

## Committee on Trade in Financial Services

### REPORT OF THE MEETING HELD ON 16 MAY 2003

#### Note by the Secretariat<sup>1</sup>

1. The Committee on Trade in Financial Services held a meeting on 16 May 2003. The agenda is contained in airgram WTO/AIR/2094.
  2. The Chairman noted his intention under "Other Business" to report on his consultations on the chairmanship of seminars, symposia, and briefing sessions, and to discuss the Committee's activities in the coming year.
  3. The Committee so agreed.
- A. APPOINTMENT OF THE NEW CHAIRPERSON
4. The Chairperson, Mr Syed Habib Ahmed (Pakistan) said that according to the rules of procedure for meetings of the Committee, the hand-over of the chairmanship should have taken place at the end of the last meeting. However, since the Chairman of the Council for Trade in Services had not yet finalized her consultations on the chairmanships of the subsidiary bodies by then, it was decided that the hand-over would take place at the beginning of the following meeting. Accordingly, he proposed that the Committee elect Mr. David Usher, from Canada, as Chairman of the Committee on Trade in Financial Services. Mr. David Usher was then elected by acclamation.
- B. ACCEPTANCE OF THE FIFTH PROTOCOL TO THE GENERAL AGREEMENT ON TRADE IN SERVICES EMBODYING THE RESULTS OF THE FINANCIAL SERVICES NEGOTIATIONS
5. The Chairman recalled that six WTO Members have yet to accept the Fifth Protocol. However, upon the requests submitted by Dominican Republic and Uruguay, the Council for Trade in Services decided at its last meeting to re-open the Fifth Protocol for these Members' accession, which should be completed shortly. He thanked both the Dominican Republic and Uruguay for such an important initiative. He then invited the four remaining Members who have yet to accept the Protocol – Brazil, Jamaica, Philippines, and Poland – to provide further information on the status of their domestic procedures.
  6. The representative of Poland informed the Committee that on 7 April 2003 the President of the Republic of Poland had ratified the Fifth Protocol. That meant that the domestic ratification procedure was completed. The formal request to reopen the Protocol would be communicated later that day.
  7. The representative of Brazil said that the ratification procedure was still in the final phase at the Brazilian Congress.

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<sup>1</sup> This document has been prepared under the Secretariat's own responsibility and without prejudice to the positions of Members and to their rights and obligations under the WTO.

8. The representative of the Philippines said that the Legislature was still considering the issue, but that the delay was only due to procedural matters.

9. Before closing the discussion on this item, the Chairman reminded delegations of the importance Members attach to the acceptance of the Fifth Protocol by all participants concerned, and encouraged those Members to accelerate their internal procedures for the acceptance of the Protocol.

10. The Committee took note of the statements made and decided to revert to this item at the next meeting.

#### C. TECHNICAL ISSUES

11. The Chairman recalled that following a request by the Committee, at the last meeting the IMF presented an annotated list of relevant Fund documents under the title "Financial Sector Stability, Reform Sequencing and Capital Flows" (Job(03)/52). The IMF intervention, together with the issues raised by Brazil at the previous meeting, generated an interesting debate about the scope of Members' obligations under the GATS regarding capital movements attached to specific commitments on certain financial services. It was clear from the debate that further consideration of this issue was warranted. The Committee decided to revert to this issue at this meeting.

12. The representative of Cuba said that, according to the evidence presented by the IMF, the industrialized countries were rather slow and cautious in deregulating their capital controls. This was clearly expressed in the annex to the Fund's paper. This experience could be a useful point of reference for developing countries, but just as elements to be borne in mind and not simply as implying the importation of prudential standards from the jurisdictions of developed countries. Regarding the liberalization of external capital flows, the third paragraph of the paper stated that a country did not need to wait for regulatory reform to be completed in order to liberalize capital flows. However, Cuba felt that regardless of the speed at which capital accounts were opened, macroeconomic stability was the key factor. Furthermore, the various channels of interaction throughout the financial intermediation process should also be borne in mind. National policy decisions in developing countries should be respected. The benefits to be derived from, as well as the levels of vulnerability resulting from, international financial integration would ultimately depend on the specific conditions in each country.

