

T

The Potential Impact of Thailand-United States Free Trade Agreement on Life Insurance Businesses in Thailand

การคาดการณ์ผลกระทบจากข้อตกลงการค้าเสรี ประเทศไทย-สหรัฐอเมริกา ด้านธุรกิจประกันชีวิต ในประเทศไทย

· **ดร.สมชาย ชาญทิริญ**

· รองผู้อำนวยการสำนักวิจัยเศรษฐกิจอุตสาหกรรม

· สำนักงานเศรษฐกิจอุตสาหกรรม กระทรวงอุตสาหกรรม

· E-mail: somchai@oie.go.th

· **ชุตินันท์ รัตนสุนทร**

· นักวิเคราะห์ด้านการเงิน บริษัทไทยประกันชีวิต

· E-mail: nongchuti@hotmail.com

บทคัดย่อ

การศึกษานี้มีวัตถุประสงค์หลักเพื่อวิเคราะห์ผลกระทบของการคาดการณ์ข้อตกลงการค้าเสรีประเทศไทยและสหรัฐอเมริกาต่อด้านธุรกิจประกันชีวิต และการตอบสนองต่อเหตุการณ์ดังกล่าว โดยใช้แนวคิดโครงสร้างตลาด พฤติกรรมและผลประโยชน์ ซึ่งพบว่าธุรกิจประกันชีวิตในประเทศไทยมีแนวโน้มเป็นตลาดโครงสร้างผู้ขายน้อยราย ซึ่งส่วนแบ่งตลาดขนาดใหญ่อยู่ในมือของบริษัทขนาดใหญ่บางบริษัท ยิ่งไปกว่านั้นการศึกษายังพบว่าอุตสาหกรรมนี้มีการแข่งขันทางด้านอื่นๆ ที่มีใช้ราคาสูงมาก อย่างไรก็ตามผลจากการศึกษาแสดงให้เห็นว่าแม้พบว่าบริษัทประกันชีวิตจะมีผลการดำเนินงานโดยรวมค่อนข้างเป็นที่น่าพึงพอใจ แต่ระดับของความสามารถตอบสนองความต้องการของลูกค้ายังอยู่ในระดับที่ไม่น่าพอใจมาก ซึ่งอาจเนื่องมาจากข้อเท็จจริงที่ว่าบริษัทประกันชีวิตไทยไม่ให้ความสำคัญต่อปัจจัยทางการให้บริการมากนัก สำหรับด้านผลประโยชน์ทางธุรกิจ จากอัตราส่วนทางการเงินแสดงให้เห็นว่าธุรกิจประกันชีวิตมีผลตอบแทนในอัตราที่ค่อนข้างสูง ภายหลัง

จากมีข้อตกลงการค้าเสรีประเทศไทย และสหรัฐอเมริกาเกิดขึ้น คาดว่าจะมีธุรกิจใหม่เข้าสู่ตลาดมากขึ้น ซึ่งอาจจะส่งผลกระทบต่อตลาดของส่วนแบ่งตลาดสำหรับผู้ผูกขาดรายเดิมทั้งหมด และอัตราผลตอบแทนต่อสินทรัพย์รวม รวมทั้งอัตราผลตอบแทนจากการลงทุนในธุรกิจนี้ นอกจากนี้เพื่อตอบสนองต่อการเปลี่ยนแปลงสภาพแวดล้อมทางธุรกิจอันเป็นผลมาจากการมีข้อตกลงการค้าเสรีซึ่งก่อให้เกิดการแข่งขันอย่างรุนแรง ผู้ผูกขาดรายเดิมจะถูกผลักดันให้หาแหล่งเงินทุนใหม่เพื่อขยายธุรกิจให้กว้างขวางมากขึ้น เพื่อรักษาส่งส่วนแบ่งตลาดไว้ การร่วมทุนกับหุ้นส่วนเชิงยุทธศาสตร์จะเป็นกลยุทธ์ที่ดีที่สุดกลยุทธ์หนึ่งสำหรับบริษัทไทย นอกเหนือการปรับปรุงการบริการ และการพัฒนาคุณภาพสินค้า

คำสำคัญ: ข้อตกลงการค้าเสรี ธุรกิจประกันชีวิต โครงสร้างตลาด พฤติกรรม และผลประกอบการ

Abstract

The principal objectives of this paper are to analyze the potential impact of Thailand and the United States Free Trade Agreement on life insurance businesses and how the businesses could respond to the situation. By employing the concept of Structure-Conduct-Performance, it has been found that the life insurance business in Thailand is likely to be an oligopoly-structured market with a large market share in the hands of a few large firms. Moreover, the study also found that the competition in the industry will tend to be non-price competition. The results also indicate that although domestic life insurance companies have an impressive overall competition performance, they cannot respond to the needs of their consumers very well. This could be because Thai life insurance firms have failed to place enough importance and attention on some competitive factors. With regard to business performance, the financial ratios show that the performance of life insurance businesses is relatively high. Prior to the Thai-US FTA, the number of new entrants is expected to increase in the market. Consequently, a decrease in market share for all incumbents and a decline in ROI and ROA will be observed in this business. To respond to the change in the business environment as a result of the FTA generating fiercer competition, the incumbents will be forced to acquire new capital for expanding their business range in order to maintain their market share. Joint ventures with strategic partners could be one of the best strategies for Thai firms, as well as improving their services and product quality.

