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Prosperity, Protection and Partnership:

The Role of the Insurance Sector in Driving Sustained Growth in ASEAN

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Executive Summary

Over the medium to long term, ASEAN is expected to remain as one of the fastest growing regions in the world, with an average growth rate exceeding 5% for the next five years[1]. The trade and investment relationship between EU and ASEAN remains deep – the EU is still the largest source of foreign direct investment in ASEAN and is the second largest trading partner of ASEAN. By some projections, if the region were to be viewed as a single economic entity, ASEAN is heading to being the world's fifth largest economy. With full implementation of the ASEAN Economic Community, the region has the potential to grow even further. The EU-ABC sees strong added value for the ASEAN Region from the full implementation of the AEC Blueprint 2025. We welcome the publication of the Consolidated Strategic Action Plan for the delivery of the Blueprint.

A strong insurance sector is critical to economic growth and to the AEC's success. It supports trade and commerce, accumulates investible funds and facilitates investment in the wider economy such as in infrastructure projects. As a risk management tool, insurance promotes resilience of countries in the face of disasters and provides protection, financial security and proper pensions to people. The EU-ABC Insurance Working group was set up with the objective to develop recommendations to allow the insurance industry to make a greater contribution to economic growth, social well-being and financial inclusion in the region. Since the Insurance Working Group was established, we have published two papers – "The Insurance Industry in ASEAN: Engine for Growth and Social Cohesiveness" in 2015 and "Partnering ASEAN to Close the Insurance Protection Gap" in 2016.

Today, more than 25 European insurance companies operate in ASEAN, with total assets in excess of US$80 billion. However, European insurers can and want to contribute more, as shown by the findings of the 2016 EU-ASEAN Business Sentiment Survey[2]. Penetration rates in ASEAN remained low at just over three percent, well below the global average of over six percent. The protection gap is increasing, as people accumulate more assets and do not increase their insurance cover accordingly. This paper builds on the recommendations of our previous papers, reporting on progress so far, and what more needs to be done to meet ASEAN's ambitions. In order for international insurance companies to be able to contribute fully to the economic growth and success of the AEC, the priority issues are:

Issue	Recommendation
Shareholding	Harmonised rules for full range of ownership models in the insurance sector (currently six of 10 Member States allow this).
Data	A global harmonised approach to cross-border data transfers and the right for international group companies to transfer data overseas within the same corporate group if they have adopted internal rules/a global policy similar to EU-Law to protect customers.
Disaster Risk Finance	Establish a well-functioning insurance market and promote the use of public-private partnerships (PPP) as a means to reduce losses from natural disasters.
Long Term Investments	Remove regulatory and other barriers to long-term investment by insurance companies. Build a defined infrastructure asset class by facilitating standardisation in documentation and reporting as well as a holistic regulatory treatment to encourage more infrastructure investment by insurers.
Investment-Linked Products	Promote the development of products to achieve the investment needs of our customers in the low interest rate environment.

[1] OECD, Economic Outlook for South East Asia, China and India 2016, Table 1, p. 26

[2] See: https://www.eu-asean.eu/publications

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The paper also takes a first look at the increasing introduction by insurers of digital products and services. The EU-ABC looks forward to partnering with regulators to support the fintech ecosystem.

European Insurers and the ASEAN Insurance Market

European insurance companies have a long history in ASEAN markets. Today, more than 25 European insurance companies operate across ASEAN. They make a significant contribution to the population's savings, investment, and insurance needs. In 2015, European insurers contributed approximately 25% of total premiums in major ASEAN states, premiums which are invested in local economies. Total assets of European insurers were in excess of US$80 billion.

Table 1: European insurers' contributions to ASEAN – selected countries

Country	European Insurers Premiums (mil USD)	Total Premiums (mil USD)	%	European Insurers Assets (mil USD)	Total Assets (mil USD)	%
Indonesia	4,344	17,433	25	10,223	40,168	25
Malaysia	4,068	15,680	26	15,852	71,604	22
Philippines	1,074	4,118	26	4,599	24,089	19
Singapore	8,762	23,186	38	37,382	134,910	28
Thailand	2,700	19,207	14	13,191	88,790	15
Vietnam	438	2,458	18	1,530[3]	8,499	18

Sources: Swiss Re, Regulators' Data and European Insurance Companies Annual Financial Reports

The ASEAN economic community is developing, and providing more wealth to people in the region. The ASEAN growth story is still good. Over the medium to long term, ASEAN is expected to continue to be one of the fastest growing regions in the world, averaging a growth rate of 5% in the forecast period of 2016-2020. However, insurance penetration rates in most ASEAN Member States remain low. Many countries in ASEAN demonstrate a worrying savings and protection gap as populations grow older and increasingly wealthy.

In 2015, the penetration rates across ASEAN stood at just over three percent, well below the global average of over six per cent. Although ASEAN is prone to natural disasters, natural catastrophe underinsurance remains in excess of one per cent of GDP, with particularly large deficits in Vietnam, Indonesia and the Philippines. In addition, the mortality protection gap is widening across Asia, growing at a rate of 10% from 2004 to 2014, and standing at an estimated US$58 trillion for 13 Asian countries (which include the ten ASEAN Member States)[4]. Thus, there is considerable need to uplift protection coverage in ASEAN.

[3] Vietnam's European Insurers Assets are estimated by multiplying the market share of European insurers' premiums by the total assets in the insurance industry

[4] Swiss Re's Mortality Protection Gap Report, Asia Pacific 2015, Figure 1, p. 10

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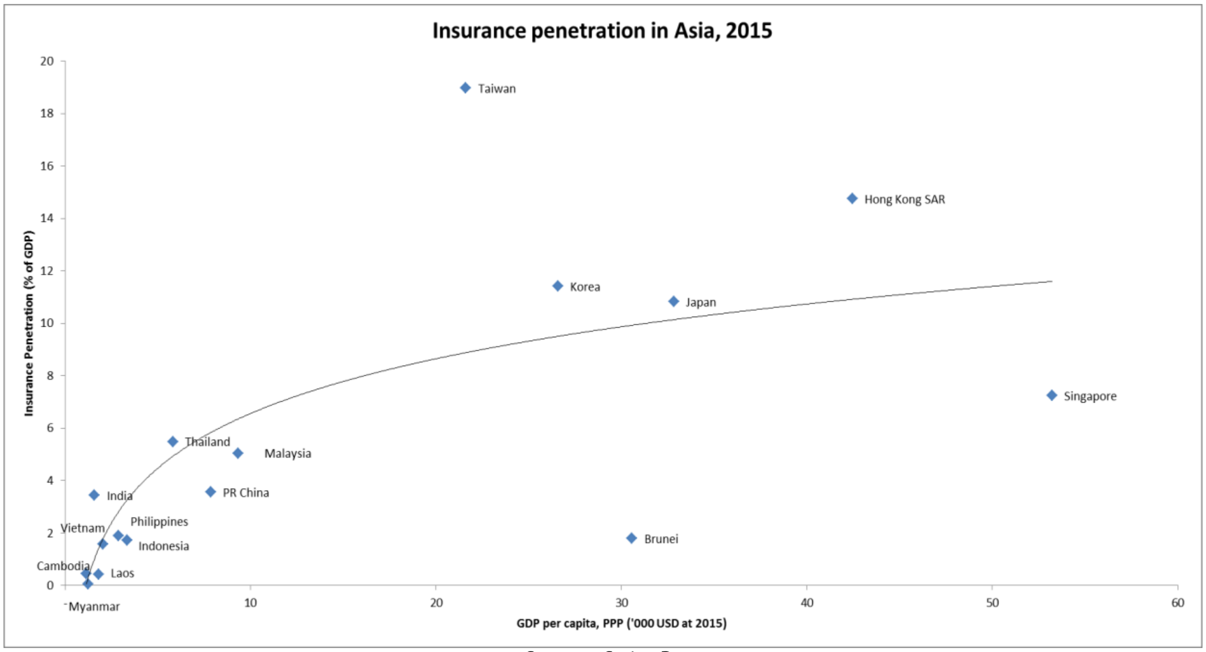
Table 2: Insurance penetration (premiums/GDP %) across regions

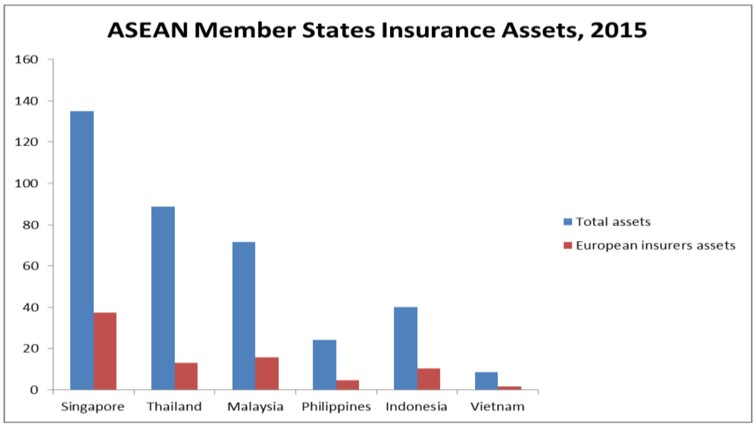
Market	Penetration rate (%)
Europe	6.89
USA	7.28
ASEAN	3.34

Diagram 1: Insurance penetration in countries across Asia



Source: Swiss Re

Diagram 2: Insurance Assets across selected ASEAN member states, 2015



Further investment in the industry is needed to ensure that protection coverage grows to match increasing income and asset ownership across ASEAN. As they have grown, the European and Asian insurance companies have invested across ASEAN fixed income, equity, and alternative asset markets, thus deepening the pool of investment capital available in the region (see Table 1 and Diagram 2). s insurers, we also have to develop products that appeal to a wide range of customers, especially in the current low interest rate environment. EU-ABC members are committed to provide comprehensive solutions to meet the right mix of financial protection, health and investment needs of our customers. We also continue to build our agency force to reach customers in the remotest areas, including the vulnerable in our societies, as well as develop new technologies to make life easier for customers. We work together with partners. For instance, in early 2017, Prudential partnered with GIZ, a German development agency and a digital distribution partner to launch an initiative to distribute micro-insurance products to rural communities in the Philippines, complemented by online community portals to help individuals in their purchase decisions. Our members are committed to promote inclusive growth of countries, as shown in the initiatives listed throughout this paper.

EU-ABC Member companies are required to adhere to international best practice regulatory regimes. Their experience of working within these standards can provide positive spill over effects on corporate governance across all companies in ASEAN Member markets[5]. The European insurance industry, through the EU-ABC, looks forward to partnering with ASEAN and its Member States as they look to develop and enhance their own regulatory regimes.

Identifying and remedying the existing weaknesses in the insurance sector to promote its development will be an important part of creating a high-quality financial system for ASEAN. Moreover, developing viable and efficient insurance companies, as long-term institutional investors, must go hand-in-hand with the task of developing and deepening capital markets. A larger insurance sector will support a greater selection of securities for long-term portfolio investment; in turn, a deeper capital market will help create an environment in which insurance companies can thrive[6]. The EU-ABC stands ready to work together with governments and partners to support social and economic growth in the region.

Protecting farmers against livestock loss

Swiss Re helped to relaunch an important agricultural insurance pilot in Vietnam. It will protect the livelihoods of poor smallholder farmers in the provinces of Vinh Phuc and Ha Giang by insuring them against the effects that a major natural catastrophe or disease may have on their livestock. In total, the scheme covers more than 150,000 cattle and buffalo. To develop a sustainable product that meets actual needs, the scheme involves key stakeholders in a public-private partnership. The scheme has got off to a promising start and the intention is to expand it rapidly to other provinces.

Image used with kind permission of Swiss Re. ©Swiss Re.

[5] EABC-Thailand (2013). 2013 European Business Position Paper: Trade/Investment Issues & Recommendations in support of a Competitive Economy in Thailand. Retrieved from: http://eabc-thailand.eu/images/files/2013%20Position%20paper_Thailand_EN.pdf

[6] Choong, L. L. & S. Takagi (2013). “Deepening Association of Southeast Asian Nations’ Financial Markets”. ADBI Working Paper Series, No. 414. Retrieved from: http://www10.iadb.org/intal/intalcdi/PE/2013/10776.pdf

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Review by Issues

Shareholding

Position

- The EU-ABC welcomes the fact that the majority of ASEAN member states have already implemented an open investment regime.
- A full range of ownership structures, including wholly owned local companies, joint ventures, and wholly owned foreign subsidiaries, already exist in the Philippines, Vietnam, Brunei, Cambodia, Lao PDR and Singapore. This approach leads to quality, long-term investments in local insurance markets, with resultant gains in employment, insurance penetration, and deepening of domestic capital markets.

Benefit to economic development and progress

- Some key advantages are:

Attracting quality FDI

Quality FDI is more stable than short-term financing

From 2010-2015, foreign insurers consistently make up over 60% of total insurance investments into the Indonesian capital market

European insurers make up 26% of total premiums and 23% of total assets in major ASEAN countries.

Employment creation and multiplier effect

According to McKinsey 's report "Myanmar's moment: Unique opportunities, major challenges", the opening up of the financial services sector in Myanmar could create approx. 400,000 jobs and grow into a US$11.1bn sector by 2030

Foreign participation creates skilled jobs in the life insurance sector. E.g. Prudential has over 390,000 agents in ASEAN countries. With every new job in the insurance sector two to three additional jobs are created in the supply chain.