13. The representative of Thailand agreed with the statement by the IMF that domestic financial reform was very important. However, domestic reform is a process that needed to be constantly undertaken and frequently reviewed. Domestic reform had to keep pace with changes in the sector. She also agreed that capacity building was another aspect that governments had to pay attention to. Regarding external capital flows, she took note of the statement by the IMF that the liberalization of capital flows had in certain cases contributed to financial and real sector volatility. That statement reflected reality and Thailand agreed with it. On another note, she said that footnote 8 to Article XVI of the GATS – also referred to in the Fund communication – did not cover only financial services. Thailand wanted to think further about that issue, because capital flows were not only relevant for financial services, but also for other services.

14. In concluding, the Chairman said that those delegations that spoke found the Fund communication interesting. There was at least one delegation who wanted to think further about these issues. He suggested that the Committee take note of the statements and revert to this agenda item – Technical Issues – at its next meeting. Members were clearly able to raise any technical issue under this agenda item. In order to facilitate discussions, he suggested that if Members wanted in the future to raise specific issues under this agenda item, that they tried to inform the Secretariat or the Chairman in advance so that an annotation or sub-item could be added to the agenda. That would allow for a better preparation.

15. The Committee so agreed.

D. RECENT DEVELOPMENTS IN FINANCIAL SERVICES TRADE

16. The Chairman indicated that this agenda item contained two sub-items: e-finance; and recent developments in Turkey. Regarding the first sub-item – e-finance – he said that at the last meeting, delegations sought further clarifications and information concerning a submission by Hong Kong, China (S/FIN/W/25).

17. The representative of Hong Kong, China said that his delegation had prepared very detailed written responses to the questions raised by Members at the last meeting. Those responses were available to all Members and would be circulated as an addendum to the previous submission (i.e. as S/FIN/W/25/Add.1).

18. The representative of Switzerland presented a communication on e-finance (S/FIN/W/26). He said that at the international level, the Basel Committee on Banking Supervision had set up a working group to examine the issue of e-commerce (Electronic Banking Group). This working group had reached some conclusions, which were to be found in a report published in May 2001. The main conclusions were the following. The group recognised that e-banking was generally an extension of traditional banking. This was in line with the technological neutrality assumed under the GATS. Secondly, regarding the supervision of cross-border banking activities, the group stressed the need for an effective supervision by the home country regulator and a high degree of cooperation between supervisory authorities. If these two conditions were met, it was easier to limit the risk arising from cross-border banking.

19. Regarding the Swiss market, he said that in 1999 only about a third of the Swiss population was connected to the Internet. At the end of last year however, this figure had increased to over two thirds of the population. Surveys showed that younger people tended to favour the Internet as their preferred channel of communication with their bank, even if personal contact remained important for specific needs. The Swiss banks considered the provision of services through electronic means as a supplementary channel. Contrary to the experience in Hong Kong, China, there were no purely virtual banks in Switzerland. Additionally, electronic means was also a means for banks to reduce costs in payment transactions.

20. There was a general consensus that a bank needed the prior approval from the relevant supervisory authority in order to start its operations. However, the range of activities subject to approval varied from country to country. In Switzerland, the acceptance of deposits from the public on a commercial basis was considered as the basis for banking activities. The licence granted was a “universal licence” allowing the provision of all banking activities, throughout the country. In Switzerland, “electronic banking” was usually defined as the provision of banking services via electronic channels such as the Internet (Internet banking) or mobile telephones (m-banking). The Swiss approach made it convenient for foreign institutions to provide financial services to Switzerland, without any need to investigate whether or not each banking service can be provided electronically.

21. According to the Swiss Ordinance on Foreign Banks, a foreign bank must request approval from the supervisory authority if it employed persons in Switzerland who, on a permanent and commercial basis, in or from within Switzerland, a) entered into transactions, maintained customer accounts or legally bound the bank branch; and b) were active in a different manner, e.g., forwarding clients' orders to the foreign bank or representing the foreign bank for marketing or other purposes.