Keywords: FTA, Life Insurance Business, Structure-Conduct-Performance

Introduction

Following the financial crisis in 1997, the insurance business in Thailand recovered from negative growth in 1997-1998 to having an impressive average growth rate of nearly 15% per annum during the new millennium. However, the life insurance business in particular has shown continuous growth and greater average growth than that of the overall insurance business. During the past half decade, the growth rate of the life insurance business was 17.8%. Recognizing it as a major business in the country, and contributing a great deal to the social safety-net for people, the government has launched a series of policies in order to provide support for this business, especially in deregulation and providing clearer policy guidance for helping them to unleash their full business potential, and, ultimately, to provide an efficient service to customers. Although currently there is much evidence demonstrating the existence of development in this business in this country, it is still relatively far behind the leading pack of multinational corporations in the global business rink.

Since the free trade agreement between Thailand and the US has been put on hold due to a political accident on September 2006, it is believed that after the political situation in Thailand gets back on a democratic track, this Thai-US trade pact will definitely come into

the limelight again, and will once more become the center of attention of many stakeholders. Under the draft agreement, the liberalization of the life insurance business is one of the major requirements from the US side. At first glance, if the requests of the US in the draft for inclusion of this business in the agreement were granted, Thailand will need to draft new regulations to allow foreign businesses and companies to access and conduct this business more freely in the country. There is no doubt that the life insurance market in Thailand will be a killing field for many multinational companies, consequently Thai life insurance companies will be caught in the middle in the battle of Goliaths. Taking into consideration the whole picture, it seems that having an FTA with a major trading partner, such as US in particular, is unavoidable if we don't want to be left behind in the global trend of trade liberalization between international communities. Even more importantly, it also makes economic sense in all aspects. Thinking about abolishing many trade barriers and establishing many trade facilities between the two parties under this trade pact is more than enough reason for Thailand to jump into concluding the FTA. However, on the other side there are potentially adverse effects of the Thai-US trade pact on domestic businesses or industries, which could be exposed to precarious risk of competition from their US

counterparts, if we are not really ready, especially in some areas such as the financial service business like the life insurance business.

In this circumstance, having a clearer overall picture of this business in Thailand and a better view of a coming Thai-US Free Trade Agreement and its potential impact on the life insurance business in Thailand will help to alert Thai businesses to be aware of a structure change in the business environment, which could result in a change in their competitive edge in the market. Moreover, it also provides clues for the government agencies to be able to establish appropriate and efficient policies and regulations in order to assist the domestic life insurance firms flex their muscles and to be resilient in a more competitive business environment when the Free Trade Agreement comes into force.

Literature Review

Many efforts recorded in past studies have contributed to the study of the life insurance business in Thailand, such as Kuerkul Tongpheusa (1983: 3) and Vanalee Chanaram (1996: 11). Their research focused on analysis of the market structure and the role of insurance companies, as well as profitability potential of this business in Thailand. Their studies confirmed the life insurance business in the country as an

oligopoly market type. To investigate the structure of the insurance business in Thailand, Kuerkul Tongpheusa (1983: 64-69) employed the concentration index to measure the concentration of market share of this business and confirmed the seemingly high concentration in this business. On the other hand, Vanalee Chanaram (1996: 11) identified that marketing factors were crucial in determining the competition structure and influencing the profitability of the business. Prasat Namsomboon (1997: 6-7) analyzed the structure, factors affecting its operating cost, and found that there was no evidence of economies of scale in the life insurance business in Thailand. The study also showed that the major source of funds is liabilities, while the major use of funds during the period of 1990-1994 was investment assets. The study also showed that net written premiums and benefit payments are the major income and expense of the business, respectively. In examining the competitiveness and financial strength of the life insurance business in Thailand, Sukalaya Chatngamwicht (1997: 26-77) found that the larger companies are likely to have stronger potential for competitiveness than the small companies, as well as a stronger financial status in aspects of liquidity, efficiency and profitability. However, the larger companies seem to be

exposed to riskier operating capital derived from liabilities. He also suggested that the government should help to promote competitive enhancement in the life insurance business before trade liberalization takes place.