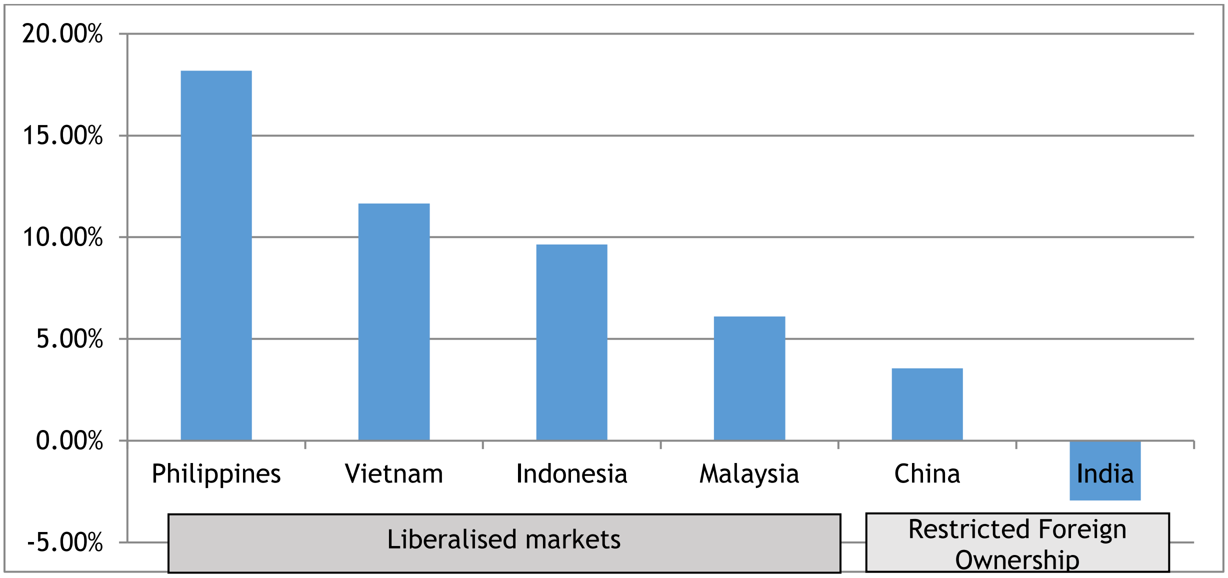
Insurance capacity building for domestic insurers

Managing insurance operations requires unique expertise and long-term commitment

Domestic insurers have in-depth understanding of customers, local preferences and unique market position. Foreign insurers have brought in technical and management skills and expertise as well as best practices from other markets, supporting capacity building programmes for governments and local companies.

- A study conducted in Indonesia[7] demonstrated that a liberalised ownership model that provides flexibility to foreign insurers on their preferred ownership structure results in faster industry growth and faster growth in the insurance penetration rate compared to restricted markets.
- The study also showed a positive spill-over effect to domestic firms, who benefited from the growth of the sector spurred by foreign investment.
- Increased life penetration rates allow more people to enjoy financial protection and security.
- China and India are two markets in Asia which currently adopt the JV-only model. Liberalisation in China and India proceeded in a generally positive manner, albeit at a slower pace compared to some ASEAN markets[8]. Along with gradual liberalisation, life penetration rates grew at a moderate rate, reaching approximately three times the 2000 level by 2015. Growth of real life premium and life penetration rate decreased, in years following regulatory instability between 2010 and 2015.
- Diagram 3 shows how gross premium growth from 2010-2015 compares between liberalised markets and restricted markets. Compared to China and India's partial liberalisation and regulatory restrictions impacting foreign insurers' expansion, Vietnam has made strong and consistent actions to open up the sector, starting with 100% foreign ownership in 1999 to align treatment of foreign insurers with domestic insurers. While China and India experienced growth in life penetration rates of approximately three times between 2000 and 2015, Vietnam enjoyed growth of 10.5 times in the same period.

Diagram 3: Liberalised markets vs Restricted Markets – Gross premium growth 2010 – 15 (adjusted for CPI)



Sources: Reports from Swiss Re and World Bank

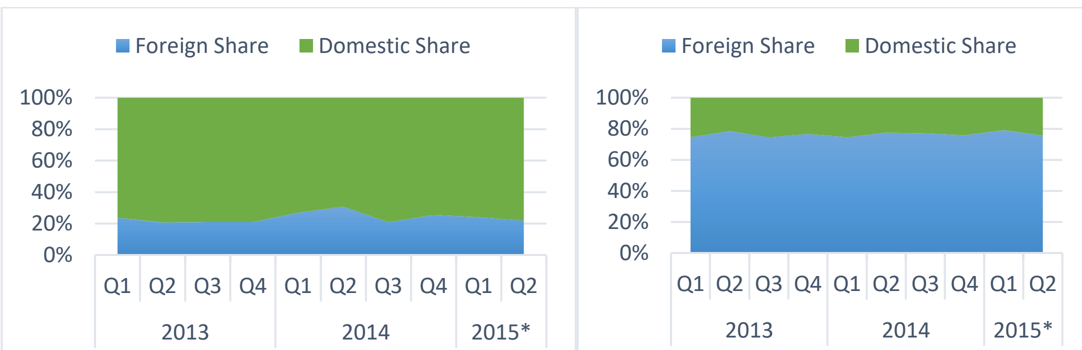
- Econometric analysis from the same study conducted in Indonesia shows that there is a positive statistical relationship between the performance of local companies and the presence of foreign insurers. Each additional 1% share of foreign ownership in the industry increases local insurers' premiums by USD 0.4 million.

[7] University of Indonesia Business School, The Foreign Companies' Contribution to the Life Insurance Industry in Indonesia

[8] For India, liberalisation proceeded from nationalization (1948 – 2000) to opening up of the sector for foreign investments at share of up to 26% in JVs (2000) and increasing share to 49% 15 years later (2015). Similarly, in China, liberalisation proceeded at a gradual pace, from joining the WTO and introducing foreign ownership of JVs up to 50% (2001) to gradual relaxation of regulatory restrictions on foreign insurers to-date

- Foreign insurers have consistently contributed to a significant proportion of the insurance industry's total investment in local capital markets; Vietnam's foreign insurers' investments as a share of total insurance investments increased from 35% in 2003 to more than 70% in 2015. This increase indicates a major role for foreign insurers in developing liquidity in capital markets, which creates positive externalities for local insurers and other companies.
- There is no evidence to suggest that foreign insurers undercut the foothold of local insurers. On the contrary, the study from Indonesia showed that due to different product focus, local insurers' share of traditional insurance remained stable and dominant at a range between 70% and 80% of total premiums following entry of foreign insurers to the market, through a period of strong market growth. Diagram 4 shows that foreign insurers dominate sales of unit-linked insurance products consistently at a range between 70% and 80% of total premiums. Investment-linked products were not in the domain of local insurers. The presence of foreign insurers, therefore, only created positive spill overs for local companies in terms of talent development, knowledge transfer, public education about insurance and increased consumer trust in the financial sector.

Diagram 4: Foreign vs domestic players' market shares for traditional life and unit-linked insurance products



Market share for traditional life insurance products	Market share for unit-linked insurance products

Source: University of Indonesia Business School

Progress that has been made

- The majority of ASEAN states have freedom of choice in ownership structures. A fully liberalised regime – currently existing in the Philippines, Vietnam, Brunei, Cambodia, Lao PDR and Singapore – leads to quality, long term investments in local insurance markets, with resultant gains in employment, penetration coverage, and deepening domestic capital markets. Steps towards further liberalisation were made by a few ASEAN members in the past year.
- In Thailand, the Ministry of Finance issued notifications to relax foreign shareholding and board limits for insurance companies. Under these measures, a licensed insurance company may apply to the Finance Minister for permission to have more than 49% (and up to 100%) foreign shareholding, and for foreign directors to comprise more than half of the directors on its board. The proposed foreign shareholder must meet specified conditions. It remains to be seen how the approvals will be exercised to open up opportunities for foreign players.
- In Myanmar, the National Economic Coordination Committee is committed to liberalisation of the insurance market, including opening up to foreign companies. The form of liberalisation

is to be decided following recommendations made by the Financial Regulatory Department (FRD) and the Insurance Business Regulatory Board.

Still-existing gaps

- The EU-ABC supports steps taken by governments to further open up the sector and provide confidence for investors by allowing foreign shareholdings of up to 100%.
- In Indonesia, regulation limits foreign ownership to 80%, although a foreign shareholder is able to increase its shareholding beyond this limit by subscribing for new shares as long as the existing capital issued to the local shareholder is maintained. The Government is expected to issue a revised regulation on foreign ownership in April 2017.
- In Malaysia, foreign ownership is limited at 70%. While the regulator, Bank Negara Malaysia (BNM), said that it would consider allowing higher limits for foreign insurers on a case by case basis if this helped with industry consolidation, experience suggests that this discretionary power is rarely exercised.
- The risks associated with JVs should be noted. Enforcing a blanket requirement to enter into a JV partnership could potentially join two partners with misaligned strategic goals. There may be differences in financial commitment and expected period of payback, as life insurance in particular by nature is a long-term business, and its breakeven point and payback period are very different compared to other industries. JVs are also naturally exposed to more risks; for instance, different management styles and difficulties in communication, as the people employed might be representing different shareholders' interest. Forced JV partners may have different risk appetites, different views on whether to prioritise volume or value, and different views on products, distribution routes and customer segmentation. Legal and regulatory uncertainty about ownership, in particular retrospective changes to the rules or accepted practice, may also impact FDI inflows in other sectors. According to an Oxford Analytica paper citing Indonesia as an example, a 25% reduction in foreign investment could lead to US$73 billion total negative economic impact. Reducing foreign participation may constrain the sector's growth and widen the protection gap.

Conclusion and Recommendation

- ***Allowing the full range of ownership models, including wholly owned subsidiaries, provides certainty to business and encourages investment. This is critical to the insurance sector making its full contribution to economic growth.***

- Experience in Asia shows that permitting 100% ownership alongside other business models leads to faster insurance growth, faster insurance penetration and positive net spill over effects to domestic firms. The increased capital inflows also provide more investment into other sectors as well as supporting the economic and social development of countries.

- The EU-ABC cautions against any move to rescind existing shareholding rights or to hold back positive developments in opening up the sector. Such moves would be adverse for overall investor confidence at a time when ASEAN looks to enhance its attractiveness as an investment destination.

Data

Position

- To strengthen ASEAN's position as an open and inclusive economic region, EU-ABC cautions against limitations on the cross-border transfer, storage and processing of data, which are intended to help establish an international framework for the free flow of information in the growing digital economy.
- Requiring the use or location of a data centre onshore as a condition for conducting business in the territory runs contrary to the efficiency, productivity and strong risk management mandates that an international insurance group brings to the country via centralised operations and standards. More effective means exist for achieving legitimate public policy objectives (e.g. the need for data during crisis situations) such as including agreed terms in contracts.

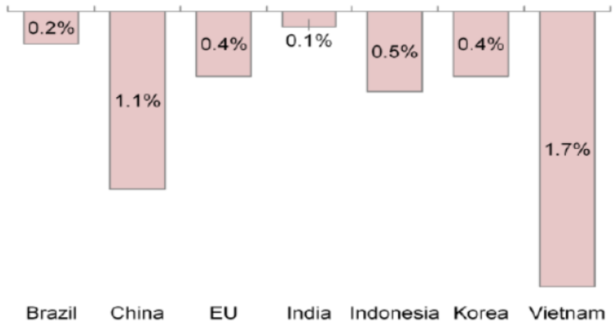
Benefit to economic development and progress

- Cross-border transfer, storage and processing of data are part of effective data management. Data is often moved to a centralised database which reduces risk of duplication and redundancy across multiple databases, ensuring data integrity. Such a practice also promotes strong risk, controlling and compliance practices, as it ensures that all locations are subject to the same stringent requirements set by the headquarters. The global headquarters of our European insurers are governed by rules of EU data protection (or similar) to protect customers, and the headquarters play a supervisory role over the transfer of such data among its affiliate members within the ASEAN region.
- Customers are also becoming more globalised, having accounts across multiple jurisdictions. Impeding free flow of information in a global and growing digital economy prevents consolidated risk management as well as efficient and transparent decision-making.
- OECD studies have shown how forced data localisation affect business' ability to adopt the most efficient technologies, influence investment and employment decisions, increase the cost of innovation and lead to missed business opportunities[9]. They also bear down on GDP in countries. In an analysis of data localisation in several countries, the European Centre for International Political Economy (ECIPE) estimated that data localisation results in negative impact in all seven countries analysed[10], as shown in Diagram 5.

[9] Stone, S., J. Messent and D. Flaig (2015), "Emerging Policy Issues: Localisation Barriers to Trade", OECD Trade Policy Papers, No. 180, OECD Publishing, Paris. http://dx.doi.org/10.1787/5js1m6v5qd5j-en

[10] European Commission (2015). Trade for All-New EU Trade and Investment Strategy. Retrieved from: http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153878.pdf

Diagram 5: Estimated GDP impact of data localisation



Source: ECIPE

Progress that has been made

- Recent trade agreements, such as the Trans Pacific Partnership and agreements between EU and ASEAN countries prevent data localisation as a prerequisite for conducting business, granting electronic data the same protections as material goods. Through agreement or expression of interest in joining these trade agreements, Malaysia, Singapore, Vietnam and Indonesia have therefore accepted this principle.
- The EU-ABC is also pleased to note that the Philippines Insurance Commissioner issued a circular in March 2016 that no longer requires data servers to be located onshore.

Still-existing gaps

- It seems that the Indonesia Regulator is currently not in favour of a transfer of data offshore or having data centres offshore. Further, the local laws and regulations in this respect are not clear.
- The EU-ABC also cautions against limitations on the cross-border transfer, storage and processing data which will hold back positive developments in opening up the sector while ASEAN is looking to strengthen its attractiveness as an investible economic region.

Conclusion and Recommendation

- ***The EU-ABC urges governments to ensure that its regulations are consistent, clear and compatible with the freedom of data transfer, storage and processing that international commerce embodies***. Keeping data onshore should not be made the cost of doing business.
- It is recommended that a global harmonised approach to cross-border data transfers and the right for international group companies to transfer data overseas within the same corporate group to be adopted (where certain conditions are met).

