

Oral Defense of Doctoral Dissertation Proposal

School of Public Policy, George Mason University

Insurance Market Development and Entrepreneurship in Latin America and the Caribbean

Pietro Masci

Bachelor of Arts, Political Science, University of Rome, 1974

Master Business Administration, Finance, George Washington University, 1988

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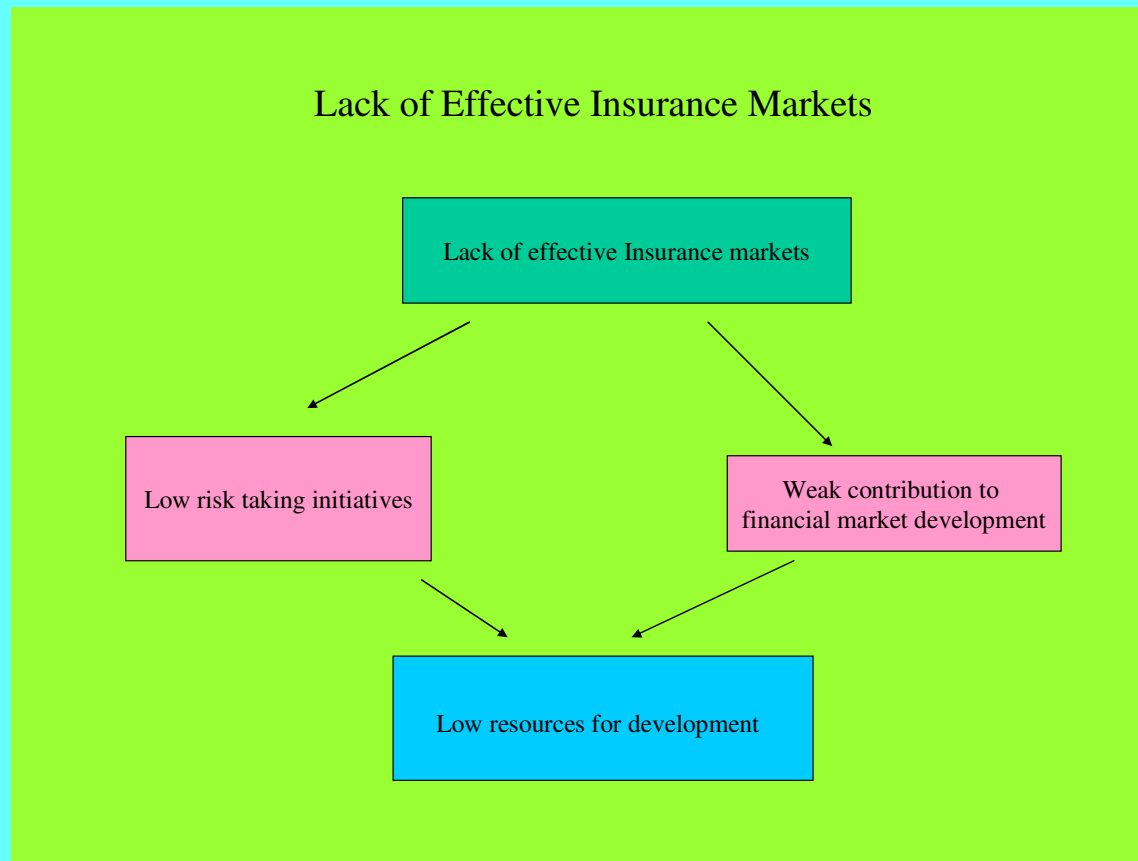
Committee

