/GDP ratio Reduction of the claims/premium ratio Expansion of insurance activities to new regions and/or socioeconomic sectors and to new products or coverage offered	Rules, regulations, guidelines and tables developed and implemented (months)
Regulation of insurance companies	Adapt the country's insurance companies to the new legal provisions Grant operating licenses to the companies that comply with the regulations in effect	Hire professionals for due diligence and audits of 19 Bolivian insurance companies	Number of licenses granted to insurance companies	Work is concluded (due diligence and audits) (months)

program	Objectives	Activities	Indicators	Results/Out
g of IS staff	Strengthen the IS's operational oversight capacity	Conduct courses, seminars and internships for IS technical staff in Latin American countries	Number of officials trained Person/days of training for IS staff Number of internships developed	Approximately 40 professionals trained (18 months)
	Strengthen capacity for insurance company oversight Transparency of the insurance business in the country	Procurement of hardware and software for the IS	Availability of real-time information on the insurance industry Risk Center in operation, with real-time information	Up-to-date computer systems and technology supplied with the new equipment (18 months)
on	Subprogram management Preparation of interim and final reports required by the program	Project technical management and preparation of reports and schedules	Preparation of technical reports on time and to standard Execution of activities according to the schedule	Successful execution and completion of tasks and effective implementation of the program (30 months)

PROPOSED RESOLUTION

BOLIVIA. PROGRAM FOR THE INSTITUTIONAL STRENGTHENING OF THE OFFICE OF INSURANCE OVERSIGHT

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Republic of Bolivia and to adopt such other measures as may be pertinent for the execution of the plan of operations incorporated in the donors memorandum referred to in Document MIF/AT- _____ with respect to a technical cooperation for the institutional strengthening of the Office of Insurance Oversight.
2. That up to the amount of US\$840,000 is authorized for the purpose of this resolution, chargeable to the Technical Cooperation Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.