Disaster Risk Finance

Position

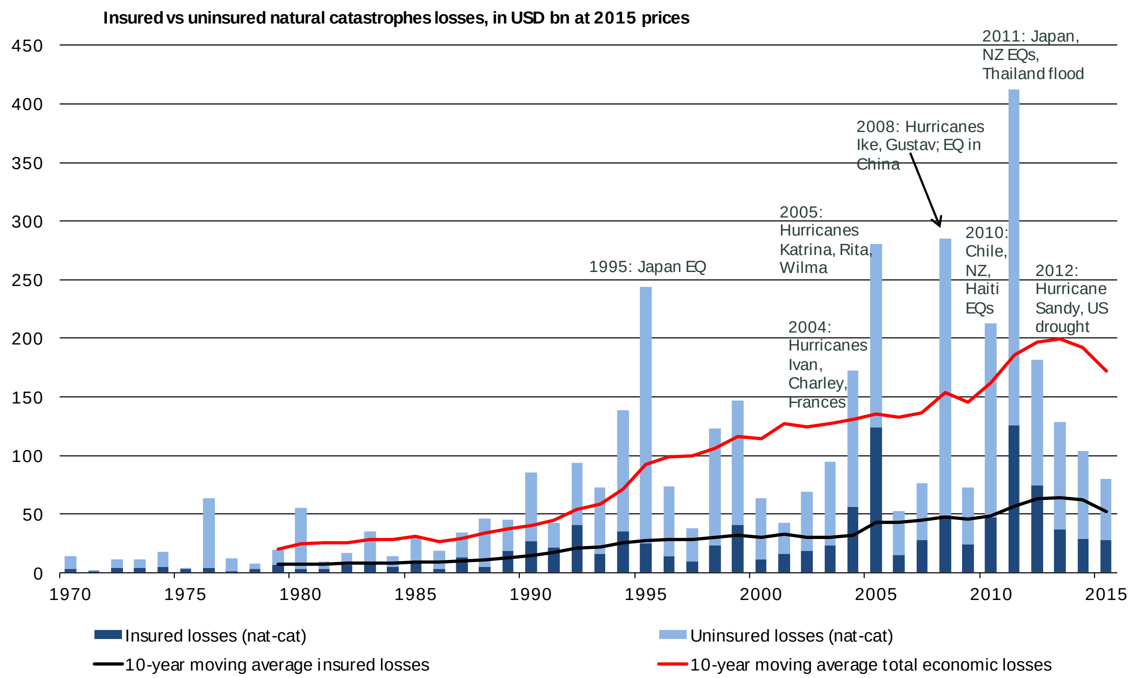
- As economic losses from natural catastrophes increased in recent years, the amount insured has not kept pace, resulting in an increasing catastrophe protection gap. At the same time, ASEAN remains especially vulnerable, as one of the most disaster prone regions in the world, highly exposed to a wide range of natural hazards.

- Re/insurance is widely recognised as a critical part of any comprehensive disaster risk management strategy. The industry has expertise in risk management and absorbs disaster shocks by providing predictable financial relief. Greater use of public-private partnerships, including pre-event financing solutions, can lead to timely pay-outs, enabling speedy rebuilding and recovery efforts and helping governments to reduce their contingent liabilities.

Benefit to economic development and progress

- Natural catastrophes are increasing in frequency and severity. Added to this, as seen in Diagram 6, the gap between economic and insured losses has increased. The consequences are especially severe in emerging markets, which are both the worst hit and the least prepared[11]. ASEAN is significantly vulnerable to natural disasters; More than 100 million people in ASEAN Member States have been affected by disasters since 2000, with natural hazards from typhoons, floods, earthquakes, tsunamis to volcanic eruptions across the "ring of fire"[12]. The human and economic costs of these catastrophes are huge; over a period of 10 years from 2006-2015, losses in ADB developing member countries averaged a staggering USD126million per day - a figure likely to increase with growing populations, urbanisation and sustained GDP growth[13].

Diagram 6: Insured vs. uninsured losses from natural catastrophes worldwide, 1970-2015



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[11] UNISDR, Synthesis Report on Ten ASEAN Countries Disaster Risks Assessment, December 2010. Retrieved from: http://www.unisdr.org/files/18872_asean.pdf

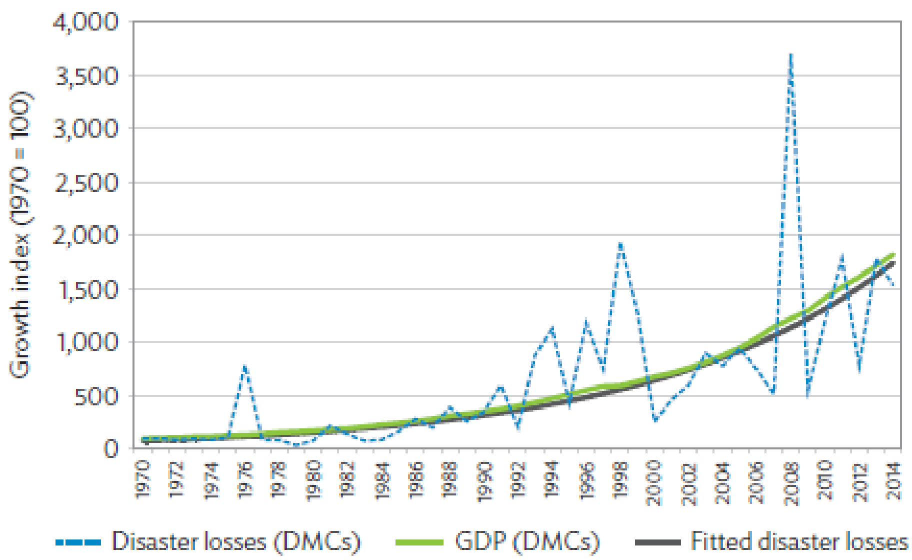
[12] World Bank, Advancing Disaster Risk Financing and Insurance in ASEAN Member States: Framework and Options for Implementation, April 2012. Retrieved from: http://documents.worldbank.org/curated/en/265831468205180872/pdf/714530v10ESW0W00ASEAN0REPORT0June12.pdf

[13] Disaster Risk in Asia and the Pacific, Assessment, Management and Finance, 2016, p. 1. Retrieved from: https://www.adb.org/sites/default/files/publication/199986/disaster-risk-asia-and-pacific.pdf

Source: Swiss Re Economic Research & Consulting and Cat Perils

- Indicative numbers from the World Bank suggest that ASEAN governments could find themselves having to fund a large share of contingent liabilities – catastrophic disasters could result in contingent liability in excess of 8% GDP in the Philippines, Cambodia and Lao PDR. As the catastrophe protection gap increases, the share that Governments have to bear could reach nearly one-fifth of the budgets in Cambodia, Laos and the Philippines. Diagram 7 shows that disaster losses have increased in volatility and magnitude throughout the years, which makes it more difficult for Governments to budget for disaster recovery.

Diagram 7: Growth rate of disaster losses and GDP in ADB's Developing Member Countries



ADB = Asian Development Bank.
Note: Covers ADB DMCs up to 2014.

Source: ADB

- As such, it is critically important for ASEAN governments to have an effective disaster risk management plan in place to reduce the economic impact of natural catastrophes, lower pressure on government budgets, speed up disaster recovery and support growth and development.
- In recent years, as the flooding in Thailand and Typhoon Haiyan in the Philippines demonstrated, ASEAN governments can be affected in multiple ways in the aftermath of natural disasters. Governments are uniquely exposed, as they not only have to shoulder the cost of relief and recovery, but also have to pay for the reconstruction of public infrastructure. When individuals and firms are underinsured, which is still the case in many ASEAN economies, governments are often expected to support private rebuilding efforts by providing transfer payments as well. Closing the financial gap between insured and uninsured losses is thus in the public sector's vital interest.
- The re/insurance industry plays an essential role in absorbing shocks to economies and societies following natural catastrophes, which are, by nature, unpredictable. Insurance helps to provide immediate financial help through pay-outs (rather than relying on external loans, tax increases or budget reallocations), and to enable emerging relief efforts and

reconstruction. This, in turn, helps to limit indirect losses such as business interruptions. Depending on insurance penetration and reinsurance buying behaviour, global reinsurers can bear about 50% of insured losses from large disasters. They can absorb such major losses because of their global diversification of risk and investment.

- The security offered by re/insurance enables the risk-taking which is essential to economic growth and entrepreneurship. Having bought protection, public and private entities can productively invest funds that would otherwise be required to cover disaster losses. Reinsurers can make protection broadly available at lower cost – thus releasing these funds – because they diversify their risks on a global basis; this is how reinsurance creates value.

Progress that has been made

- Overall, EU-ABC sees limited progress in this area since our last report in 2016. Plans have been set by some governments to look into some ex-ante disaster risk financing and insurance solutions, but momentum needs to be gained in this area. EU-ABC stands ready to work together with governments to improve knowledge and understanding on the benefits of a well-functioning insurance market to reduce the contingent liability from natural catastrophes for governments, businesses and homeowners.
- In Vietnam, the Ministry of Finance has been requested to submit a Decree by April 2017 for the relaunch of a subsidised agriculture insurance nationwide programme based on the findings of a pilot scheme from 2011 - 2013. With the review of the Public Asset Management Law, some exposed public assets will have to be insured against natural disasters and provincial protection schemes are being considered to cover public assets under the administration of the Ministry of Agriculture and Rural Department. Some cities[14], such as Can Tho and Da Nang, which are two of the 100 Resilient Cities pioneered by the Rockefeller Foundation, are showing interest in Municipal Disaster Risk Finance solutions to protect their budget and homeowners.
- In Thailand, the government has set priorities to extend the subsidised rice insurance scheme by making it mandatory for all farmers to have a loan at the Bank for Agriculture and Agricultural Co-operatives. The scheme will cover close to two million farmers, increasing penetration by ten times[15]. The Government's second priority will be to address the increasing costs linked to the Civil Servant Medical Benefit Scheme through a public-private partnership initiative. Some promising discussions are seen on critical public infrastructure solutions against natural disaster such as bridges and rural roads.
- In the Philippines, the most promising area of discussion observed is the Local Government Unit (LGU) natural disaster protection scheme coordinated under the guidance of the World Bank, Department of Finance, Government Service Insurance System (GSIS) and NatCat exposed Provinces. However one of the hurdles for the implementation is the lack of financing capabilities of the Provinces for the insurance premiums required in the scheme. At the end of 2016, the Government approved a special fund to buy insurance and protect public assets from natural disasters as a special item under the National Disaster Risk Reduction & Management Council (NDRRMC)'s budget. Currently, the terms of reference for managing the fund are being clarified.

Still-existing gaps

[14] Can Tho (http://www.100resilientcities.org/cities/entry/can-thos-resilience-challenge#/-_/) and Da Nang (http://www.100resilientcities.org/cities/entry/da-nangs-resilience-challenge#/-_/)

[15] Swiss Re, Thai Rice Insurance Scheme Scales Up to Cover 2 Million Rice Farmers. Retrieved from: http://www.swissre.com/reinsurance/thai_rice_insurance_scheme_scales_up_to_cover_2_million_rice_farmers.html

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- The EU-ABC notes the need for a faster progress in implementing a Disaster Risk Finance strategy in many countries across ASEAN, including ensuring a well-functioning insurance market to absorb contingent liabilities as the catastrophe protection gap increases.
- In Vietnam, progress to implement a Disaster Risk Finance strategy has been slower than expected since the inception of the Law on Natural Disaster Preparedness, Emergency Response and Mitigation in 2014. While plans have been set to look into insurance schemes of agriculture and public assets, momentum needs to be gained to obtain approval and endorsement at National Assembly and at ministerial level.
- In Thailand, after having dissolved the National Catastrophe Insurance Fund in 2015, which was established after the floods in 2011, industrial and commercial assets as well as public and homeowner assets remain substantially underinsured.
- In Cambodia, there continues to be high reliance on donations to cover disaster losses. Disaster relief efforts or operations are largely covered by donor funds. There is limited support for losses suffered by businesses and homeowners, such as those suffered by farmers. Catastrophic disasters could result in contingent liability of unsustainable amounts, too large to be covered by the government's budget and state donations. There remains a large gap for capacity building among relevant government stakeholders in understanding insurance concepts and its relevance for the country.
- In Myanmar, EU-ABC notes that the insurance market is opening up and looks forward to working with the government to develop an insurance based system for disaster relief funding.
- To close the protection gap, both the public and private sectors have an important role to play. Governments have the political and legal power to set framework conditions that facilitate

Building flood resilience

Zurich's "Flood Resilience Program" is an example of the commitment made to build disaster resilience. The initiative has mobilised an initial investment of US$35.6 million to implement a flood-resilience measurement system and to create community-based solutions, such as risk financing mechanisms and sustainable livelihoods.

The programme is developing early-warning systems and other measures in flood-prone areas of Indonesia, Mexico, Nepal and Peru, with direct benefits to at least 125,000 people and counting.

In 2013, the programme was launched in a joint effort with Indonesian Red Cross Society in Indonesia. By using their risk expertise as a global insurer, Zurich can help customers and communities to reduce the devastating impacts of floods.

The Zurich Flood Resilience Programme is highly scalable and replicable. The network and scope of the alliance gives the initiative the ability to reach communities across the world.

Image used with kind permission of Zurich Insurance Group. ©Zurich Insurance Group adaptive responses by individuals, the public and the private sectors. At the same time, re-insurance companies have valuable knowledge and experience in dealing with disaster risk management. Given their broad geographical diversification, they can also pool and absorb these risks in a cost-efficient way.

- We urge ASEAN governments to recognise the role that re-insurance plays in alleviating the financial burden from natural disasters. Specifically, more needs to be done to build capacity and awareness amongst government officials on disaster risk financing, in particular the advantages of using pre-event financing instruments.

Conclusion and Recommendation

- The gap between economic and insured losses continues to be vast, as the burden of uninsured disaster losses continues to weigh on individuals and governments. With their global financial resources and expertise, re/insurers play a key role in strengthening disaster resilience of regions and entire nations. Hence, as a first priority, ***we recommend ASEAN governments to enable a functioning insurance market. This will help absorb a major part of disaster losses suffered by individuals and businesses.***

- New forms of public-private partnerships, in particular pre-event financing solutions can help countries absorb the financial consequences of catastrophic events and make them more resilient[16]. Post-disaster financing (such as debt financing or donor aid) should only come into play to cover residual losses once all other risk transfer solutions have been exhausted.

- Public and private sectors can cooperate to finance disaster risks. Such partnerships do not just exist in theory. Real, innovative solutions have been developed and tested over the past few years which can be replicated and adapted to other countries and regions including ASEAN. The European re-insurance industry is ready to work with ASEAN governments to introduce public private partnerships on disaster risk financing, for example by introducing pre-event financing solutions such as indemnity insurance and parametric insurance, to alleviate financial burden on governments.

Long-term Investment

Position

- Infrastructure development in ASEAN is of vital importance; long-term investors such as insurance companies have a key role to play in the development of capital markets and the financing of infrastructure projects.
- Infrastructure assets are generally long-term in nature. Current treatment of infrastructure assets by insurance regulators is largely dependent on whether the investment is in fixed income, equities or some form of private placement, i.e. focusing on the form of an instrument instead of on the underlying substance. A holistic approach to the asset class does not really exist. Typically, infrastructure investment will have diverse sources of funding at both the construction and operating phase. Varied regulatory treatment and the lack of a holistic approach have constrained private sector ability to make such long-term investment. Promotion of infrastructure investment as defined asset class – in coordination with increased government spending and adoption of PPP financing vehicles - will go a long way to promote long-term infrastructure investment.