Jack High, Chair

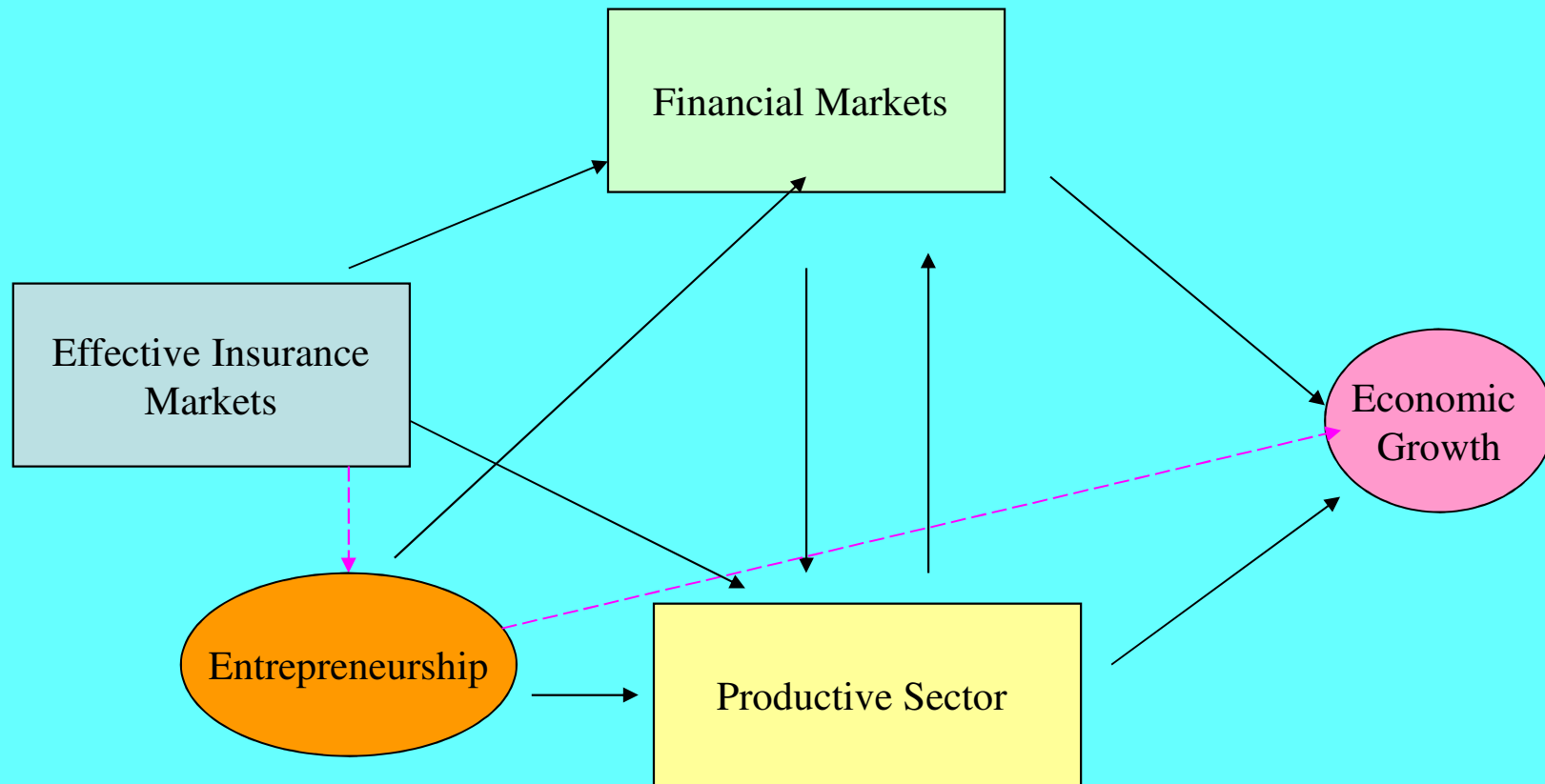
Naoru Koizumi

John Crocket, School of Management

Insurance Markets



Framework for Entrepreneurship and Insurance



Entrepreneurship

- There are various definitions of entrepreneur derived mostly from Knight (1921), Schumpeter (1934), and the Austrian School and mostly based on the environment of developed countries.
- The main difference between Knight and Schumpeter is that the latter holds the view that the entrepreneur does not bear the risk – “*the entrepreneur is never the risk bearer*” (Schumpeter 1934, p.137), which is taken by the capitalist, the banker. Knight believes that the entrepreneur bears the uninsurable business risk, i.e., uncertainty associated with the business venture.
- A definition of entrepreneur for this research is that of someone who has a strong intuition and drive and in a given institutional setting undertakes **the uncertainty of the business risk**, and use the insurance market to transfer various specific risks, to create a new organization that will exploit a new technology, or innovative process and generates value and economic growth.
- This definition is closer to the view of Knight in terms of “risk”, but recognizing the crucial contribution of Schumpeter to identify the entrepreneur as an engine of growth.
- The definition can be applied to the environment of **emerging economies**.