To analyze the impacts of liberalization of trade and services on insurance businesses, Chavalit Chutikajons (1997: 4) pointed out that trade and service liberalization relating to the insurance business will create fiercer competition in the domestic market and there will be more new entrants in the business. This will lead to higher competition in management costs, in staff, agents and brokers. The government needs to provide a helping hand to those small and weak companies in the market to be resilient in preparation for liberalization. As far as the government roles are concerned, Chanin Meebhokee (2005: 7-26) suggested that the government needs to urgently restructure all relative regulations concerning this business in order to facilitate domestic companies to unleash their business potential and help them to be able to take advantage of the free trade agreements in the most effective way.

Building on past studies, this paper will provide, for the first time since the expansion of the knowledge frontier, of possible impacts of Thai-US FTA on the life insurance industry in Thailand as seen by people who are in this

business in Thailand. It is also the first time that views on the life insurance business environment in Thailand have been expressed based on the possibility of an FTA. The results of this study will be representative of the whole industry, in order to facilitate the design of appropriate strategies in FTA negotiation with the US by the concerned authorities for the benefit of the industry as a whole.

Research Methodology

This paper will employ the conceptual framework of the Structure-Conduct-Performance (S-C-P) approach to analyze the potential impact of the Thai-US FTA on the life insurance business in Thailand. The S-C-P approach has long been used to investigate the impact of a structural change on a firm's conduct and performance in various areas, such as by Apakorn Panlerd (2003: 15-21) and Choi and Weiss (2005: 15). In the light of the S-C-P analysis, we hypothesize that an emergence of trade and service liberalization under the Thai-US FTA would create a new environment in this business. A more competitive business climate would be expected, since under the Free Trade Agreement both parties are obliged to abolish trade and service barriers relative to each other. Moreover, regulations in both countries will be restructured and trade

facilitation will be established in order to ensure better access into each other's market. The external threats resulting from trade liberalization will force domestic businesses to restructure their business in terms of operational strategies, pricing, product and service improvement for their survival. In the end, we foresee that a change in business conduct is expected to cause a change in the companies' performance.

A new business environment, which is expected to cause a change in market structure, conduct and performance of the firms, will be drawn by mutual agreement during the negotiation process, similar to what has been done in other FTAs signed by the US with other partners. Undoubtedly, Thai insurance firms will face new challenges and opportunities under this new Thai-US FTA environment. In this study, the changed environment in this business resulting from the Thai-US FTA will be spelled out in detail based on the five-force analysis, while the Concentration Ratio and the Herfindahl index will be used as major tools for analyzing the degree of competition. The SWOT analysis will also be employed to evaluate the companies' competitiveness under the FTA

and how it affects their performances. The financial ratio such as return on investment (ROI), return on assets (ROA), underwriting profit, loss ratio, and expense ratio will be used to measure the impact magnitude of the Thai-US FTA presence on performance of life insurance businesses in Thailand.

Data and information used in this study comes from two major sources. The secondary data will be collected from various sources such as the Ministry of Commerce, companies' annual reports for investigating the industry movement, business structure and its contribution to the life insurance business. On the other hand, primary data will be collected from in-depth interviews of management level personnel in local life insurance companies in the Bangkok area, as well as from government officials who are responsible for the life insurance business in the Department of Insurance*. Moreover, views of the Thai Life Association will also be collected. Besides demonstrating results from our analysis, the conclusion of this paper will summarize the suggestions made by various parties concerned on the possible impact of liberalization on this business in Thailand.

* Questionnaires were distributed to all 25 firms. Details of samples appear in Section 4.