[16] Swiss Re, Closing the Protection Gap, Oct 2015. Retrieved from: http://www.swissre.com/global_partnerships/closing_the_protection_gap_2015.html

- The EU-ABC urges policy makers to encourage the insurance industry to be a greater contributor to infrastructure investment by promoting infrastructure investments as a defined asset class through 1) fostering standardisation in terms of reporting, documentation and benchmarking to develop capital markets 2) establishing clear rules for public/private collaboration, including common dispute resolution and potential for risk mitigation/credit enhancements and 3) offering non-discriminatory regulatory and accounting regimes that encourage long-term investments by insurers.

Benefit to economic development and progress

- The ADB, OECD and IIF have all identified inadequate infrastructure investment as an impediment to economic growth. ASEAN's six largest members - Philippines, Indonesia, Thailand, Singapore, Malaysia and Vietnam – require more than US$2.1 trillion in infrastructure spending by 2030[17]. Current spending trends would cover only US$910 billion, meaning that a significant 60% of the required infrastructure spending remains uncovered.
- As international standards continue to impact on banks' ability to offer long-term lending against short-term deposits, the insurance sector is well-positioned to provide risk capital with a long-term investment horizon. The long-term nature of the insurance sector's liabilities, the predictability of its receipts and its sizeable reserves provide the capacity to match against long-term assets.
- Assets of European insurers in ASEAN are in excess of US$80 billion, over 20% of total industry assets, and increasing as premiums grow (premiums of European insurers in major ASEAN economies grew 7% from 2014 to 2015). This makes European insurers ideal sources of funding for Government and for businesses or commercial projects with a multi-year horizon, as there is a need to channel domestic premiums through the capital markets into investable projects.

Progress that has been made

- The EU-ABC and its members have continuously engaged in active outreach and dialogue with policymakers to exchange views on regulatory and accounting matters. We are encouraged to note an increasing awareness of the issues and consideration of various measures to mitigate the adverse impact on long-term investments.
- Some proposed revisions to the IFRS allow for more consistent measurement of assets and liabilities of insurers.
- In Singapore, MAS is engaging insurers on their interest in an infrastructure asset class, and the specific types and characteristics of infrastructure financing appropriate for insurers, in order to formulate specific capital requirements for this asset class.
- We understand that there has been engagement between insurers and Thailand OIC on enabling regulations to allow insurance companies to lend directly to infrastructure projects.

Still-existing gaps

- The EU-ABC notes that more can be done from the regulatory and accounting perspectives to facilitate infrastructure investment.
- Current regulatory treatment of infrastructure investment is largely based on asset class, focusing on limitations / prohibitions on the instrument for investment instead of the overall risk profile of the underlying substance (e.g. ALM risks). A holistic approach to infrastructure

[17] HSBC Research, Filling ASEAN's infrastructure pothole, Aug 2016

investments is recommended. Varied regulatory treatment has constrained the ability of insurance companies to make long-term investments. Some examples are as follows.

- **Direct loans to infrastructure projects:** Insurance companies are not allowed to lend directly to infrastructure projects in Vietnam and Thailand. While investments in infrastructure projects can be conducted through corporate bonds, the corporate bond market is small, limiting access to credit for infrastructure projects.
- **Investment caps:** There exists caps on investment in unlisted equities that restrict the access to credit for "less mature" infrastructure assets, which are not yet ready for IPO. Thailand imposes a limit of 5% of total investment assets in unlisted equity, among other assets that are not classified in any other category for investment limits[18]. In the Philippines, an insurer may only invest in equities of other financial institutions provided that any or all of such investments shall be with prior approval of the Commissioner.
- **Capital charges:** Currently, capital charges focus on the instrument of investment, and as a result can impose very high capital standards on long-term assets. This can be as high as 50% for unlisted equities and exceeding 20% for unrated bonds and loans, which makes investing in long-term assets costly for insurance companies even though they are natural sources of such funding.
- **Ownership stake in companies:** There exists a 10% restriction on holdings of a single company's shares in Singapore, which restricts investment choices for insurers and their customers to obtain the desired risk-return profile. It also prevents full equity investment in a special vehicle established for an infrastructure project.
- **Restrictions or excessive reserving requirements for derivatives** can constrain long-term investment in infrastructure.

■ Additional comments on the accounting regime include short-term economic valuations which may produce significant volatility for long-term business even though insurance companies take long-term views and ride out short-term variations. Under the current accounting regime, short-term volatility tends to be significant for long-term business as reflected in the balance sheet and income statement, but may be irrelevant for predicting the cash flows of the entity. In particular, the interaction between assets and liabilities should be properly reflected. The scope of contracts for which the insurance liabilities and the related assets are consistently measured and reflect the assets-liabilities interaction, could be expanded to include all contracts, whether all or part of the cash flows are dependent on returns from underlying items. A wider use of the concept of Other Comprehensive Income (OCI) both in assets and liabilities should be permitted better to reflect the long-term nature of the business and avoid short-term volatilities in the income statement. Nevertheless, the selection of a measurement basis, presentation and disclosure should allow the taking into account of different business models (e.g. use of OCI) to avoid an accounting mismatch between assets and liabilities[19].

Conclusion and recommendation

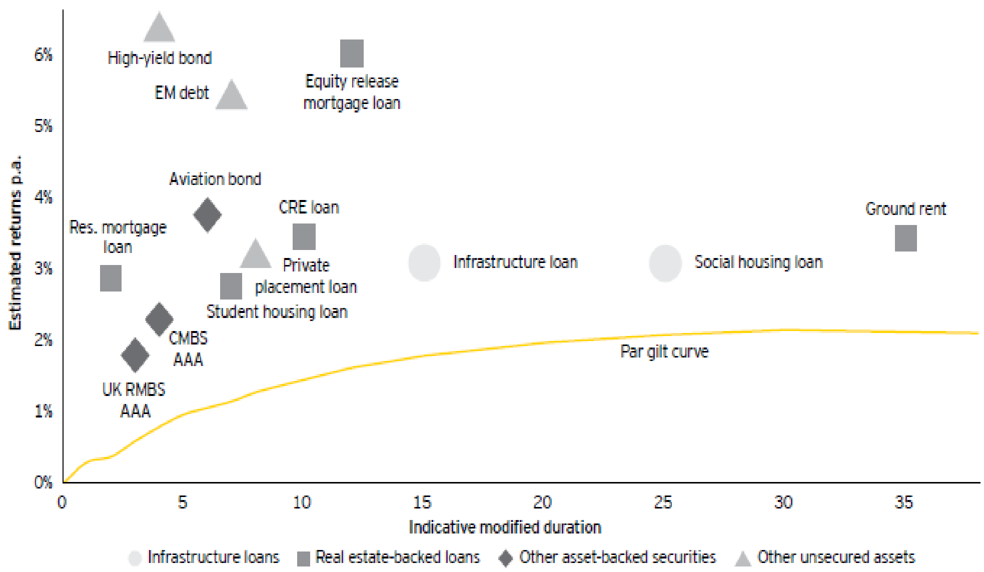
■ Infrastructure needs in ASEAN continue to grow, and governments are increasingly under strain to finance long-term infrastructure investments. The infrastructure gap is widening, as banking reforms mean that less long-term financing is available for infrastructure projects. Insurance companies have a longer-term investment perspective than banks. We make long-

[18] Total investment limit of 5% of total investment assets for subordinated debt, structured notes, unlisted equity, community fund and mutual fund with no look-through to asset allocation
[19] Asia-Pacific Financial Forum, 2016 Progress Report to the APEC Finance Ministers

term commitments to our policy holders and have stable long-term cash flows. As we collect premiums in local currencies, we invest domestic capital almost exclusively within the same country to achieve long-term returns for our customers. This makes insurance companies ideal sources of funding for long-term productive assets such as infrastructure.

- Diagram 8 indicates how infrastructure investments could increase portfolio diversification, providing return similar to other illiquid loans but reward the investor with a longer duration of returns. This suitably matches insurance liabilities. The EU-ABC encourages a more holistic regulatory and accounting treatment considering the characteristics of long-term productive assets supporting long-term liabilities, the effect of asset diversification and the lack of investment opportunities, to promote and incentivise the insurers' role in making long-term investments for the economy. These issues are often beyond the responsibility of insurance regulators. The EU-ABC encourages coordination with other financial sector regulators (i.e. banking, securities) and industry to address them holistically.

Diagram 8: Infrastructure investments compared to other illiquid assets



Source: Published by the Institute and Faculty of Actuaries working party on non-traditional assets. "Documents," *Actuaries*, http://www.actuaries.org.uk/research-and-resources/documents/non-traditional-investments-key-considerations-insurers-long-versio, accessed 17 April 2015

Source: Ernst and Young, Infrastructure Investments, An Attractive Option to Help Deliver a Prosperous and Sustainable Economy, Figure 4, p. 8

- Beyond regulatory restrictions, the supply of long-term investments is sometimes hampered by underdeveloped capital markets, scarcity of bankable projects and operational issues, such as weaknesses in credit rating and corporate governance as well as uncertainty in legal frameworks (i.e. creditors' rights, resolution systems).

- ***The EU-ABC urges the consideration of infrastructure investments as a defined asset class*** through 1) fostering standardisation in terms of reporting, documentation and benchmarking to develop capital markets; as well as improving conditions for capital market issuances 2) establishing clear rules for public/private collaboration, including common dispute resolution and potential for risk mitigation/credit enhancements, 3) structuring meaningful public/private agreements to share project risks and increase investors' confidence in the projects through product innovations, e.g. infrastructure debt takeout facility which provides a guaranteed takeout arrangement; guarantees for construction risks; government or agencies issuing guaranteed infrastructure bonds and allowing for pooling and securitisation of multiple projects etc., as well as, 4) offering non-discriminatory regulatory and accounting regimes that encourage greater participation by insurers in long-term investments.

Investment-Linked Products / Product Development[20]

Position

- In the current environment of low interest rates, traditional investment choices like cash, fixed interest, and guaranteed return products alone offer limited return opportunities for customers interested in taking more risk in exchange for more potential reward. The EU-ABC believes that the right balance of financial protection and market upside exposure has to be first determined and then matched with the risk appetite of each customer. As insurers, we are well-positioned to provide consumers with a comprehensive solution to covering their protection, health and investment needs through multiple channels.
- In that regard, the EU-ABC recommends avoiding risk of the elimination of the Investment-Linked (IL) market, which could occur by (i) significantly dis-incentivising the distribution of IL products, and (ii) significantly constraining insurers from investing in certain asset classes. ILPs have a role to play to help fulfil our mission of serving and protecting our customers.

Benefit to economic development and progress

- IL products are a well-adapted vehicle for consumer demand for balance between financial protection and market upside exposure, allowing for a high level of personalisation combined with the possibility of higher returns[21]. Depending on the risk appetite, IL products could be in the form of hybrid products with a desired mix of guaranteed return and an investment linked component. European insurers have been, for some time, successfully selling such hybrid products in Europe.
- In addition to being in the best interest of consumers, IL products also benefit other stakeholders such as insurers and governments/ regulators, as well as the overall financial system, by better spreading financial risks across the various participants.
- On the insurers' side, IL products represent a capital-light alternative to normally capital intensive general account products, thus providing a diversification benefit. They also help insurers enhance their product range and offer a one stop-shop solution to their customers, deepening customer engagement.
- In Asian countries, where customers have a current inclination towards general account savings products with guarantees, IL products can reduce systemic risk and thus enhance the sustainability of the system, which is of particular importance to the long-term insurance business.
- As for the financial system, as insurers are significant investors and a majority of IL assets are invested in equities, IL investments boost the equity markets while at the same time make equity market returns much more accessible to the retail customers. Equity market

[20] This is a new issue highlighted in the working group's third paper
[21] Source: Bloomberg - Total return (including dividend reinvested) over a 5-year period (31/12/2011 to 31/12/2016) for Hang Seng Index at 42%, S&P 500 at 97%, Euro Stoxx 600 at 74%, Nikkei 225 at 146% and FTSE 100 at 54%

What's in it for…		
Customers	**Regulators/Governments**	**Insurers**
• Products aligned with risk appetite and investment horizon • Participation in equity and alternate asset markets • Potentially higher returns	• Lower systemic risk • Risk diversification • Increased participation in financial markets • Equity market boost + Benefits to broader economy	• Mitigation to low interest rates environment • Comprehensive offering • Higher diversification • Lower financial volatility due to lower sensitivity to interest rate movements • Margin and Capital efficiency improvement

growth also benefits the broader economy and those not directly associated with the equity markets, allowing governments/regulators additional space for policy manoeuvre.

The insurance industry has contributed towards and is committed to making IL products more sustainable

- Traditional concerns associated with IL products are related to the potential complexity of these products and consequent risk of mis-selling products to consumers.
- EU-based insurers, having sold these products for decades, have developed strong product expertise and robust internal governance, controls and standards in order to ensure that each product is adapted to the needs of the client. Internal procedures developed by EU insurers, are in many cases, stricter than insurance regulations.
- The insurance industry will continue to dedicate significant resources towards educating and training the channels for distribution to reduce the risk of mis-selling. The EU-ABC members are not only committed to providing employment, but also training a professional agency force that can better respond to customers.
- Specifically, IL regulations governing the sale of IL products and the prerequisites for sale by agents, such as certification requirements, are more regulated than those of the General Account (G/A) business in most countries, which further limits the risk of mis-selling.
- In terms of product design, insurers propose a large variety of specialised products (for retirement, education, medical etc.) to ensure that they meet customers' primary insurance needs in addition to investment goals.
- Finally, insurers and their dedicated asset management companies have strong investment expertise and sufficient internal and regulatory controls to manage financial risks associated with the investment portfolio

Product design	Investments
• Enhanced product portfolio to better align with customer risk appetite and investment horizon range • Specialty products for retirement and senior care, education and medical care • Combination with protection products for critical illness, mortgage, health etc. • Hybrid products with a combination of IL and G/A components	• Offering a wide range of funds to the customers • Offering the ability to switch funds with reasonable fees • Maintaining a certain quality of investment portfolio
• High bar on skills and expertise for becoming an agent • Significant resources dedicated to distributor training through physical and online tools • Checks and balances to minimise mis-selling risk	• Significant time and effort invested in gauging risk appetite and investment horizon • Clear and transparent illustrations on historical and expected returns • Clear and transparent cost illustration • Upfront information about all associated risks
Distributor tools & training	**Customer focus**

Conclusion and Recommendation

- We have recently observed regulations in a few non-ASEAN countries that resulted in insurers pulling out from the IL products market, and are concerned of indications in certain ASEAN markets, such as the Philippines and Indonesia, that they are considering imposing regulations resulting in insurers being disincentivised from providing IL products, resulting in a less diversified product offering to meet consumer needs, higher systemic risk, and missed opportunities to grow the equity market.
- While these regulatory constraints are primarily driven by a willingness to protect consumers' interests especially against the risk of mis-selling, IL products are well suited to provide (i) customers with solutions based on their risk appetite and investment horizon, (ii) regulators and governments with lower systemic risk and higher access to financial markets, and (iii) insurers with diversification benefits, allowing them to mitigate low interest rates environment.