22. The Swiss legislation was rather liberal in this area. Suppliers who offered financial services in Switzerland through a commercial presence (mode 3) or out of Switzerland through a commercial

presence required a licence. Foreign providers who could only be reached in Switzerland via the Internet and who did not have a physical presence in the country did not require a licence from the Swiss supervisory authority. The supervisory authority also allowed advertising by foreign-based banks on the Internet or in the Swiss media, even when such advertising was deliberately targeted at Swiss clients. However, in order for the Swiss customer to be properly informed, the law prohibited foreign banks from misleading people about their origin, for example, by using an address in the country. The law wanted it to be clear for the Swiss customer as to whether a bank was established in Switzerland and thus duly supervised, or if it was established abroad.

23. There were no specific regulations in Switzerland governing the supervision of financial services offered electronically. The regulations were therefore technologically neutral. From the Swiss point of view, a bank supervised in Switzerland might supply services to clients abroad via the Internet. It did not need a specific licence nor did the intended provision of such services need to be notified to the supervisory authority. However, the supervisory authority expected that banks, securities dealers and investment fund management companies check whether the local supervisory authorities allowed such activities in their country before providing services or distributing products over the Internet to clients outside Switzerland.

24. The representative from the European Communities said that the Swiss paper provided a link with the work carried out by the Basel Committee on Banking Supervision, which was relevant for this Committee's activities. E-banking, as highlighted by the Swiss paper, was simply the continuation of traditional banking methods. These were the same services and activities supplied through electronic means. He also drew attention to the issues related to advertising and solicitation, which merited further thought by the Committee.

25. The representative from Indonesia said that one aspect affecting the operations of e-banking was the security of transactions and information. Issues such as the legality of transactions and digital signature were relevant in that regard. He wondered whether the Swiss representative could elaborate more on the legal framework governing e-banking transactions in Switzerland. E-banking also depended on the bank-customer relationship. In that regard, he said it would be interesting to have more information on the legal framework applicable with respect to money laundering, which in most cases was based on the "know your customer" principle.

26. The representative from Cuba asked whether Switzerland could provide further information regarding paragraph 9 of its communication, particularly with respect to the relationship between phone-banking and the work carried out in Basel. Additionally, she asked whether Switzerland could provide further information on the issue of sound and safe banking through electronic means.

27. The representative of Chinese Taipei said that e-banking had existed well before the advent of internet. E-banking was not a new financial product *per se*. It was a new type of transaction, a continuation of traditional banking services. From that perspective, as far as market access was concerned, e-banking did not seem to have much relevance. The provision of e-banking carried both advantages and problems. The major benefits lay in the reduction of costs, particularly on the corporate clients side. Another associated benefit was the increased transaction efficiency. E-banking had also an impact on the number of bank branches. That had implications for market access negotiations. E-banking also raised challenges, such as supervisory challenges, the risk of money laundering, hackers attacks, or operational risks within banks.

28. The representative from Uruguay said, with regard to paragraph 2 of the communication by Switzerland, that the concept of "technological neutrality" was not in the GATS. That was a legal interpretation by the Swiss delegation, but there was no agreement among Members on that issue.

29. The representative of Argentina said that what was important were the ways in which financial services were supplied rather than the concept of technological neutrality *per se*. Additionally, he raised the following questions:

- What had been the impact of e-banking on employment? Did he have any figures?
- What had been the experience with e-banking in countries with low banking penetration?
- What had been the impact of electronic transactions in terms of fraudulent practices or money laundering activities?

30. The representative of Japan said that both the communications from Hong Kong, China and Switzerland highlighted the important nexus between e-banking and cross-border activities. He also took note that technological neutrality applied to e-banking. The discussion in Basel had highlighted that issues raised by cross-border e-banking were the same as those raised by cross-border banking by traditional means. E-banking was therefore an extension of traditional banking, and financial regulators conducted regulation and supervision on the basis of the principle of technological neutrality. From that perspective, he wondered whether it was necessary at all to give attention to e-banking as a specific means of delivering services. Finally, he agreed that the protection of consumers was necessary for cross-border transactions.

31. The representative of the United States asked whether Switzerland's concept of technological neutrality would prohibit special regulations for e-banking. In the United States view, technological neutrality under the GATS applied to commitments rather than regulations as such. That meant that if a Member had a commitment under mode 1, the commitment held regardless the way in which the services was supplied (e.g. by phone or via the internet). It did not mean however that a country could not have non-discriminatory disclosure or registration requirements for providers using certain technologies. He also asked whether Switzerland had experienced any problems, given its very liberal approach, to allowing foreign banks to supply e-services.