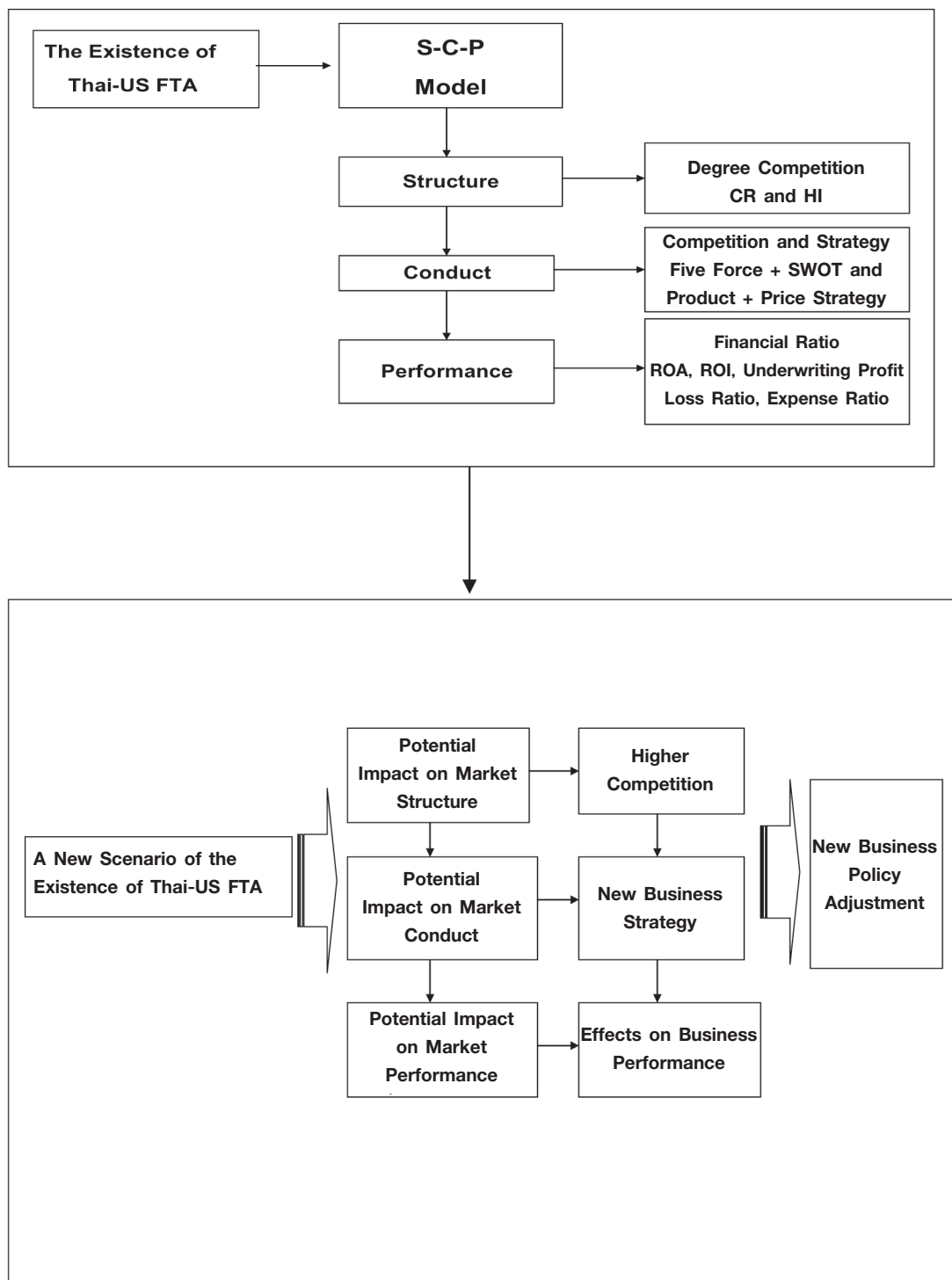


Figure 1 Conceptual Framework

Results of the Research

Our study shows that in 2006 there were 25 life insurance companies in the country, of which 13 are joint venture companies,* and only one is a branch of an international company, which is also the largest firm in the business. In terms of products and services, companies find it difficult to differentiate their insurance policy or life insurance products from others available in the market. Most of them offer similar coverage conditions and fundamental benefits to customers. It is our observation that they fully overlap each other. Moreover, due to a government regulation on the control of life insurance premiums, the insurance companies in Thailand cannot set their insurance premiums independently. As a result, non-price strategies such as product differentiation and services have become crucial business tools. In order to distinguish their products and services from those of others, innovative new products have been more frequently launched into the market in addition to segmentation of customers. Offering better services to customers and building market perception about the company's reputation are regularly used as major marketing tools. As far as a threat from new entrants is concerned, over the last

decade, entering into the market in the life insurance business has not been entirely simple, as there is a quite strict policy on giving out business establishment permission to new entrants. Kinds of barriers to entry include minimum amount of registered capital requirement, nationality of shareholders, and requirements on personnel skills. Five-year business plans must be submitted to the Ministry of Commerce, Department of Insurance in applying for an insurance license. However, there is a clear policy from the authorities that the government will limit the number of players in this business in order to improve the incumbents potential to expand their businesses and to operate in an economies of scale manner. This will ultimately help to reduce costs for the firms and in turn to reduce premium fees for people.