- We risk not having access to these benefits if the IL products market recedes. More effective means can be explored for achieving legitimate consumer protection objectives. The EU-ABC fully supports initiatives aimed at educating and raising the awareness of customers and distributors of IL products. EU insurers in particular have strong expertise in making IL products sustainable for consumers, government and the economy, and will continue sharing our expertise in ASEAN.
- In that regard, ***the EU-ABC would recommend not (i) significantly dis-incentivising distributors against IL products, and (ii) significantly constraining insurers from investing in certain asset classes in financial markets***.
- ***The EU-ABC welcomes public-private sector consultation on IL product development and regulation and stands ready to engage with regulators on how all stakeholders can make IL products more sustainable.***

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Spotlight on Digital Innovation

Position

- The EU-ABC supports efforts by governments to promote digital innovations to the extent that they provide value add to our customers, support information flow to regulators, and deliver better work processes for our employees.
- EU-ABC Insurance Working Group members have seized opportunities using technology and innovation across 4 areas – Distribution, Data Analytics, Dynamic Products and Partnerships. Some examples are as follows:

Distribution	Data Analytics
Empowering customers:	***Improving risk assessments:***
Aegon entered into a joint venture company, GoBear, which provides a metasearch engine allowing consumers to compare insurance and financial products online in an independent and unbiased manner. Futuready Insurance Broker, Aegon's Indonesian insurance broker company, is Indonesia's first licensed broker to focus on digital distribution. Through Futuready's website, customers can search for simple insurance products, obtain quotations, make payments and receive their policies. This enables customers to choose the amount, timing and location of interaction. Futuready also provides a flexible distribution solution for insurers to enter the market quickly and efficiently without the overheads.	**Swiss Re** entered into a partnership with National University of Singapore to collaborate in joint activities using big data, business analytics and information technologies. The partnership focuses on joint studies to create more detailed scientific data about complex risks caused by digitisation, and societal and urban challenges. A first joint study was focused on analysing wearables data, investigating the strength of association between step counts and health outcomes (cardio metabolic risk factors).
Partnerships	**Dynamic Products**
Supporting the technology ecosystem:	***Whole-of-customer approach:***
Prudential works with technology start-ups and established players to unlock new and traditional sources of talent and partnership outside of the financial sector. The technology is focused on enabling easy, convenient and safe delivery to customers – real-time digital interactions are enabled through rapidly developing mobile payment capabilities, on-device underwriting and upgraded workflow automation capabilities to encourage straight-through processing (e.g. unique scanning technology that allows instant capture of customer information offline).	**Generali**'s Genvita Health Promotion Program moves to directly address the consumer's concerns, which at its core, is one of managing risk, and not simply monetary coverage. Genvita is a comprehensive corporate wellness program that offers the employees of Generali's Group Business clientele health promotion, health support and financial health programs, facilitated by technology content providers and gamification.

Issues

Some issues that members have met while implementing new technologies:

- Difficult to identify the relevant regulations in each jurisdiction in which the digital innovation operates that apply to it due to the variety of regulatory regimes that apply for different activities
- Statutory tariffs that regulate allowable premiums, commissions and coverage for certain lines of insurance, e.g. in Indonesia. This is based on offline distribution cost structure and stifles digital innovation that can offer insurance at much lower costs and thus give value to customers
- Reliance on older regulations or regulations that does not differentiate between offline and online interaction models that poses challenges in setting up and running a digital insurance business, whether as a manufacturer or distributor (e.g. regulations in Indonesia requiring provision of hard copy of the insurance summary to the policyholders for any e-insurance policy)
- Business sustainability issues such as differentiating itself from future competition, dealing with copycats, obtaining the assurance of customers to accept fintech services, and maintaining optimal tax and legal structures for joint ventures.

Recommendation

- The EU-ABC recognises that governments are aware of technological developments and encourages fintech activities. Nonetheless, regulatory frameworks or innovation and competition mandates that encourage fintech activities are still lacking in many ASEAN countries. The policy, regulatory, and supervisory decisions, or lack thereof, of financial regulators can impact the ways in which new financial technologies are developed and implemented, and how effective they are. The application of laws and regulations that were designed based on traditional financial products and distribution channels may give rise to complex issues when applied to new products and distribution channels. In addition, applying more stringent regulations on front-running technologies without understanding their risks and benefits could impede innovation. Insurance companies would benefit by having an assigned point of contact within a specific government agency that would engage with these companies (and their start-up partners) early to: (1) understand and support government initiatives (regulatory or otherwise) to help facilitate deeper penetration into relevant industries; and (2) provide guidance on how to improve and expand their businesses.
- The introduction of new digital products or services typically involves heightened risks as an insurance company enters into new areas that are potentially disruptive. In addition to risks that exist independently of new technologies, the technologies involve high development and innovation costs and risks that are unique to the technologies, including regulatory compliance risks. While customers increasingly value ease and convenience of digital technologies, we must not also dismiss expressed customer preferences for in-person advice and the importance of that advice in educating customers, thus helping to close the mortality, health and savings gaps in many ASEAN member states. ***The EU-ABC supports product and service innovations that provide long-term social benefit and prove to provide sufficient value to customers***.
- ***The EU-ABC looks forward to partnering with regulators to support the fintech ecosystem and would welcome support for new digital innovations going through the***

regulatory process for the first time, more clarity in evaluating innovative products, services and processes that require regulatory approval and a one-stop centre for managing business competitiveness of new technologies.

Country by Country Review

Cambodia

Cambodia represents an untapped market opportunity with a population of 15.8 million enjoying sustained growth in the last decade (real GDP growth average of 7.4% between 2013 and 2015). Strong growth of an average of 7.1% is predicted for the period 2017-2019. The Cambodian government is keen to see the insurance sector develop further. Currently, the life (non-life) penetration rate stands at 0.12% (0.34%) and density per capita is US$1.40 (US$4.00). European insurers operating in Cambodia include the Prevoir Group (France), BIMA (Sweden) and Prudential (UK).

Issue 1: Sovereign disaster risk financing support from government

It is estimated that approximately 40% of Cambodia's state budget is derived from state donors and there is a lack of funds available to subsidise sovereign disaster risk financing (DRF) schemes. The last major flood event (2011) in Cambodia amounted to an economic loss of about USD 450 million. The Cambodian government covered about 30% of the loss amount while international donors and loans from development organisations mainly covered for the rest of the losses.

Floods and droughts are common perils that affect the Kingdom of Cambodia and there is more to be done in terms of capacity building and awareness building on disaster risk financing. Swiss Re has recently met with the National Committee for Disaster Management in Cambodia (2016) to introduce DRF concepts, and how these natural catastrophe risks can be transferred to the insurance market.

We recommend that the Cambodian government enables a well-functioning insurance market, so that a major part of disaster losses suffered by individuals and businesses can be absorbed by the market. The European re-insurance industry is ready to work with the government to finance disaster risks by introducing pre-event financing solutions such as indemnity insurance and parametric insurance to alleviate the remaining financial burden on the government.

Issue 2: Expansion of local bond market

The EU-ABC is pleased to see that the government has plans to establish a corporate bond market. Local currency bond markets expand the pool of available finance and are of crucial importance for the region's economic growth and the efficient channelling of long-term domestic capital to investment in long-term assets like infrastructure. EU-ABC members have been providers of long-term stable financing to countries and look forward to the government finalising regulation that would regulate the establishment of a corporate bond market.

EU-ABC members will be happy to support the Cambodian government in its development of policy issues in fostering an enabling environment for the local bond market, including the introduction of government bonds.

Indonesia

Indonesia is ASEAN's largest market by population size. The life (non-life) insurance penetration rate is 1.40% (0.48%), while insurance density per capita stands at US$46.90 (US$16.00). Strong growth of premiums between 20 and 30% were registered in 2015. Distribution channel data for life insurance indicates agency has 45%, bancassurance 33% and 23% other channels[22]. European insurers operating in Indonesia include Aegon, Allianz, Aviva, AXA, Generali, Prudential and Zurich.

Issue 1: Foreign Ownership Limits

Indonesia's House of Representatives passed Insurance Law No. 40 on 17 October 2014, replacing Law No. 2 of 1992 on Insurance Business. The new law does not make any changes with respect to foreign ownership which remains controlled under a separate government regulation, No. 39 of 2008 (Second Amendment to Government Regulation No. 73 of 1992 on Implementation of Insurance Business Activity). The regulation limits foreign ownership to 80 per cent, although a foreign shareholder is able to increase its shareholding beyond 80 per cent by subscribing for new shares so long as the existing capital issued to the local shareholder is maintained (the dilution rule). However, the new law requires the Government to issue a revised regulation on foreign ownership before 17 April 2017.

The EU-ABC cautions against any moves running contrary to developing an open investment regime at a time when ASEAN looks to enhance its attractiveness as an investment destination. We support any steps the Government can take to allow the full range of ownership models to provide certainty to business and encourage investment.

Insuring women to better protect all

AXA recognises that the full potential of women's insurance market will create impact far beyond the insurer's bottom line, increasing innovation, women's economic empowerment, and economic growth.

In Malaysia, AXA has introduced products focused on women as customers, distributors and entrepreneurs. AXA AFFIN GI partners with International Finance Corporation (IFC) to increase insurance coverage for women and improve safety in emerging markets. Its "Motor for Her" product, launched in April 2016, is dedicated to women drivers with the aim of driving motor insurance take-up rate among women. Free ride home on vehicle breakdown and free window snatch theft cover are also offered. In addition, a Woman's Personal Growth Personal Growth and Safety Event was launched promoting female

Image used with kind permission of AXA. ©AXA

[22] AAJI 2015 data

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Issue 2: Mandatory cession local reinsurers

New regulations effective as of 1 January 2016 stipulate that insurers seeking reinsurance coverage must first approach domestic Indonesian reinsurers before ceding premiums to offshore reinsurers. For "simple risk" insurance, which includes life insurance, 100% local cession is required (except for those which are exempted by the OJK). For exempted "simple risk" and all "non-simple risk", up to 75% can be reinsured offshore.

Indonesia Re, the national reinsurer, was formally established in October 2016, with the aim to strengthen domestic reinsurance capacity. Between now and 2020, it is expected to undergo a number of consolidation steps through mergers and capital injections, to further strengthen its capacity.

Open reinsurance markets are vital to global reinsurers to operate efficiently, to diversify risk globally and to promote continued growth and recovery of global and national economies. On the other hand, barriers to trade in reinsurance undermine the efficiency of reinsurance markets, leading to higher reinsurance costs and less capacity in the long term.

The mandatory local cession is harmful to the Indonesian consumers, by restricting the international expertise and innovative reinsurance products foreign reinsurers can provide. Increased concentration of risks locally can lead to negative economic consequences after a catastrophic event, as the local reinsurance sector may not have the capacity to provide funds to support economic recovery. In the long term, the increased vulnerability in the insurance sector can also result in financial instability and macroeconomic weakness.

As Indonesia Re continues to build up capacity, it is important that the government allows foreign reinsurers to continue participating in the domestic reinsurance market, including access to all risks, so that up-to-date technical knowledge can continue to be shared with domestic insurers and consumers can benefit from innovative products developed overseas. In the long term, it is important that all barriers or disincentives to Indonesian insurers accessing reinsurance from foreign reinsurers should be abolished in order to create an open and competitive market.

Issue 3: Talent Mobility

The ability to bring in talent to ASEAN markets allows insurers effectively to conduct business, and transfer skills to local staff, thus increasing the pool of local talent.

Currently all foreigners who wish to work in the insurance industry are subject to a fit and proper test conducted by the regulator and the employer has also given opportunities to the local experts within the Indonesian market. Regulation No. 67/POJK.05/2016 limits foreign employees to holding prescribed positions, i.e., underwriting, actuary, marketing and/or information systems. These functions do not cover the entire range of positions in which expertise needs to be brought into Indonesia to develop local talent.

The EU-ABC recommends clearly laid down and efficient processes for bringing in foreign talent. It would be beneficial to have an incentive system where if a company could demonstrate the development of local talent, a company can be represented by more foreign talent. Additionally, where foreign talent is being introduced in order to advance local capabilities with clear deliverables, there can be a specific channel for entry with a fixed term, say, not exceeding three years. The EU-ABC welcomes the ASEAN Agreement on Movement of Natural Persons to facilitate cross-border movement of skilled labour and urges countries to implement a more predictable process for movement of staff within companies around the region. Developing human capital is key to countries becoming more innovative and increasing productivity.

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Issue 4: Sharia unit spin off

Sharia spin offs involve separating sharia and takaful units from conventional banking and insurance teams. Under the new law, if an Insurance Company possesses a Sharia unit with participants or funds amounting to at least 50% of the total in its holding company or by 2024, the Insurance Company must separate the sharia unit from the Insurance Company. Spun off units usually have their own capital requirements and report under different regulatory frameworks.

It is recommended that the ownership structure of the new sharia company mirror the parent company from which it came. It is further recommended that the conventional and takaful companies be permitted to draw on common functional support (e.g. back office support) where there is no issue of sharia compliance.

Issue 5: Cross-Border Data Transfers and IT Outsourcing offshore

Data transfer and data privacy are taken seriously by European insurance companies, both to protect clients and to uphold international best practices.