32. The representative from the Dominican Republic requested further information on the reasons leading to the closing down of the virtual bank alluded to by the Swiss representative.

33. The representative from Australia asked whether there were any particular problems that had to be addressed by the Swiss supervisory authorities with regard to the cross-border provision of e-banking services. He also asked where the contract between the consumer and the foreign financial service provider was enforceable. Was it enforceable in Switzerland, in the foreign bank's home jurisdiction, or in both? Was there any evidence that the Swiss retail market had become more contestable as a result of e-banking?

34. The representative from the Philippines echoed the statements made by Argentina and Uruguay on technological neutrality. There was no reference to technological neutrality in the GATS, and such a concept had not really been assumed by the GATS. In any case, that was only Switzerland's interpretation. On another note, he asked whether there was any regulation on account transfers cross-border.

35. The representative from Malaysia said that the issues of accountability and consumer protection were of particular importance. He also supported the points raised by Argentina, Philippines and Uruguay on technological neutrality. There was no agreement among Members on the actual meaning of technological neutrality. The Malaysian delegation did not share Switzerland's views on that issue.

36. The representative from Switzerland gave some preliminary responses to the questions raised. On the relationship between commitments on mode 1 and 3, he said that Switzerland did not see e-banking as a way of circumventing the GATS modes. If e-banking is provided out of Switzerland and into another country, it would be a mode 1 transaction. It would certainly be a cross-border activity. It would however be possible that a Swiss bank established in another country provide e-services to residents in that country and those transactions would constitute mode 3 transactions. On technological neutrality, he said that it was a general issue in the GATS, and not specific to financial services. It would in fact be very difficult not to assume technological neutrality to assess the scope of commitments on certain sectors, such as telecommunications. Even though there was no precise reference to technological neutrality in the GATS, that was assumed by the Agreement. On the question posed by the United States, he said that Switzerland had not seen any need for particular regulations for e-banking. That did not mean however that there would not be a need in the future to do so. On the questions about the impact of e-banking, he said it was early to discuss that since the phenomenon was rather new. He was not aware of surveys of the impact of e-banking in developing countries. Regarding anti-money laundering rules, Switzerland had strict rules that applied to banking, including cross-border banking. He promised to provide further information at the next meeting.

37. The Chairman said that the discussion was very interesting. There was a wide range of issues raised, such as the regulation for consumer protection, accountability, and the link between e-banking and traditional banking. The point was made about virtual banks moving subsequently to establish bricks-and-mortar presence. The challenges posed by money laundering and other fraudulent activities was also mentioned. Technological neutrality was also raised in two senses: how it applied to domestic regulatory regimes and how it applied to the GATS. There was an interesting question on how the contracts between consumers and suppliers would be enforced, and in which jurisdiction. The Chairman encouraged other Members to make similar presentations. It would be interesting in that regard to examine developing countries' experiences and practices, and to pay more attention to e-insurance.

38. The Committee took note of the statements made, and decided to revert to the issue of e-finance at the next meeting.

39. The Chairman turned to the second sub-item under this agenda item, namely the presentation by Turkey on recent developments in its financial sector. The presentation would be delivered by Dr. Ahmet Akinci, from the Banking Regulatory Authority, and Dr. Ahmet Genc, from the Turkish Treasury.

40. The presentation by Mr Ahmet Akinci focused on the restructuring of the Turkish Banking Sector. Banking was supervised by the Banking Regulation and Supervision Agency, while insurance was supervised by a special unit at the Treasury Department. He started by characterizing the Turkish banking system in the pre-crisis period. Turkey introduced various regulatory reforms in the 1990s, opening up its banking sector. The number of banks increased between 1980 and 1999, going from 37 to 81. Due to the macroeconomic policies, banks accumulated large foreign exchange open positions. Prior to the crisis, in November 2000, banks had some 10 billion dollars in open positions, which created a major problem for the banking sector. Private banks became extremely vulnerable to foreign exchange risks because they were engaged in government financing. By 2001, government securities accounted for 35% of total assets. On the other hand, loans in the banking sector (as percentage of total assets) decreased from 50% in 1998 to 20% in 2001. That meant that the banking sector was not playing an important financial intermediation function. Summing up the pre-crisis conditions, he said that banks had serious liquidity problems; state-owned banks had over-night liabilities of \$14 billion, creating an upward pressure on interest rates; private banks held large open positions; asset quality was low; risk assessment and management systems were inadequate; and the system lacked good corporate governance. Regarding the operating environment, the macroeconomic

situation was very instable, the public sector was running high deficits, and there were systemic distortions created by state and weak banks.