Industrial Competitiveness Analysis

By using data from net-written premiums between 1998 and 2006, the Concentration ratio and Herfindahl Index indicates that life insurance business in Thailand is likely to be a tight oligopoly-structured market, where more than 80% of the market share is in the hands of a few large firms. Around 47% of premium share belongs to the largest firm

* List of Joint Venture for these 13 life insurance companies is available upon the request from the authors.

in the business, AIA International Co., Ltd. The second and third largest firms are Thai Life Insurance Co. and Ayudhaya Allianz CP Co. in which market shares in 2006 were 14.13% and 10.59%, respectively. It is worth noting that the largest life insurance firm (AIA International Co., Ltd.) is triple the size of the second (Thai Life Insurance Co., Ltd.), in respect to direct premiums. Most of the large firms are joint ventures between multinational and Thai investors, except Thai Life Insurance Co., Ltd. of which Siam Commercial Bank owns the largest share, whereas AIA International Co., Ltd. is the only foreign branch operating their business in Thailand.

However, from Table 1 we can see that the degree of monopoly in this market has deteriorated overtime, even though it has gone down very slowly. The CR4 went down from 85% in 1998 to 72% in 2006. Moreover the

market share of the largest firm was around 42% in 2006, a reduction from 47% in 1998. This is because even though the government has no intention to license new entrants, it allows new entrants into the market through mergers with existing firms. The new entrants are generally large international firms. There is therefore no doubt that the gap of competitiveness between insurance businesses in Thailand has been diminishing over the last decade, as indicated by the concentration ratio and Herfindahl index. Pricing seems to be employed by all players over the periods, whereas AIA International Co. has acted as market leader all along. Until recently, the firms realized the deterioration of their returns when prices came down to marginal levels. New products and other non-pricing strategies are now much more welcome by companies.

Table 1 Concentration Ratio and Herfindahl Index

Year	Concentration Ratio			Herfindahl Index
	CR 1	CR 4	CR 8	
1998	47.29	85.94	97.23	0.295
1999	49.55	85.52	97.02	0.307
2000	49.66	85.20	96.66	0.303
2001	49.43	81.69	95.90	0.295
2002	50.63	80.36	93.29	0.299
2003	46.71	80.22	92.93	0.269
2004	45.08	78.40	93.34	0.295
2005	43.06	75.88	92.44	0.235
2006	41.83	72.65	91.19	0.220

Source: From Author's Calculation

Considering the result of CR as mentioned above, the existence of the Thai-US FTA should have an indifferent impact on those joint ventures and multination firms, since they have already invested in new technology and created close links with their headquarter offices, which would make them resilient toward freer trade in the service business. On the other hand, it would come as no surprise that small domestic life insurance firms will be hard hit by the FTA. Most expect that all new entrants coming into industry in Thailand post FTA will likely be multinational firms, who are well equipped with larger capital,

greater varieties of products and more advanced technology. Market share of those small domestic firms will deteriorate and be eroded by these new entrants.

Using the five-force model framework to analyze competition in the life insurance business in Thailand, the results in Table 2 demonstrate that the competitive level in this industry is between moderate to high, since its average weighted rate of competition is 3.41 and total average competition performance rating is 3.28. However, when we consider competitive factors by weighting for importance level and performance rating, we

found that the Thai insurance business is average at about 2.19, which is in the medium to low level. These figures demonstrate that there exists a large scope for Thai insurance business to improve their responsiveness to competitive factors in its industry.

Considering the competitive factors, Thai life insurance firms have a low competitiveness from the perspective of cost leadership. This may be due to an inadequacy in their capital investment, which may prevent them from developing their products to cover larger groups of customers. This results in their operation being outside the minimum

economies of scale. In terms of rivalry among existing firms, it is noticeable that the competition rate among Thai life insurance firms in this business is extremely high (weighted score at 2.95), in which the growth rate of this business is a crucial factor in determining the competition among firms in the business. They believe that if the economy is in a boom period, the market will expand; the pie in this business, therefore, is big enough for everyone to share. The argument will be the opposite if the economy is in a downturn. This factor receives quite a favorable rate of weighted score at 2.88.

Table 2 Industrial and Competitive Factor Analysis

Competitive Factors	Average of Importance Level Score	Average Performance Rating	Average Weighted Score
Threat of New Entrants			
1. Product Differentiation	3.92	3.33	2.45
2. Cost Leadership	3.33	3.00	1.92
3. Need More Capital	3.58	3.42	2.37
4. Expense for Changing the Product	3.08	3.00	1.28
Rivalry Among Existing Firms			
1 Competitors	4.08	3.83	2.95
2. Business Growth	4.17	3.67	2.88
3. Product Value	4.00	3.58	2.75
Threat of Substitute Products			
1.Bank	3.25	3.42	2.14
2.Investment Company	2.42	3.08	1.42
Bargaining Power of Buyers	3.42	3.33	2.26
Bargaining Power of Suppliers	2.25	2.47	1.65
Total	3.41	3.28	2.19