It seems that the Indonesian Regulator is currently not in favour of a transfer of data offshore or having data centres offshore. Further, the local laws and regulations in this respect are not clear.

The EU-ABC cautions against limitations on the cross-border transfer, storage and processing of data, which are intended to help establish an international framework for the free flow of information in the growing digital economy. Requiring the use or location of a data centre onshore as a condition for conducting business in the territory runs contrary to the efficiency, productivity and strong risk management mandates that an international insurance group brings to the country via centralised operations

Enabling MFIs in Indonesia to cope with earthquakes

The provinces of Aceh and West Sumatra in Indonesia are highly prone to earthquakes. The tsunami of 2004, which was triggered by a magnitude 9.1 earthquake, caused devastation. Five years later, in 2009, an earthquake with a magnitude of 7.6 occurred 55 kilometres west of Padang, the capital of West Sumatra Province. It is estimated to have caused total losses of USD 2.5 billion, of which only USD 55 million were insured.

Responding to this threat, Swiss Re has partnered with PT Asuransi Wahana Tata and Mercy Corps in Indonesia to develop the first parametric insurance solution benefiting microfinance institutions (MFIs) in the area. It pays out automatically based on the measured strength of an earthquake.

MFIs are crucial for economic development in the area because they provide credit and insurance to numerous small businesses that could not survive otherwise. As the insured MFIs receive emergency funds quickly in the event of a strong earthquake, they have the means to help their small business clients to stay afloat and rebuild. Swiss Re supports this innovative solution with product structuring, pricing and underwriting, as well as reinsuring the risk.

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and standards. It is recommended that a global harmonised approach to cross-border data transfers and the right for international group companies to transfer data overseas within the same corporate group to be adopted (where certain conditions are met). The global headquarters of our European insurers are governed by rules of EU data protection (or similar) to protect customers, and the headquarters play a supervisory role over the transfer of such data within its affiliate members within the ASEAN region. Indonesia has expressed an interest in joining international trade agreements which preclude on-shoring; the EU-ABC encourages a considered approach by regulators that does not run contrary to Indonesia's long-term aim.

Laos

Laos is an emerging market with a population of 6.9 million. It has experienced strong economic growth in recent years (real GDP growth average of 7.7% between 2013 and 2015). Growth is expected to be sustained at an average of 7.8% for the period 2017 – 2019. The life (non-life) penetration rate stands at only 0.01% (0.42%). Insurance density per capita stood at US$0.16 (US$7.70). Presently, accurate statistics and data for Laos are difficult to obtain, although annual premiums are estimated to be between US$ 50 and 60 million, with a majority share of premiums going to reinsurers from mining and hydro-electric projects. Moreover, there is, as yet, no Insurance Association in Laos. European insurers operating in Laos include Allianz and Prudential.

Issue 1: Local partners for offshore re-insurers

Re-insurers possess both capital and expertise to manage risk from protecting insurers. Local partners may not always possess adequate levels of both capital and expertise. The Ministerial Instruction on implementing the Law on Insurance specifies that the maximum level of risk that may be retained by the primary insurer operating in Lao PDR, or which it may be liable for, shall not exceed 1.6 billion Kip (approx. US$ 200.000) for each policy; the insurer shall then recourse to reinsurance for the surplus.

It is recommended that the local regulator should monitor that local insurers comply with the instruction of the Ministry of Finance to ensure that the risk retained is not beyond or exceeding their capacity as well as to secure the rating/quality of the reinsurers chosen.

Issue 2: Build up the regulatory office for the Insurance Sector

In order to develop a stable and sustainable life insurance industry in Laos, Prudential is actively engaged in capacity building. Prudential works with Lao National University and the Banking Institute to train actuarial expertise and the insurance regulator to raise the standards of the insurance industry. ***The EU-ABC recommends that the Ministry of Finance build up a regulatory office for the insurance sector with qualified insurance professionals in order to assess the requests for new licenses as well as to steer and monitor the insurance industry***. We understand that the MOF is keen to develop a comprehensive regulatory framework and implementation guidelines for insurance businesses in Laos. EU-ABC members are happy to work with the MOF and to facilitate exchanges with other markets to give recommendations on procedures, guidelines and training of dedicated staff. The information exchange (e.g. in the form of workshops) should cover topics such as (i) disaster risk financing, (ii) solvency and reserving, (iii) long term government bonds (currently not available), (iv) consumer education and (v) supervision of insurance operations. Particularly, the EU-ABC sees a need to enhance monitoring over sales of insurance by insurers located offshore to protect consumers and ensure the development of premiums to be used for the local economy.

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Malaysia

Malaysia is a developed ASEAN market, with a relatively high life (non-life) penetration rate of 2.80% (1.50%) and Insurance density per capita at US$277.00 (US$144.00). Agency remains the main distribution channel for both life and non-life insurance. Distribution channel data for life insurance indicates agency had 80%, bancassurance 16% and 4% other channels[23]; as for non-life insurance, agency had 62%, brokers 16%, direct business 17% and 5% other channels[24]. European insurers operating in Malaysia include Allianz, AXA, Hanover Re, Munich Re, Prudential and Zurich.

Issue 1: Foreign Ownership Limits

In 1997, Malaysia revised its foreign ownership limit from 30% to 49%. In 2009, this was revised to 70%, in line with WTO accession rules. While the regulator, Bank Negara Malaysia ("BNM"), said in 2009 that it would consider allowing higher limits for foreign insurers on a case by case basis if this helped with industry consolidation, experience suggests that this discretionary power is rarely, if ever, exercised.

We support any steps the Government can take further to liberalise the ownership rules in line with the majority of ASEAN Member States, and provide confidence for investors by allowing foreign shareholdings of up to 100%.

Issue 2: Requirement to use local re-insurance before offshore market

At present all reinsurance placements relating to General insurance have to exhaust the local market before going to offshore market. However, local re-insurers may not always possess adequate levels of both capital and expertise required to manage risk from protecting insurers. ***Therefore, it is recommended that cross-border reinsurance should be unrestricted.***

Empowering the urban poor

Since 2011, Prudential has been running PRUkasih in Malaysia, a CSR project aimed at sustaining the livelihood of the poor by providing the main breadwinners with a free protection plan providing temporary financial relief to urban low-income family. It is unique as it employs a hand-up approach, as opposed to handout as the applicant must be an income earner, satisfies the most basic need by providing daily food and housing allowances for up to one year, provides social protection for the entire family, and is for the entire community.

The programme was further enhanced with the PRUvolunteer Model last year, to further scale up PRUkasih in communities that do not have NGO presence by appointing PRUvolunteers among the community. The PruKasih system was also launched to manage sign-up and claims more efficiently. Together, PRUkasih has provided access to 20,000 families in 12 communities.

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[23] Malaysia Life Insurance Association (LIAM) 2013 data
[24] Axco Insurance Information Services 2014 data

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EU-ASEAN BUSINESS COUNCIL

Issue 3: Over-taxation of insurance services

Goods and Services Tax (GST) regulations introduced new Deemed Input Tax Credit (DITC) rules where insurance companies are not allowed to claim tax credit on medical claims. This results in an effective "double taxation" in Malaysia, i.e. medical insurance is subject to 6% GST and DITC is not available for 6% GST embedded on inputs (Doctors' Fees, Medical equipment etc.). **The new rule distorts the value added concept of GST, leading to over-taxation of insurance services. It is recommended that DITC be allowed to be claimed by insurers, including for embedded GST, in line with GST treatment with other industries.**

Myanmar

Myanmar is another emerging market in ASEAN with strong growth potential and a life (non-life) penetration rate of 0.003% (0.05%). Insurance density per capita currently stands very low at US$0.04 (US$0.60). State-owned Myanma Insurance had been the sole operating insurance company in the country. In May 2013, the IBRB granted approval to 12 local private companies to provide insurance services in Myanmar. Three have life licences. No European insurers operate in Myanmar at present.

Issue 1: Foreign Ownership Limits

At present, foreign insurers are in general not allowed to trade in Myanmar with the exception of limited concessions within the Thilawa Special Economic Zone. The new NDLP Government is committed to liberalisation of the insurance market, including opening up to foreign companies. The form of liberalisation is to be decided following recommendations made by the Financial Regulatory Department (FRD) and the Insurance Business Regulatory Board. ***The EU-ABC supports steps taken by the government to further open up the sector and provide confidence for investors by permitting a full range of ownership structures***.

Issue 2: Lack of disaster risk financing (DRF)

Insurance penetration is relatively low in Myanmar given that the market has just opened up in the last few years with significant reforms underway. Swiss Re's last dialogue with the Ministry of Agriculture (before the presidential election in 2016) revealed that the Ministry does not have the subsidies fund available for such a macro agriculture scheme and the government is of the view that the farmers should bear the full cost of insurance premiums.

Previously in early 2015, Swiss Re had jointly organised a capacity building workshop with UNDP and UN-Habitat as well as the various local government agencies and Myanmar Insurance on DRF topics. More efforts could also be channelled in this area.

We recommend the Myanmar government to enable a well-functioning insurance market, so that a major part of disaster losses suffered by individuals and businesses can be absorbed by the market. The European re-insurance industry is ready to work with the government to finance disaster risks by introducing pre-event financing solutions such as indemnity insurance and parametric insurance to alleviate the remaining financial burden on the government.

Philippines

The Philippines has seen strong economic growth since 2010, with youthful demographics bolstering growth in the coming decade. The life (non-life) penetration rate is currently 1.42% (0.51%) and insurance density per capita stands at US$41.10 (US$14.70). Distribution channel data for life insurance indicates agency had 55%, bancassurance had 45% and 0% via other channels[25]. European insurers operating in the Philippines include Generali, AXA and Prudential.

Issue 1: Cross-Border Data Transfers and IT Outsourcing offshore [resolved]

In March 2016, the Insurance Commissioner issued a Circular Letter on "Amendments to Guidelines on Electronic Commerce of Insurance Products". The EU-ABC is pleased to note under section 14 "Jurisdiction over Insurance Contracts" that the Insurance Commissioner has taken the views of the industry seriously and no longer require data servers to be located onshore. Data transfer and data privacy are taken seriously by European insurance companies, both to protect clients and to uphold international best practices.

Issue 2: Regulations to promote investment in long-term productive assets

The EU-ABC is encouraged to hear that the Insurance Commission is looking into expanding investment outlets for insurers, including putting in place a regulation to guide insurance companies in infrastructure and PPP project investments. The EU-ABC stands ready to respond to the IC on our experiences investing in long-term assets in order to come up with an appropriate yet prudentially sound regulatory and capital framework.

Issue 3: Private sector dialogue on new regulatory standards for insurers

The EU-ABC takes note of the progress of the implementation of the new financial reporting framework for insurers in the Philippines and welcomes the preparations for the adoption of new reserve and risk-based capital frameworks and standards. The EU-ABC is committed to assist the regulator in the finalisation and subsequent effective implementation of the standards through strengthened information sharing and holding of workshops and other capacity-building initiatives with the regulator.

Singapore

Singapore has a well-developed economy, with insurance penetration rate at 6.3% (1.0%) and Insurance density per capita at US$3,307.00 (US$524.00). Distribution channel data for life insurance indicates agency had 58%, bancassurance 38% and 4% other channels[26]. European insurers operating in Singapore include Aegon (Transamerica), Allianz Global, Allianz SE, Aspen Insurance UK Ltd, Aon, Assuranceforeninggen Skuld (GJENSIDIG), Aviva Ltd, AXA Corporate Solutions, AXA Insurance, AXA Life Insurance, AXA Specialty, Cigna Europe Insurance, Euler Hermes Deutschland, Euler Hermes UK, Friends Provident, Gan Eurocortage, Generali International, Generali Re, Groupama SA, Groupama Transport, HDI-GERLING INDUSTRIE VERSICHERUNG AG, HSBC Insurance PTE, JLT, Muenchener Rueckversicherungs Gesellschaft, Paris Re, Prudential Assurance Co. of Singapore, R&V Verischerung AG, Royal and Sun Alliance (Singapore), Royal and Sun Alliance plc, Royal Skandia, Scor Global Life Ruckversicherungs, Scor Global Life SE, Scor Re, Scor Switzerland, Scottish Annuity & Life, Sirius International, Standard Life International, Sun Alliance and London, Swiss Life (Liechtenstein), Swiss Life (Singapore) Swiss Re Frankona, Swiss Re, Swiss Re International, Copenhagen Re, North of England P&I Association, The Shipowners' Mutual P&I Assn. (LUXEMBOURG),UK Mutual Steamship Assurance, XL Capital Assurance, XL Insurance, XL Re, Zurich Insurance, Zurich Life, Zurich International, and Lloyd's Asia Scheme.

Issue 1: Limits on equity investments

[25] Insurance Commissioner 2013 data
[26] Life Association of Singapore 2016 data

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There exists a 10% restriction on holdings of a single company's shares in Singapore, which restricts investment choices for insurers and their customers to obtain the desired risk-return profile. It also prevents full equity investment in a special vehicle established for an infrastructure project, although a loan to the same vehicle would be permitted. ***The EU-ABC recommends a review on the ownership restrictions to allow greater equity investments in infrastructure projects***.

Thailand

Thailand has a fairly strong life (non-life) penetration rate of 3.90% (1.50%), and insurance density per capita stands at US$229.00 (US$88.00). Distribution channel data for life insurance indicates agency had 49%, bancassurance 45% and 6% other channels[27]. European insurers operating in Thailand include Allianz, AXA, Generali, and Prudential.

Issue 1: Foreign Ownership Limits

In Thailand, the Ministry of Finance issued notifications to relax foreign shareholding and board limits for insurance companies. Under these measures, a licensed insurance company may apply to the Finance Minister for permission to have more than 49% (and up to 100%) foreign shareholding, and for foreign directors to comprise more than half of the directors on its board. The proposed foreign shareholder must meet specified conditions. It remains to be seen how the approvals will be exercised to open up opportunities for foreign players.

We support any steps the Government can take to further liberalise the ownership rules and provide confidence for investors by allowing as a matter of course foreign shareholdings up to 100%.