41. He then turned to the two crises in November 2000 and February 2001. Turkey adopted a comprehensive disinflation program at the beginning of 2000. The main pillars of the program were tight fiscal and monetary policies, ambitious structural reforms and the use of a pre-determined exchange rate path as a nominal anchor. The monetary policy was conducted under a currency board type arrangement with liquidity expansion being strictly linked to foreign currency inflows. The disinflation program had a major impact on banks' balance sheets. First and foremost, with the initial sharp decline in market interest rates and the expectation of further falls in these rates, the banks also reduced deposit and lending rates. The banks also increased their exposure to fixed rate treasury securities during this period. On the other hand, the pre-announced exchange rate path and the real appreciation of the Turkish lira meant lower cost of funding for foreign currency liabilities. As a result, a number of banks borrowed in short-term foreign currency terms and lent in longer-term Turkish lira terms. This led to a sharp increase in maturity mismatch and foreign currency open position of the private banks. When the exchange rate system collapsed and the confidence in the disinflation programme was lost, Turkey faced two severe crises and the banking sector was severely affected. The government adopted a new program called "Transition to a Strong Economy". Restructuring of the banking sector constituted an important pillar of the program.

42. The total fiscal costs of the crises amounted to 30% of GDP. However, if state-owned banks are excluded from the calculation, then the figure became 17% of the GDP. In addition, private banks raised 2,4 billion dollars from their own sources in order to increase their capital base. The crises also provided opportunities for major restructuring of its banking system. A Banking System Restructuring Programme was adopted on 15 May 2001. The objective was to eliminate distortions in the financial sector and adopt regulations to promote an efficient, globally competitive and sound banking sector. The four main pillars of the programme were the restructuring of the state banks, the resolution of the intervened banks or SDIF banks; the strengthening of the private banks; and improving the regulatory and supervisory framework. Priority was given to the financial restructuring of the state banks, both financially and operationally. Their overnight liabilities, amounting to 14 billion dollars in March 2001, were eliminated, and their capital base was strengthened through the injection of 2,9 billions dollars. A joint board of directors was appointed in each of these banks to prepare them for privatization. As a result of these actions, the efficiency and productivity of state-owned banks were improved. As of December 2002, branches and personnel were reduced by 32% and 51%, respectively, compared to December 2000.

43. For the resolution of insolvent banks, three main alternatives existed: direct liquidation by repayment of all liabilities; liquidation by repayment of liabilities subject to deposit insurance system; and finally, sale after a financial and/or operational restructuring process. Concerned with the applicability of the said alternatives and their possible effects on the economy, the regulatory authority decided to follow the third option, that was, transferring the problem banks to the Savings and Deposit Insurance Fund (SDIF) and then resolving them under the auspices of the SDIF. With the utilization of this alternative, continuity of the system and macroeconomic balances were given the priority while bearing the costs imposed by the crises. Twenty banks had been taken over by the SDIF. Within two years, and after a process of mergers, transfers, sales or liquidation, the SDIF were only left with two banks as of the date of this presentation. In other words, in two years, the situation of 18 banks was resolved. The resolution process included both financial and operational restructuring. The financial restructuring actions included the elimination of over-night liabilities, the reduction of foreign exchange open positions, the auction of deposits to other banks, and the transfer of liabilities to other banks. The operation restructuring led to a significant reduction in the number of branches and personnel. The total costs of resolving the situation of intervened banks amounted to around 26 billion dollars.

44. The objectives pursued with the recapitalization scheme for private banks were the following: to ensure transparency and enhance confidence in the banking sector, to maximize capital contributions by banks' owners; to encourage mergers and acquisitions; to enable banks to start extending credit to the real sector; to facilitate corporate debt restructuring; and to restore market discipline. The recapitalization program proceeded in three phases: an assessment phase; the bank recapitalization phase; and, if needed, the recapitalization by the State. As a result of the three-stage audit, three banks were found to be capital-deficient.