Source: Collected from Questionnaires and Calculated by the Author

Most management believes that in the insurance business there is no significant threat of substitute products, especially from the financial services offered by commercial banks. Saving accounts in commercial banks and promissory notes are not a real threat to the life insurance business. This is due to the

fact that they are different products. Saving with an insurance company will provide a slightly better return in monetary terms, with extra benefits, when the life-safety of the insurer has been threatened, but in the meantime, buyers have to give up the liquidity in their funds. Moreover, most life insurance

firms are affiliated with the commercial banks, and can utilize the banks as one of their distribution channels. As for buyer bargaining power, the policyholders today are on average well educated and more selective than a decade ago. This could be both a threat and opportunity to the firms. This will be a challenge to firms to improve their marketing strategies to attract customers. However, from our findings most believed that if the firms can segment their customers well and provide a customized product to the right people, it could generate a great deal of profitability, as well as improve their competitiveness in the business in the long term.

As for the bargaining power of suppliers, on the other hand, life insurance firms do place less importance on their agencies (weighted score at 1.65). This is because presently many innovative sale channels have opened to help them reach their customers, more than in the past. They are, for instance, commercial banks, personal direct sales and sales representatives. Hence, this helps them to restrain the bargaining power of their sale agents.

As far as the analysis of companies' conduct is concerned, it is perceived by the incumbents that the business environment will become more competitive, since major players will be coming into the market when

the FTA is established. This phenomenon will definitely increase the consumers' bargaining power in the market. In order to respond to the existence of FTA, the domestic life insurance companies will give the highest importance to product differentiation and business expansion in which more capital will be acquired, especially from foreign counterparts. Expertise and the company's reputation are two additional major weaknesses of domestic life insurance firms relative to foreign firms. Considering these weaknesses, it is believed mergers or business joint ventures with strategic foreign partners will help to improve the domestic firms' competitiveness, and help them to enhance their competitiveness in a more liberalized market environment. However, the incumbents believe that they have advantages over those from abroad in marketing and business knowledge in doing this business in Thailand. This is because, in doing this business in Thailand, companies need to thoroughly understand the nature of their customers and the culture. Moreover, current regulations which are considered as a major barrier to entry will be expected not to change much in post FTA.

As for external factors, firms believe that this business still has considerable opportunity to grow, since the market interest rate in the country has remained low over the past

5 years, and is expected to remain at a low rate in the short and medium term. This could make a life insurance policy a more attractive saving alternative for people. Although, lately, life insurance has received more positive public awareness and has increased overtime due to widespread advertisement and information received by customers, the bad

impression and attitude over this business still haunts consumers' perception. However, even though strict policies and regulation of this business will provide protection for domestic firms from foreign company competition, on the other hand it creates a hurdle for domestic firms from expanding their business.

Table 3 The Impact on Market Structure: Internal and External Factors Analysis

Factors	Average of Importance Level Score	Average Performance Rating	Average Weighted Score
Strength			
1.Know-how	4.42	3.58	2.97
2.Multiple Branches	3.92	3.42	2.51
3. Company Stability	4.75	3.92	3.48
4.Insurance Regulations	4.08	4.00	3.05
Weakness			
1. Capital Investment	4.58	3.83	3.28
2.Brand Reputation	4.17	4.08	3.15
3.Expertise Limitation	4.25	3.5	2.8
4.Lack of R&D	3.83	2.92	2.06
Opportunity			
1. Lower Bank Interest	4.5	3.42	2.86
2.Hazardous Situation	3.3	3.08	1.91
Threat			
1.Low Public Attitude	4.08	3.5	2.65
2.Insurance Regulation	4.08	4	3.05
The Total of Internal and External Factors	4.16	3.60	2.81

Source: Questionnaires and Calculated by the Author

During 1998-2004, as the latest data available, the study found that the Thai life insurance business has a return on investment ratio (ROI) of 6.10%, whereas the average return on asset (ROA) was 1.69%, and the average underwriting profit was 7.36%. However, since the average underwriting profit is 7.36%, while the average of loss ratio is 36.27%, and the expense ratio is 12.05%, this indicates that most of the life insurance business revenues originate from the return on its investment.

Views on the Impact of FTA

As far as the potential impact of the Thai-US FTA on the life insurance business in Thailand is concerned, the study was conducted via questionnaire and in-dept interviews. The survey consisted of a questionnaire (interview form) given to 25 life insurance companies, including the Department of Insurance and Life Insurance Association of Thailand. However, only 11 insurance companies (out of 25), and Department of Insurance and Life Insurance Association of Thailand responded. Most of the interviewees were executive business administrators of the company, who had had approximately 10-20 years experience in the life insurance business.