Research Question

- The analysis on the role of insurance in economic activity shows that in **advanced countries** market institutions such as insurance facilitate entrepreneurs. This implies that the level of uncertainty is reduced and transformed into manageable risk. Those entrepreneurs who have access to insurance are more likely to continue in business than those who do not.
- Conversely, in **emerging countries**, the availability of insurance to “entrepreneurs” is limited; uncertainty is greater and individuals are less motivated to undertake initiatives and contribute to economic growth.

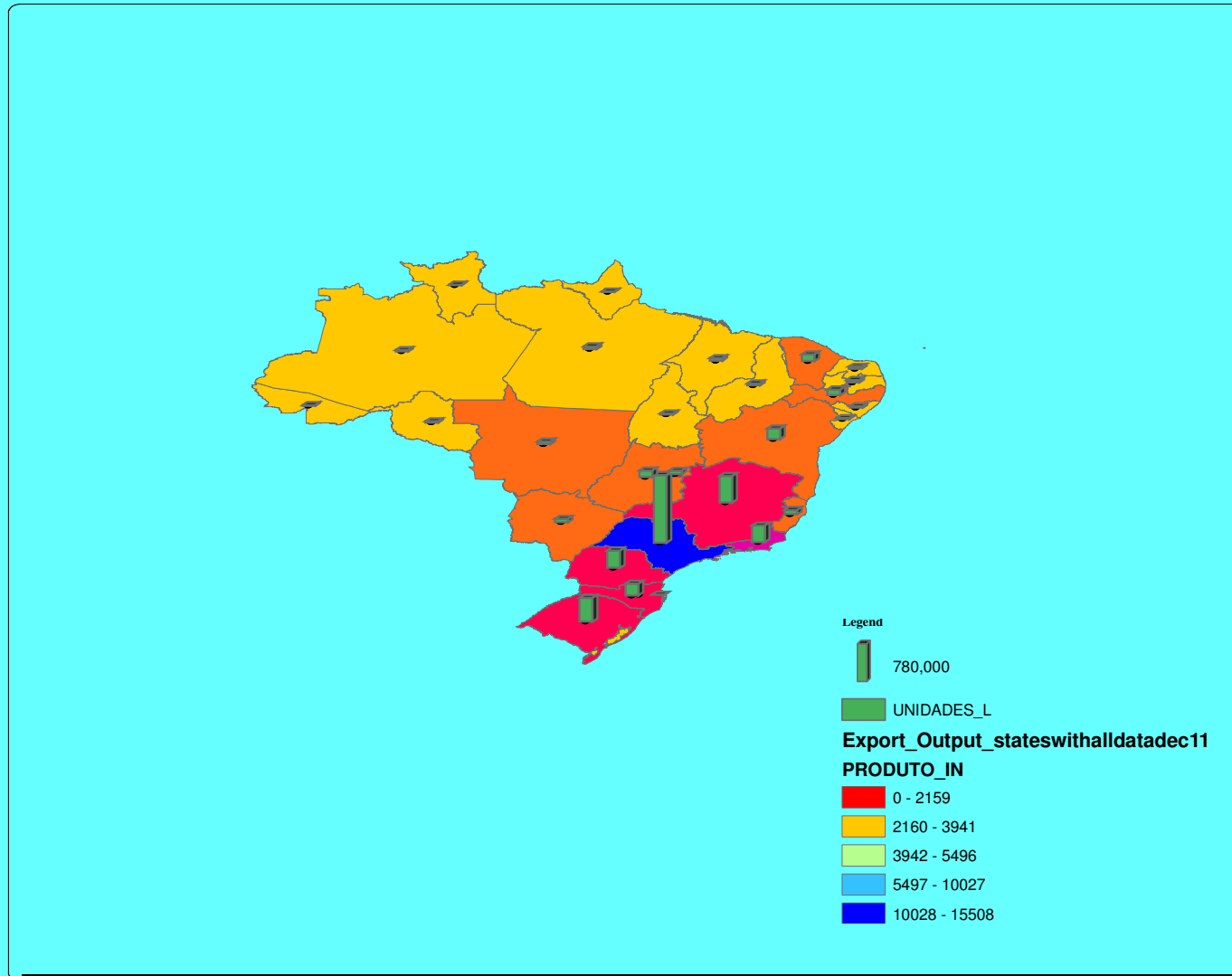
Research Questions

- Two key research questions deserve further study :
 - To what extent does the absence of insurance limit productivity and growth?
 - What is the relationship between the availability of insurance, economic activity, and entrepreneurship (**link insurance-entrepreneurship –growth**)?