45. In order to improve the regulatory and supervisory framework, new regulations were introduced on capital; risk management; credit and subsidiaries' limits and loan loss provisioning; and accounting and auditing standards. Memoranda of understanding were signed with various countries. The current agenda at the Banking Regulatory and Supervisory Agency included the rationalization of intermediation costs in the banking system; the establishment of financial holding companies; the leveling of the playing field in the sector; the establishment of secondary markets for distressed debt; compliance with the so-called Basel II Capital Accord; and the introduction of risk-based supervision.

46. Before turning to the presentation on the insurance sector in Turkey, the Chairman opened the floor for comments on the presentations just heard.

47. The representative of Thailand said that although the Thai banking crisis had a different origin, the solution was quite similar in terms of the reform introduced to state-owned banks and the regulatory framework. Thailand was not against financial services liberalization, but favored a cautious approach. She asked what over-night liabilities were and how the Turkish government managed to reduce them to zero in two years. She also asked what was the situation with respect to non-performing loans.

48. The representative of Indonesia raised the following questions: 1) Would restructuring of state-owned banks lead to privatization? 2) What was the outcome of the restructuring of private banks? and 3) was there a phase-out programme for the blanket guarantee.

49. The representative of Turkey (Mr. Akinci) said that over-night liabilities of state-owned banks were basically due to interbank borrowing over-night. In other words, state-owned banks borrowed in the interbank market to finance their assets. Those liabilities were eliminated by means of public sector securities. Those banks subsequently sold those securities and got liquidity. Non-performing loans were a problem for both state-owned and private banks. As part of the restructuring programme, state-owned banks would be privatized in the future. Regarding the recapitalization scheme, the process proved that banks did not need important amounts of capital. Only one bank needed capital, and the SDIF supported that bank with 200 million dollars. That support was provided through subordinated debt which could eventually be transformed into bank's shares. For the other banks, the funds required were raised by the shareholders of the banks. The Turkish government was aiming at removing the blanket guarantee shortly, once the markets had stabilized.

50. The representative of Australia asked for further information on the role of competition from foreign banks during this period.

51. The representative of the People's Republic of China asked whether foreign banks did something to prevent this crisis. She also asked how many foreign banks were already operating in the Turkish market.

52. The representative of Turkey (Mr Akinci) said that the share of foreign banks in Turkey was very low, 4 or 5% of total assets. That low participation was due to the situation in the global economy. In terms of legislation, there was no difference in the treatment provided to national and



foreign banks. Since mergers and acquisitions were promoted, that might represent an opportunity for all banks, including foreign banks. On the questions raised by China, he said that the most important contribution foreign banks could make was in terms of capital. Banks in Turkey lacked in general a strong capital base. During the crises, foreign banks were not very keen to provide traditional banking services, such as lending, and preferred to focus on serving a group of selected clients and providing finance for export activities. The legislation did not discriminate against foreign banks so it was their decision to focus on specific areas of business. The number of foreign banks went from 18 in 2000 to 15 in 2003.

53. The second part of the presentation by Turkey was delivered by Mr Ahmet Genc, Acting Deputy Director General of Insurance in the Turkish Treasury Department.

54. The representative of Turkey (Mr Genc) said that the insurance sector in his country was rather small, representing only 3% of the total financial assets. The Turkish legal framework for insurance was very dispersed. The main piece of legislation was the Insurance Supervision Law (7397). However, other pieces of legislation had also a bearing on the sector: the Turkish Commercial Code; the Motorway Traffic Law (2918); the Civil Aviation Law; the Law Regulating Bankruptcy and Execution; the Law on Private Pension; and the Decree Law on Compulsory Earthquake Insurance. In addition, there were around 15 regulations governing different aspects of the insurance activity, such as life insurance; insurance brokers; insurance agents; loss adjusters; and independent auditors. Also, tariffs were also regulated for compulsory motor third party liability; compulsory dangerous materials liability; and compulsory earthquake. There were also separate general conditions for 33 insurance areas.