Concerning the existence of Thai-US FTA, the results showed that most life insurance firms have realized the possible existence of a Thai-US FTA and its potential effect relating to the insurance business. Moreover, around 30% of Thai life insurance firms have followed the movement of the United States Act or regulations regarding the life insurance business for more than 15 years and are also aware of the potential impact of FTA on the life insurance business in Thailand. Most domestic firms seem to agree that under FTA, more players will be entering the market. The number of new players in the market would be less than 10 firms, but they are likely to be large firms with multinational operations. Under the more liberalized business environment, 92.5% of the existing life insurance firms in Thailand expected that their market shares in the country will fall by 20%. In order to maintain their market shares, firms will have to acquire more capital to expand their business, and focus on product customization strategies. Price wars could be expected and unavoidable, especially when the new entrants start penetrating into the market.

Post the establishment of Thai-US FTA, fiercer competition in this business is likely, and possibly unavoidable. Most local firms believe that this business in Thailand is

unique. In order to gain more market share, firms have to earn the customers' trust, and to do so need to profoundly understand the culture of people. Local firms believe that they can strongly maintain a competitive edge over the new comers from abroad. The invasion of foreign investment could cause their market share to decline by less than 10%. Hence, in order to hold their customers, businesses need to expand their investment and business operation to reach the minimum economies of scale point, and half of their capital used will be domestic funds. Less than 50% of our samples believed that Rate of Investment (ROI) and Return on Assets (ROA) would decline; on the other hand, one third of the sample thought otherwise. However, on

average returns on assets would decline by less than 10%. This may be due to numerous expansions of investment, while the premium fee will decline around 10% as a result of fierce competition in the business. Surprisingly, from our findings the impact of a Thai-US FTA seems to have a much lower impact on life insurance businesses in the country than has been expected. This may be because most firms believe that the key to success of this business relies very much on how much business they can do to accommodate the culture of people with regard to life insurance, as well as how well established and efficient their marketing network, rather than other conventional marketing strategies.

Table 4 Impact of FTA on Firms' Performance

Items	Post FTA (Changing)		
	Decrease	Likely the Same	Increase
Market Share	92.3	-	7.7
ROA	46.2	23.1	30.8
ROI	46.2	23.1	30.8
Price	84.6	-	15.4
Capital investment	23.1	23.1	53.8

Source: Calculated by the Author

More than 90% of existing firms believe that the Thai-US Free Trade Agreement will make it easy for new firms to enter the market; it is however expected that there would be less than 10 new entrants. Most firms would rather employ a greater number of non-pricing strategies in post FTA. It is expected that there will be more innovative and product differentiation tailor-made to suite each segment of the market. The study however confirms that price strategy still remains significant to all players, in spite of an increase in favor of non-pricing strategies. The market structure of this business may become more oligopoly-type than previous to the Thai-US FTA, since existing firms will seek for strategic foreign partners in order to overcome the difficulty of capital acquisition. Price cutting would become a common strategy in short term after FTA is put into force, whereas non-pricing strategies will dominate in a later stage after prices of all players are reduced to the marginal level. It seems to be agreed that the ability to add value to their products will be a crucial factor for their success in the long term.

Conclusion

The implementation of Thai-US FTA would have a great impact on local life insurance companies in Thailand. Much stronger competition in this industry, especially from new comers, is expected, and it would

result in a decline of insurance premiums by around 10%. Returns on assets and investment are believed likely to fall by as much as 10%. With greater innovative knowledge, technology and larger capital, 93% of local executives believe that new comers would squeeze themselves into the market and cause more than 10% of incumbents to fail. Joint ventures and mergers with multinational corporations could be the favorite non-pricing strategy among local insurance companies.

Based on our interviews, all executives believe that Thai insurance companies need time to prepare themselves to be resilient in doing business in a more liberalized environment. Hence, it may be beneficial to local life insurance companies if the government can include special and differential (S&D) clauses in favor of Thai companies in the agreement. This could give the government the ability to protect local firms from competition of multinational corporations for at least the first few years of the FTA implementation. Executives have confidence that local firms will tend to use more non-pricing strategies to maintain their competitive edge over the new comers from abroad, especially the tools involving culture and local customs. At the same time, they realize the need for human resource development regarding the new financial innovations and

to improve their ability in doing business in a boundless business frontier environment, such as multi-languages and ICT, and so on.