Hypotheses

- The model developed permits to test these hypotheses:
 - **H1:** Is the availability of insurance having an impact on entrepreneurship under different specifications?
 - **H2:** Is social insurance having a negative impact on entrepreneurship?
 - **H3:** Are different specifications of entrepreneurship and economic activity—i.e., large firms, SMEs, entrepreneurs, micro entrepreneurs, start-ups , Limited liability companies, Total Factor Productivity—affected differently by the availability of specific forms of insurance?

Brazil



Variables

Variable		Operationalization
Dependent variable	Entrepreneurship and Economic Activity	Large firms and total number of companies
		Small and Medium Enterprises
		Micro enterprises
		Startups
		Limited liability companies
		Total factor productivity at the state level - 1999-2006
		Source of Data: Instituto Brasileiro de Geografia e Estatística, http://www.ibge.gov.br/english/ and calculation by the author.
Main Independent Variable	Availability of Insurance	Level of premiums related to business activity, i.e., volume of premium paid- 1999-2006 - Source: Swiss re; Axco; Superintendencia de Seguros Privados (SUSEP): http://www.susep.gov.br/principal.asp , autonomous from the Ministry of Finance.
	Social Insurance	Penetration Ratio (Premiums/GDP) -1999-2006- Instituto Brasileiro de Geografia e Estatística, http://www.ibge.gov.br/english/ and Superintendencia de Seguros Privados (SUSEP): http://www.susep.gov.br/principal.asp , calculation by the author.
Other Independent Variables	Institutional Setting	Level of premium paid – 1999-2006 -Source: Swiss re (http://www.swissre.com/); Axco (http://www.axcoinfo.com/); Superintendencia de Seguros Privados (SUSEP): http://www.susep.gov.br/principal.asp .
	Knowledge of Insurance	Indicators from Doing Business of the World Bank and Investment Climate of the Inter-American Development Bank. Other similar indicators come from the Brazilian Institute of statistics. http://www.doingbusiness.org/
	Risk Aversion	Number of insurance companies (and also the number of brokers)- 1999-2006 - Source of Data: Swiss re; Axco; Superintendencia de Seguros Privados (SUSEP) in Brazil.
Control Variables	GDP	Level of education (see Outreville 1996, Szpiro and Outreville 1988, see section 9) -1999-2006- Source of Data: Instituto Brasileiro de Geografia e Estatística, http://www.ibge.gov.br/english/
	Population	GDP by State- 1999-2006 -Source of Data: Instituto Brasileiro de Geografia e Estatística, http://www.ibge.gov.br/english/
	Financial Intermediation	Population by state 1999-2006- Source of Data: Instituto Brasileiro de Geografia e Estatística, http://www.ibge.gov.br/english/
	Infrastructure	Financial Intermediation by state 1999-2006 - Source of Data: Instituto Brasileiro de Geografia e Estatística, http://www.ibge.gov.br/english/
Events	Event covariate (insurance) type of instrumental variable.	Investment in Infrastructure by state 1999-2006 - Source of Data: Instituto Brasileiro de Geografia e Estatística, http://www.ibge.gov.br/english/
		In the year 2000, in Brazil, there have been legal changes affecting branches of the insurance industry - Health- Source of Data: Swiss re; Axco; Superintendencia de Seguros Privados (SUSEP) in Brazil.
		Mandatory Programs
The measures of the various variables are included in the database that the author has developed		

Economic Activity and Entrepreneurship

Table 1. Availability of Financial Services and Particularly Insurance to Various Forms of Economic Activity in the United States and in Emerging Markets

Type of Activity	United States	Emerging Markets - Latin America and the Caribbean
Large Firm	Easily available	Available
Small and Medium-Sized Enterprises	Easily available	Scarcely available
Entrepreneurs	Easily available	Scarcely available
Micro entrepreneurs	Available	Scarcely available
Poor people	Incipient	Rarely available