55. There were 55 insurance companies in the market (2 state-owned), as well as a Catastrophe Insurance Pool, which was established in 2000 and had currently 2,000,000 policies. This was probably the biggest catastrophe pool in the world. The industry was also composed of 3 reinsurance companies; 30 brokers; 1050 loss adjusters; 15,632 agents. The sector employed 10,168 people. In terms of ownership, 5 out of 55 were foreign-owned companies. In terms of business performed, there were 21 life insurance companies; 21 non-life insurance companies; and 13 composite companies. Total premium production in 2002 was around 2.5 billion dollars.

56. Starting in 2000, the government stopped the activities of 12 companies because of insolvency reasons. Those insolvency problems arose from overdue agent debts; low tariffs due to heavy competition; weak capital structure, negative effect of banking sector difficulties; and financial problems of companies' owners.

57. A new law was under preparation in order to include new licensing rules according to the EEC Directives. Other features of that project included the establishment of new reserve requirements and a new minimum guarantee fund; the freeing of all tariffs (except for certain compulsory lines); the establishment of new solvency monitoring and government intervention rules; and the creation of a new policy holders protection institution.

58. Current problems in the insurance sector included the following:

- The insurance awareness of society should be increased
- Agents-company relations problem should be solved
- Capital structure of the companies should be made stronger
- Insurance companies should review their present tariff implementations

- A faster loss settlement system should be established
- The rating and announcement of the rating results of the insurance companies should be required in the near future
- The holding group-insurance company business relations should be limited
- The maximum insured amount per policy should be subject to limitations, according to the companies' net worth.

59. The Chairman thanked both Dr. Akinci and Dr. Ahmet for the presentations, which were very interesting. He also encouraged other Members to make similar presentations.

60. The Committee took note of the statements made and decided to revert to this agenda item at the next meeting.

E. DATE OF THE NEXT MEETING

61. The Chairman suggested that the Committee hold its next meeting during the next cluster of services meetings, in July 2003. The exact date would be announced in due course. The Chairman also said that the point had been made on repeated occasions that this Committee's meeting should take place in the same week as the bilateral negotiations in order to profit to the maximum extent possible from the presence of financial services experts in Geneva. It might well be the case that as negotiations progress, more Members would have financial services experts participating in the bilateral negotiations. Taking into account those considerations, he suggested that the next meeting be scheduled during the week in which most bilaterals would take place, that is, the second week of the next cluster of services meetings. That was also the week in which the Special Session of the Council for Trade in Services usually met.

62. The representatives of Japan and Indonesia explicitly supported the suggestion by the Chairman. No delegation objected to the suggestion.

63. The Chairman suggested to proceed on the basis outlined. The Committee so decided.

F. OTHER BUSINESS

64. The Chairman raised two issues: some procedural matters that were left unresolved at the previous meeting; and the organization of future work.

65. Firstly, regarding procedural matters, he said that at the last formal meeting of the Committee the Chair indicated that the incoming Chairman would undertake informal consultations on the question of the chairing of sessions – such as the one conducted with the World Bank in February. Following up on that conclusion, he held some informal consultations on this issue, and informed Members about the outcome of those consultations by fax on 12 April. Those consultations indicated that all Members believed that a Chair's summary of informal presentations made outside the formal Committee proceedings should be purely factual. Members also agreed that the distinction between informal events and the formal institutional structure of the Committee needed to be maintained. Taking into account that general view, the Chairman suggested that if and when future informal presentations were organized by the Committee, the issue of the chairmanship of such sessions be considered by Members on a case by case basis. A decision on the appropriate chairmanship for the event in question should be reached at the same time an agreement was reached on the overall organization of the particular event. That would hopefully avoid potential confusion in the future.

66. Secondly, on the organization of future work, he said that his intention was to share some ideas that would help negotiators be better informed about issues and developments in the financial services sector. He said that one possibility in that regard was to take advantage of the geographical proximity to the international standard-setting bodies, and organize a field trip to Basel. The idea would be to gather as many Geneva-based delegates as possible and to pay a visit to the Bank for International Settlement headquarters, in order to be updated on the latest developments in both the Basel Committee and the International Association of Insurance Supervisors. It would be a one-day event, where everybody would cover his/her own expenses, with a programme of activities coordinated in advance with the Basel secretariat. Capital-based officials were also invited to attend. He intended to continue discussing this idea, and would hold consultations in June.

67. The representatives of the European Communities and Turkey supported this suggestion by the Chairman.

68. The Committee took note of the statements made.

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