References

- กรมการประกันภัย. 2548. รายงานธุรกิจประกันภัย
ในประเทศไทย 2548. กรุงเทพมหานคร:
กรมการประกันภัย.
- _____. 2547. รายงานธุรกิจประกันภัย
ในประเทศไทย 2547. กรุงเทพมหานคร:
กรมการประกันภัย.
- _____. 2546. รายงานธุรกิจประกันภัย
ในประเทศไทย 2546. กรุงเทพมหานคร:
กรมการประกันภัย.
- _____. 2545. รายงานธุรกิจประกันภัย
ในประเทศไทย 2545. กรุงเทพมหานคร:
กรมการประกันภัย.
- _____. 2544. รายงานธุรกิจประกันภัย
ในประเทศไทย 2544. กรุงเทพมหานคร:
กรมการประกันภัย.
- _____. 2543. รายงานธุรกิจประกันภัย
ในประเทศไทย 2543. กรุงเทพมหานคร:
กรมการประกันภัย.
- _____. 2542. รายงานธุรกิจประกันภัย
ในประเทศไทย 2542. กรุงเทพมหานคร:
กรมการประกันภัย.
- _____. 2541. รายงานธุรกิจประกันภัย
ในประเทศไทย 2541. กรุงเทพมหานคร:
กรมการประกันภัย.
- _____. 2540. รายงานธุรกิจประกันภัย
ในประเทศไทย 2540. กรุงเทพมหานคร:
กรมการประกันภัย.

Apakorn Panlerd. 2003. "Market Structure
Conduct and Performance of Non-Life
Insurance Business before and after of
the Economics Crisis 1997." Master's
Thesis, Faculty of Economics, Kasetsart
University.

Chanin Meebhokee. 2005. **Analyzing the
Impact from the Free Trade Area Policy
to the Insurance Business.** Bangkok:
Thammasat University.

Chavalit Chutikajons. 1997. "The Research of
Liberalization of Trade in Services: Impact
of Non-Life Insurance Business." Master's
Thesis, Faculty of Economics, Ramkhamhaeng
University.

Choi, Byeongyoun Paul, and Weiss, Marry A.
2005. "An Empirical Investigation of
Market Structure, Efficiency and
Performance in Property-Liability
Insurance." **The Journal of Risk and
Insurance** 72, 4: 15.

Kuerkul Tongpheusa. 1983. "Analyses the
Market Structure and the Role of
Insurance Insurance Company in
Thailand." Master's Thesis, Faculty of
Economics, Thammasat University.

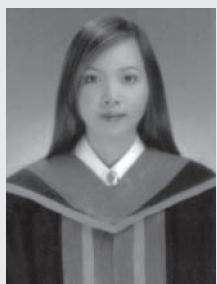
Kunchit Suknak. 2002. "The Market Structure
and Conduct of Private Health Insurance
Business." Master's Thesis, Faculty of
Economics, Thammasat University.

Office of The United States Trade Representative.
2006, November 20. **Free Trade**

- Agreement United States and Singapore** [On-line]. Available: <http://www.ustr.gov>
- Pakpajong Wattanasin, and Pasu Decharin. 1999. **Strategic Management and Business Policy**. Bangkok: Chulalongkorn University Press.
- Pattayanee Katchapakeerin. 2003. "A Study of Market Structure in Thailand and Consumer Behavior in Bangkok Metropolis of Life Insurance Business." Master's Thesis, Faculty of Economics, Kasetsart University.
- Prasat Namsomboon. 1997. "An Analysis of Structure and Operational Efficiency of Life Insurance Business in Thailand." Master's Thesis, Faculty of Economics, Ramkhamhaeng University.
- Salvatore, Dominick. 2004. **Managerial economics In a Global Economy**. 5th ed. Mason, OH: Thomson/South-Western.
- Sukulaya Chatngamwichit. 1997. "Examine the Competitiveness and Financial Status of Life Insurance Companies in Thailand." Master's Thesis, Faculty of Economics, Kasetsart University.
- Thailand Development Research Institute. 2003. **A Study on the Impacts of Thailand-U.S Free Trade Agreement**. Bangkok: Thailand Development Research Institute.
- Vanalee Chanaram. 1996. **Study the Possibility to Establish Life Insurance Business Companies in Thailand: Research Report**. Bangkok: Manager Information.



Dr. Somchai Harnhirun obtained his Ph.D. in Economics from Concordia University, Montreal, Canada. He is now serving the government at the Office of Industrial Economics, Ministry of Industry, as the Deputy Director General of the Industrial Economics Information Center. He also acts as the Director of the Center for Industrial Economics Research of the Office of Industrial Economics. His current researches include “Measuring Economic Production in the Steel Industry in Thailand” and “A Change of Trade Pattern between Thailand-India Prior and Post FTA.”



Miss Chutinun Rattanasoonthorn received her Bachelor’s Degree in Humanities from the University of the Thai Chamber of Commerce, in 1996. She also holds a Master’s Degree in International Business from the University of the Thai Chamber of Commerce, received in 2007. She is currently working as an underwriter for the Thai Life Insurance Company Limited, where she started her career in 1997.