

# TECHNICAL ASSISTANCE COMPLETION REPORT

Division: SEGF/ SERD

<b>TA No:</b> 4020 - CAM		<b>Amount Approved:</b> \$400,000.00	
<b>TA Name:</b> Improving Insurance Supervision		<b>Revised Amount:</b> -	
<b>Executing Agency:</b> Ministry of Economy and Finance	<b>Source of Funding:</b> TASF	<b>TA Amount Undisbursed:</b> US\$44,691.00	<b>TA Amount Utilized:</b> US\$355,309.00
<b>Date</b> Approval 06 Dec 2002      Signing 06 Mar 2003      Fielding of Consultants 27 May 2003		<b>Completion Date</b> Original 30 June 2004      Actual 31 December 2005	
		<b>Closing Date</b> Original 30 June 2004      Actual 30 April 2006	

## Description (Background and rationale):

Insurance is relatively new to Cambodia. Development of the insurance industry is strategically important to the development of Cambodia's financial sector as a whole as it will complement banking intermediation and contribute to long-term resource mobilization. With ADB assistance, the Government adopted a Financial Sector Blueprint<sup>1</sup> that identified key reform initiatives to help build, amongst others, a market-based insurance industry over 10 years. The Blueprint included reform initiatives needed for: (i) insurance supervision and regulatory framework; (ii) key insurance products under compulsory insurance; (iii) insurance industry organization; (iv) capacity building; and (v) insurance infrastructure. ADB also launched the Financial Sector Program Cluster Loan (FSPL)<sup>2</sup> in 2001 to help implement the proposed reforms identified in the Blueprint. These included the development of the legal and regulatory framework for insurance and the establishment of an insurance supervision unit within the Ministry of Economy and Finance (MEF). To implement these activities and build capacity within the insurance supervision unit and the other implementing agencies, technical support was required, hence this TA.

## Objectives and Scope:

The main objectives of the TA were to: (i) upgrade the legal and regulatory framework for insurance to international standards and best practices; (ii) build the capacity of the insurance supervision staff; and (iii) restructure the state-owned insurance company (Caminco). The TA had four components: (i) Based on a diagnostic review of the insurance sub-sector, formulate a medium-term development plan to upgrade the legal and regulatory framework for the insurance industry; (ii) develop (a) procedures for on-site inspection and off-site surveillance of the insurance companies, (b) insurance industry statistics, (c) implementing regulations of accounting standards consistent with the Association of Southeast Asian Nations (ASEAN) standards; (iii) draft a restructuring strategy and plan for the state-owned insurance and reinsurance companies and help MEF implement the plan; and (iv) provide training in insurance supervision and business for the relevant officials and private sector stakeholders.

## Evaluation of Inputs:

The TA commenced with a total estimated consultant input of 18 person-months to be served intermittently by an international expert (9 person-months) and a local consultant (9 person-months). The addition of specialized tasks required two more international consultants. At completion, the consultant team comprised an Insurance Expert (9 person months), a Corporate Restructuring Expert (2.66 person months), a Financial Modeling Expert (1 person month) and a domestic Financial Economist (17.5 person months), a total of 30.16 person months. The MEF rated the services of the Insurance Expert as partially satisfactory and the rest of the consultant team as highly satisfactory. Most of the counterpart staff of the Department of Financial Industry (DFI) – the insurance regulator and Caminco did not have the required skills to effectively implement key initiatives proposed by the Insurance Expert. Contract extension costs were within the original approved TA fund. Due to staff turnover, four different ADB project officers, including the undersigned, were involved in administering this TA. Other reasons for the implementation delay are noted under the Lessons Learned section of this report.

## Evaluation of Outputs:

Based on reports on hand, all the outputs expected of this TA were delivered. A report entitled "Developing the Insurance Market in Cambodia (February 2004) included a medium-term development plan to upgrade the legal and regulatory framework for the insurance industry. Work on revising the existing law to introduce a comprehensive insurance law and a sub-decree on life insurance is on-going. Procedures for on-site and off-site surveillance based on the core principles set by the International Association of Insurance Supervisors, were introduced with some classroom training. Templates for reporting including ASEAN based statistics were developed. Their application was a challenge since staff of the DFI did not have the necessary background in insurance and accounting. Full on-site inspection of the 3 existing insurance firms was only undertaken in the last quarter of 2005. A restructuring plan for the state-owned insurance and re-insurance companies was developed in December 2003. The restructuring plan was refined and adopted by the MEF in August 2005 and is aimed at divesting Government shares. Most key restructuring activities were completed in December 2005. They included a financial

<sup>1</sup> ADB.2001. *Cambodia: Financial Sector Blueprint for 2001-2010*. Manila.

<sup>2</sup> ADB.2001. *Report and recommendation of the President to the Board of Directors on a proposed Program Loan Cluster to the Kingdom of Cambodia for the Financial Sector Program*. Manila.

model that was developed and tested and staff trained on its application; the establishment of a 3-member Board audit committee with its terms of reference; the development of a three-year business plan that included the 2006 operating budget and its adoption by the Board of Caminco, a training plan for 2006 and a marketing strategy and plan. Training sessions were provided for staff of the MEF, DFI and the state-owned insurance and re-insurance companies on the legal framework, insurance business in general, regulatory procedures, current insurance issues, etc. While all the outputs were delivered, their application raised questions on the skills level of the staff at DFI and the effectiveness of training provided.

**Overall Assessment and Rating:**

TA design was considered ambitious in terms of the TA resources available; staff of the EA and IA lacked the skills and know-how; project officers kept changing which weakened overall supervision of the main consultant (Insurance Expert). There have been substantial progress in the work towards fulfilling the three main objectives of this TA and overall the TA is assessed as being partly successful.

**Major Lessons Learned:**

Insurance is still at its infancy stage in Cambodia but is growing in importance considering its supporting role to commercial activities and long-term resource mobilization. Currently the skills required to grow such an industry and the will to enforce the regulatory framework are lacking. A supportive comprehensive legal framework and a functional commercial court need to be in place to attract reputable investors to the industry. In hindsight, allocating the insurance regulatory function to the MEF and not the National Bank of Cambodia (with prior supervisory experience) was a mistake. The high turnover of ADB project officer(s) during implementation did not help the supervision aspect either. The progress made by this TA is noteworthy, but should be viewed as only a starting point.

**Recommendations and Follow-Up Actions:**

ADB has taken the lead in this area and is expected to maintain the momentum through the FSPL and its implementing ADTA. Divesting Government's interest in state-owned insurance companies has to be pursued to allow the MEF to perform its regulatory function equitably. TA 4656-CAM<sup>3</sup> has provision for an insurance regulator expert to help with capacity building at the DFI and a corporate restructuring expert to complete the restructuring of Caminco and the divestment of Government shares. Further support can be considered following the Blueprint update and the preparation of FSPL II.

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<sup>3</sup> ADB.2005. *Technical Assistance to the Kingdom of Cambodia for Financial Sector Program Implementation*. Manila.