Leading in diversity and inclusion

AXA aligns its business goals with disability initiatives. In Thailand, Krung Thai-AXA has a well-integrated recruitment process of people with disabilities in its HR program and a communication campaign to inform people about these opportunities. AXA also shares best practices and expertise with Universities, Ministries and researchers as well as sponsor national and international events. One such event was the "Disability Matter 2015: Asia-Pacific conference" to raise awareness about this topic. The company was recognized as one of the 25 awardees receiving "The Global Award for Good Practices in the Employment of Persons with Disabilities" at the United Nations (UN) on the "International Day of Persons with Disabilities".

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[27] Thai Life Association 2016 data

Issue 2: Limits on foreign currency investments

Currently the regulator allows 15% of assets to be invested offshore. Offshore investment should not be handicapped by asset allocation regulations that unnecessarily reduce appropriate risk-adjusted returns to clients and policyholders.

Therefore, it is recommended that Thai insurers should be enabled to invest their assets above the current limit, in foreign currency instruments, so long as they meet or exceed all national solvency requirements.

Issue 3: Limits on direct infrastructure investment

Thailand's infrastructure plan envisages THB2 trillion in investments over eight to ten years including its current Thai Power Development Plan which envisages a total of 55GW of new power generation capacity in the 2012-30 period. The project pipeline is significant while a gap still exists to fund "less mature" infrastructure assets, which are not yet ready for IPO. Institutional investors such as insurance companies are natural investors for long-dated privately negotiated credit in stable sectors such as infrastructure. However, insurance companies are not allowed to lend directly to infrastructure projects.

The Government requires significant private sector participation to help fund infrastructure build out. ***It is recommended that momentum is gained to enable regulations allowing insurance companies to be able to invest directly, including through loans, in infrastructure projects.***

Vietnam

Vietnam's economy has witnessed strong growth in recent years, supporting a large, young population with an emerging middle class. The government has undertaken a slow but steady movement to a market-based economy. Its life (non-life) penetration rate of 0.9% (0.7%) and Insurance density per capita of US$17.90 (US$14.80) indicate room for future growth. Distribution channel data for insurance (life and non-life, as a percentage of total premiums) indicates agency had 93%, bancassurance 7% and 0% via other channels. European insurers operating in Vietnam include Generali, Groupama, Prudential, Prevoir, BNP Paribas and Aviva.

Issue 1: Legal framework for public-private partnerships

The development of the Vietnamese insurance market only dates back some 20 years. Insurance coverage against natural catastrophes is only available through extended classic property insurance policies for commercial risks. Insurance companies may have their capital overexposed as the international reinsurance market is capping reinsured liabilities. In addition, the Government has no solution yet for the coverage of public and home owners' assets against natural disasters. With the review of the Public Asset Management Law, some exposed public assets will have to be insured against natural disasters and provincial protection schemes are being considered to cover public assets under the administration of the Ministry of Agriculture and Rural Department. Disaster Risk Finance (DRF) solutions are vital to this issue but lack the legal and regulatory bases which come from approval and endorsement at National Assembly and at ministerial level.

Currently, Swiss Re is working on the implementation of several small pilot projects, similar to the Agriculture Insurance scheme, which was launched under the Prime Minister's decree, pending the National Assembly's approval, in order to gain experience before a nationwide rollout. The MOF has been requested to submit a Decree by April 2017 for the relaunch of a subsidized agriculture insurance nationwide program based on the findings of a pilot scheme from 2011 - 2013. Such decrees would require the submission of an application by the Insurance Supervisory Authority in coordination with several Departments of the Ministry of Finance and various other relevant ministries endorsed by their Ministers; this requires lots of capacity building and knowhow transfer.

Generally, progress at the MoF to implement a Disaster Risk Finance strategy has been slow since the inception of the Law on Natural Disaster Preparedness, Emergency Response and Mitigation in 2014. ***We recommend the Government to boost its capacity building efforts in disaster risk financing, supported by a robust legal and regulatory framework. The government should also support and facilitate (e.g. by promoting insurance and providing incentives to farmers to join the scheme) the extension of the Agriculture Insurance scheme nationwide, taking into account the lessons learned from the provincial pilot schemes in recent years.***[28]

Issue 2: Limits on direct infrastructure investment

Insurance companies are not allowed to directly invest in infrastructure projects. While investments in infrastructure projects can be conducted through corporate bonds, the corporate bond market is small. A large gap still exists to fund infrastructure assets. As tightening continues on long-term lending of banks against short-term deposits in Vietnam in accordance with international standards, room for further extension of long-term infrastructure loans is shrinking. Insurance companies, with their long-term liabilities, are natural investors for long-term infrastructure assets. ***It is recommended that the government work with insurers to look at ways in which insurance companies can be allowed to invest directly in infrastructure projects without punitive capital charges.***

Issue 3: Expansion of local bond market

The EU-ABC supports the development of deeper and more comprehensive capital and bond markets to pool domestic capital for investment and allow for a broader investor base which increase businesses' access to capital. EU-ABC members have consistently contributed to local capital markets, a significant proportion of total investments from the insurance industry. Since the Vietnam government issued its first 20-year and 30-year bonds in 2015, Prudential has purchased US$510 million of government bonds. The corporate bond market is still at an early stage of development. There exists no professional rating agency and there are restrictions in bond issuance. ***The EU-ABC understands that MOF is working with the Vietnam Bond Association and is keen to develop the corporate bond market. The EU-ABC welcomes improvements in market infrastructures that promote the development of the corporate bond market.***

[28] The Saigon Times, Vietnam, Swiss Re to discuss insurance for agriculture, Jan 2017. Retrieved from: http://english.thesaigontimes.vn/52081/Vietnam-Swiss-Re-to-discuss-insurance-for-agriculture.html

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Conclusions and Recommendations for meeting AEC 2025 Priorities

- The ASEAN Economic Community (AEC) was formally launched at the end of 2015. One of the four pillars of AEC is to establish a single market and production base, through free flow of goods, services, investment, and skilled labour, and freer flow of capital. Measures to achieve this include the removal of all restrictions on trade in services, continued liberalisation of financial services, and strengthening investment protection via Most-Favoured Nation (MFN)/national treatment.

- The ***EU-ABC welcomes the publication on 6th Feb 2017 of the AEC 2025 Consolidated Strategic Action Plan*** for the delivery of the AEC Blueprint 2025. We are pleased to note the firm timelines and identification of responsible bodies and working groups for delivery of the various AEC objectives. ***We hope that ASEAN and its Member States will keep to the timelines included in the CSAP, so that international businesses investing and trading in ASEAN will be able to see real and tangible progress on the liberalisation of rules and regulations, thus making ASEAN an even more attractive place for future investment.***

- Insurance development is critical to economic growth and the AEC's success. It supports trade and commerce, accumulates investible funds and encourages their investment in the wider economic development of the country, such as infrastructure projects. Insurance companies aid the deepening of capital markets, hence enhancing access to financing for local corporates, including SMEs. As a risk management tool, insurance promotes resilience of countries in the face of disasters and provides protection, financial security and proper pensions to people. In addition, a more open and integrated market brings down the cost of insurance as insurers provide greater consumer choice and become more efficient in a more competitive environment. In order for international insurance firms to be able to contribute fully to the success of AEC 2025, we provide our views and recommendations on CSAP as follows:

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CSAP Objectives	EU-ABC Views and Recommendations
Trade in Services / Investment Environment	
To further broaden and deepen services integration within ASEAN and enhance Member States' competitiveness To enhance further ASEAN's attractiveness as an investment destination globally through the establishment of an open, transparent and predictable investment regime in the region.	The EU-ABC urges an acceleration of the removal of ownership and control restrictions to enable the faster development of insurance services across the region and increased competitiveness. Permitting different ownership structures, including wholly owned local companies, joint ventures, and wholly owned foreign subsidiaries – as already exist in the Philippines, Vietnam, Brunei, Cambodia, Lao PDR and Singapore – has been shown to lead to quality, long-term investments in local insurance markets, with resultant gains in employment and insurance penetration, and deepening of domestic capital markets.
Financial Integration, Financial Inclusion and Financial Stability	
Strengthen financial integration to facilitate intra-ASEAN trade and investment by having more connected capital markets	The EU-ABC supports the development of deeper and more comprehensive capital markets to pool domestic capital for investment and allow for a broader investor base. EU-ABC members are committed to long-term stable financing to countries and have consistently contributed to local capital markets a significant proportion of total investments from the insurance industry.
Promote financial inclusion to deliver financial products and services to a wider community that is underserved	As the insurance industry in the region continues to develop, EU-ABC members also contribute to enhanced financial inclusion, increased financial literacy and innovative products to help protect communities and livelihoods when disasters strike. We have pursued partnerships with governments and initiated digital innovations to increase access to insurance. Agency distribution remains an effective tool to reach underserved communities. The EU-ABC recommends ASEAN governments to enable a functioning insurance market to absorb a major part of disaster losses suffered by businesses and individuals. We are committed to boost capacity building and transfer of know-how to help governments better understand threats and how best to respond.

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Promote capacity building to narrow the financial development gap of the region.	European insurers are actively engaged in building capacity of regulators through conducting workshops on insurance development and regulation, facilitating exchanges between regulators and between the industry and foreign regulators and initiating pilot projects, such as agricultural insurance schemes, to promote capacity building and knowhow transfer to countries on disaster risk management. We are committed to deepening and strengthening the insurance sector in ASEAN, and developing regulatory competencies in member states to promote financial integration across the region.
Facilitating Movement of Skilled Labour and Business Visitors	
Facilitate the cross-border movement of natural persons and business visitors engaged in the conduct of trade in goods, services and investment.	Developing Human Capital in the region is key to ASEAN becoming more innovative and increasing productivity. The EU-ABC would welcome moves to allow for the easier movement of staff within companies around the region as part of management development programmes that would enhance training, knowledge sharing and promotion of new skills. We recommend clearly laid down and more efficient processes for bringing foreign talent into the market to advance local capabilities.
Information and Communication Technology (ICT)	
Explore the further utilisation and coordination of coordination of ICT for economic development	The EU-ABC looks forward to partnering with regulators to support the fintech ecosystem and would welcome support for new digital innovations going through the regulatory process for the first time, more clarity in evaluating innovative products, services and processes that require regulatory approval and a one-stop centre for managing business competitiveness of new technologies. Free movement of data between countries will facilitate increased use of ICT technology.
Public Private Partnership	

Establish a rolling priority pipeline list of potential ASEAN infrastructure projects and sources of funds	Infrastructure development in ASEAN is of vital importance; the insurance sector has a key role to play to fund and execute the growing infrastructure needs. The design of regulatory frameworks has impact beyond individual insurers to the real economy, and frameworks should not unduly restrict investments in the wider economic and financial development of the country. The EU-ABC urges the holistic consideration of infrastructure investments as a defined asset class and promoting its development through project standardisation, regulatory and accounting regimes that encourage greater participation by insurers in long-term investments, and clear rules for public-private collaboration and risk sharing.
Global ASEAN	
Continue to review and improve ASEAN FTAs and CEPs to ensure that they remain modern, comprehensive, of high-quality and more responsive to the needs of businesses operating ASEAN networks.	To strengthen ASEAN's position as an open and inclusive economic region, EU-ABC cautions against limitations on the cross-border transfer, storage and processing of data, which are intended to help establish an international framework for the free flow of information in the growing digital economy. Requiring the use or location of a data centre onshore as a condition for conducting business in the territory runs contrary to the efficiency, productivity and strong risk management mandates that an international insurance group brings to the country via centralised operations and standards. More effective means can be explored for achieving legitimate public policy objectives (e.g. the need for data during crisis situations) such as including agreed terms in contracts.
Enhance economic partnerships with non-FTA Dialogue partners by upgrading and strengthening trade and investment work programmes/plans	The EU-ABC actively supports the concept of a region-to-region FTA between the EU and ASEAN, and welcomes the framework agreement announced in March 2017. We believe such a deal would bring unprecedented levels of trade and investment to both regions. EU-ABC members actively support EU's engagement with ASEAN as the two regions build investment and trading links.

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Private Sector Consultation

"THE ROLE OF THE PRIVATE SECTOR IN ASEAN INTEGRATION IS IMPORTANT AS A KEY STAKEHOLDER IN THE PROCESS. IN THE AEC 2025 ENVIRONMENT, IT IS RECOGNISED THAT GREATER INVOLVEMENT OF THE PRIVATE SECTOR AND MORE STRUCTURED PARTICIPATION WILL BE BENEFICIAL TO THE ACHIEVEMENT OF ASEAN GOALS"

AEC Blueprint 2025, paragraph 70, Section II.D.2

The EU-ABC is very pleased to see such a strong emphasis being placed on ensuring greater private sector involvement in the development of the AEC, and the various changes to rule, policies, regulations and standards that will be required across the region if ASEAN is to achieve its stated aims.

It is our view that ***increased private sector dialogue and consultation is essential to instill a greater sense of confidence in the broader business community in the AEC and its development***. Involving Business Councils, such as the EU-ABC, will have the twin effect of both allowing international business and industry better to understand and see the progress that ASEAN is making on the integration agenda, and give ASEAN and its Member States increased access to sector expertise and experience from across a broad range of industries.

To some extent, elements of the consultation that the AEC Blueprint 2025 depicts already exist. The EU-ABC, for instance, has a regular dialogue with the ASEAN Business Advisory Council, and the ASEAN Economic Ministers and normally the ASEAN Finance Ministers and Central Bank Governors, though in the case of the latter the regular dialogue will not be happening in 2017 due to scheduling constraints for the Ministers: we look forward to its reinstatement in 2018.

We feel that ***more focused working level engagement, either directly with ASEAN Member States at official level, or through the various ASEAN Working Groups, would be bring greater benefit to both parties***. We therefore welcome the commitment in the AEC Blueprint 2025 to "implement a more inclusive and consultative process involving the private sector"[29] and for "relevant ASEAN bodies to institutionalise within each body a consultative process with lead private sector entities (business associations and business councils) … to support the implementation under the sectoral work plans"[30]. Such engagements would lead to greater focus and ensure better follow-up on concrete achievables, which ASEAN could showcase as clear success factors towards its integration efforts. In the context of the insurance industry, this promise can be fulfilled through deeper engagement and dialogue between business and ASEAN policy makers, for example:

- By establishing a vehicle for collaboration between the EUABC Insurance Working Group and the ASEAN Insurance Regulators Meeting (AIRM);
- EU-ABC support for the commitment to liberalise the financial services sector through the ASEAN Trade in Services Agreement (ATISA) including EU-ABC consultation in the development of sectoral annexes;

[29] ASEAN 2025: Forging Ahead Together, p.90, paragraph 71(i)
[30] ASEAN 2025: Forging Ahead Together, p.90, paragraph 71(i)(b)

- EU-ABC engagement in establishment of the ASEAN Insurance Integration Framework, which seeks to promote deeper penetration in insurance markets

About the EU-ASEAN Business Council and Insurance Working Group

The EU-ASEAN Business Council (EU-ABC) is the primary voice for European business within the ASEAN region. It is recognised by both the European Commission and the ASEAN Secretariat. Independent of both bodies, the Council has been established to help promote the interests of European businesses operating within ASEAN and to advocate for changes in policies and regulations which would help promote trade and investment between Europe and the ASEAN region. As such, the Council works on a sectorial and cross-industry basis to help improve the investment and trading conditions for European businesses in the ASEAN region through influencing policy and decision makers throughout the region and in the EU, as well as acting as a platform for the exchange of information and ideas amongst its members and regional players within the ASEAN region.

The EU-ABC conducts its activities through a series of advocacy groups focused on particular industry sectors and cross-industry issues. These groups, usually chaired by a multi-national corporation, draw on the views of the entire membership of the EU-ABC as well as the relevant committees from our European Chamber of Commerce membership, allowing the EU-ABC to reflect the views and concerns of European business in general. Groups cover, amongst other areas, Insurance, Automotive, IPR & Illicit Trade, Customs & Trade Facilitation, Healthcare and FMCG.

Executive Board

The EU-ABC is overseen by an elected Executive Board consisting of corporate leaders representing a range of important industry sectors and representatives of the European Chambers of Commerce in South East Asia. The Executive Board is led by its Chairman is Mr Donald Kanak.

Membership

The EU-ABC's membership consists of large European Multi-national Corporations and the eight European Chambers of Commerce from around South East Asia. As such, the EU-ABC represents a diverse range of European industries cutting across almost every commercial sphere from car manufacturing through to financial services and including Fast Moving Consumer Goods and high-end electronics and communications. Our members all have a vested interest in enhancing trade, commerce and investment between Europe and ASEAN.

To find out more about the benefits of Membership and how to join the EU-ASEAN Business Council please either visit www.eu-asean.eu or write to info@eu-asean.eu .

The Insurance Working Group

Consisting of our membership in the insurance industry and representatives of the various financial services committees from some of our European Chamber members, this group looks at a range of issues faced by the broad insurance industry in the region. Prior to this paper, the Insurance Working Group has issued two advocacy papers, and engaged ASEAN governments including Finance Ministers and regulators on the issues. Our members are committed to ASEAN and seek to work together with governments to improve conditions that encourage investments in the wider economic development of the country as well as promote protection and resilience of communities. The Working Group is currently represented by the following insurers: Aegon, Allianz, Aon, AXA, Generali, Prudential, Swiss Re and Zurich as well as the European Chambers of Commerce in ASEAN countries.

Appendix 1: Benefits of a Fully Involved Insurance Industry

The insurance industry (including reinsurance) plays a key role in supporting long-term economic growth. Through risk mitigation and long-term investment, the re/insurance industry contributes to steady economic and social development. Its functions are essential for individuals and corporations, but also support the macroeconomic goals of governments. An open and inclusive investment environment will best stimulate an innovative and competitive market that brings better protection for consumers.

The insurance sector supports a country's social and economic growth in the following ways:

- **Insurance promotes economic development & business growth**

Insurance makes the business environment more predictable, directly facilitating corporate planning and long-term decision making. It supports citizens, alleviating their fear of sudden misfortune by enhancing their financial security and peace of mind. It enhances social protection systems, by relieving the burden on governments for providing all services of social protection. In addition, insurance creates incentives for innovations reducing the frequency of adverse events through the discounts offered to the policyholders that adopt them.

DEEPENING LOCAL CAPITAL MARKETS - A 2010 study of the life insurance sector's rapid growth in Malaysia highlighted how pooled funds allowed the sector to participate actively in portfolio investments. The results indicate a relationship between the total assets of Malaysian life insurance sector and real GDP. The findings suggest that the life insurance sector could be an effective financial intermediary to generate long-term savings, to finance capital investments, and eventually strengthen a country's economic growth.

Particularly in emerging and developing markets, the shift from agriculture to manufacturing to high value-added service industries, such as re/insurance, is essential to sustainable economic growth through high quality job creation.

Re/insurers must preserve their economic relevance and social legitimacy by offering solutions which reflect the rapid evolvement of the global risk landscape. The successful pursuit of this goal not only matters to re/insurers and their commercial viability; it matters to society, as insurance-based risk transfer has always been and will always be a key ingredient to economic growth and social stability and resilience.

- **Insurance brings protection, financial security and proper pensions to the people**

By pooling individual risks, insurance mitigates the effects of events over which individuals and companies have no control, allowing them to recover from sudden misfortune by relieving the financial burden. This risk coverage enables them to undertake activities that would not have been engaged in otherwise, such as buying a home or starting a business, thereby broadening the scope of economic activity. It also encourages private saving for healthcare and ageing needs, thus reducing the burden on the state budget.

Life insurance provides strong social security, enabling families to provide for their needs in terms of healthcare, education, retirement income, and housing. This stronger sense of security will result in better quality of living. At the same time, individuals can also develop saving habits because of the contractual nature of life insurance policies.

Increased protection will be especially important as the region's working-age population — the main cohort that buys wealth and insurance products — is expected to grow and account for 68% of the total Southeast Asian population by 2025[31].

SOUTHEAST ASIA PROTECTION GAP - Swiss Re's Mortality Protection Gap, Asia Pacific 2015 highlighted a growing insurance protection gap across a number of countries, including Vietnam, Indonesia, and the Philippines. In terms of life protection gap, there was an estimated shortfall of USD58 trillion for emerging Asian countries (which include ASEAN Member States) in 2014.

There is also considerable variation in the coverage of the ASEAN labour force by formal pension systems, with ranges from 20.7 per cent in Vietnam in 2010 to 84.0 per cent in Singapore in 2012[32]. Insurance companies can help address these gaps by offering protection policies/products and raising awareness of how insurance products can mitigate risks[33].

➢ **Insurance establishes long-term domestic capital markets, mobilises domestic savings, and creates market liquidity**

Unlike commercial banks that specialise in deposit-taking and relatively short-term lending, life insurance companies adopt a longer term perspective. Their long-term commitments to policyholders and the stability of their cash flows provide ideal sources of financing for governments and businesses, typically into government and corporate bonds, but also potentially into other asset classes such as real estate, equities, and various kind of alternative investments incl. infrastructure projects. This accumulation and deployment of premiums transforms dormant capital from vast numbers of policyholders into productive long-term capital to support economic growth.

As insurance companies are not prone to liquidity shortages, they are more resilient to short-term market stress, which allows them to play their counter-cyclical role when it is most needed. Therefore, the combination of inherently long-term investments and resilience enables re/insurance companies to contribute to financial stability.

Recent academic analyses also suggest FDI's positive impact on a host country's economic growth performance, as well as the life insurance sector's contribution to GDP via the intermediation of long term savings towards capital investments. Empirical analyses by scholars indicate FDI can complement domestic savings in forming a deeper pool of investment capital, particularly in Hong Kong, Singapore, South Korea, China and India. For example, insurance companies hold significant shares of institutional assets in Singapore, Thailand, Philippines, and Indonesia[34]. It is worth noting that the European Union is the largest provider of FDI to ASEAN countries.

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➢ **Insurance encourages investment in the wider economic development of the country, such as infrastructure projects**

The long-term nature of the insurance sector's liabilities, the predictability of its receipts and its sizeable reserves allow it to have a long term vision in guarantee provision and investment. These characteristics encourage insurers to channel savings into long-term investments, complementing with the banking sector's allocation of resources. Since they continuously invest the money collected from their clients, insurance companies are capital providers to the economy.

The insurance industry's unique position as a provider of risk capital with a long-term investment horizon creates opportunities for productive collaboration with governments and other public sector institutions on long-term capital projects. Governments across ASEAN recognise the need for properly designed infrastructure projects as essential for sustaining economic growth.

Clear rules for public/private collaboration and innovative financial instruments (such as fixed-rate investment products and investable indices) can open the way for private institutional investment in these areas. This could be particularly fruitful in the energy sector, including renewable energy. The social and environmental benefits of transition to a low-carbon economy are clear, but the extended time-frame for economic return discourages short-term investors. As active investors with a long-term view, insurance companies are capable of playing a pivotal role in bringing about this transition.

DISASTER MICRO-INSURANCE: A good example of such disaster risk product is the weather index based micro-insurance product, a first in South-East Asia, which Swiss Re developed for the Vietnam Agribank Insurance Joint Stock Company (ABIC) in 2010. Under the arrangement, ABIC – the insurance arm of Agribank, Vietnam's agriculture bank and key provider of agriculture loans – insured Agribank's rice farming clients against the inability to make loan repayments due to low yields caused by natural catastrophes such as droughts, floods and typhoons as well as pests and

➢ **Insurance strengthens resilience in the face of disasters**

Using its knowledge and expertise built up over many years, the European insurance industry is able to cover major threats characterised by a very high cost and a very low probability of occurrence, such as natural disasters. The size and high degree of diversification of the main actors allow them to provide protection to the most vulnerable countries, due to a high risk-bearing capacity.

According to the Global Reinsurance Forum's September 2014 report, *Global Reinsurance: strengthening disaster risk resilience*,[35] large, unpredictable, and costly disasters are inevitable – but global reinsurance provides a mechanism to compensate insured parties for their losses, using the premiums they and others have paid beforehand under an agreed contract. Global reinsurers are able to offer this service to insurers because they pool their risks and capital globally and thus gain the benefits of diversification. Insurance and other pre-paid risk-financing mechanisms are widely recognised as critical part of any comprehensive disaster risk management strategy. Timely pay-outs enable rebuilding and recovery, which helps to reduce indirect losses[36].

Research. Retrieved from: https://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000328056/What%E2%80%99s+behind+recent+trends+in+Asian+corporate+bond+markets%3F.pdf

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[36] ABIC in turn transferred the risk via reinsurance to Swiss Re and the Vietnam National Reinsurance Corporation (Vina Re). Payouts are defined by an independent "area-yield index"that is based on data from the Vietnam's Bureau of Statistics. Aside

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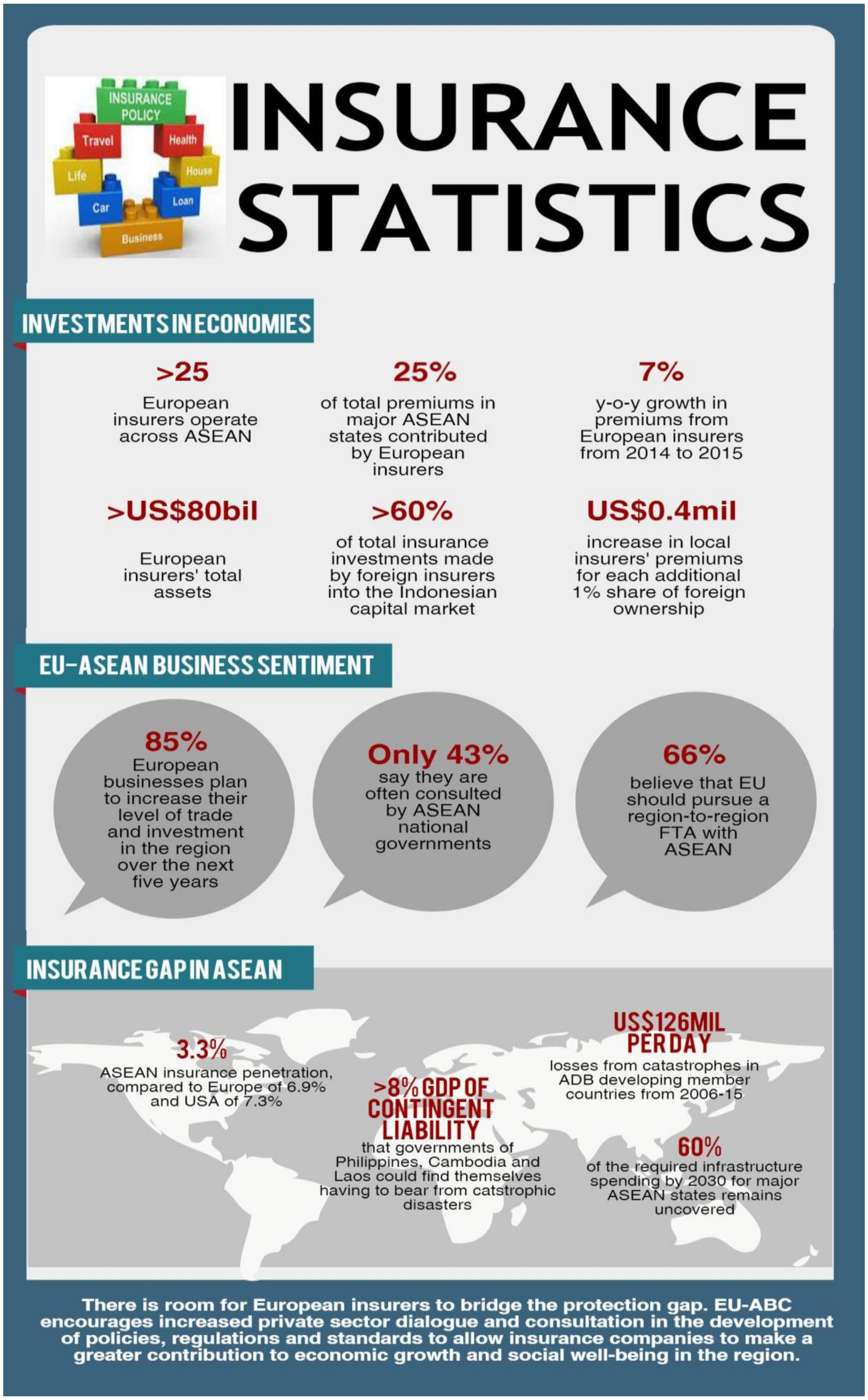
Appendix 2: Insurance Statistics



from offering capacity for at least five years, Swiss Re also provided the knowledge in structuring and implementing the programme. Retrieved from: http://media.swissre.com/documents/pub_closing_the_financial_gap_W1.pdf