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BUSINESS COUNCIL

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The Future of Insurance:
Driving Innovation and Sustained Growth in ASEAN
Part II

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Table of Contents

Update of Issues from 2017 Insurance Paper	3
Country by Country Review	4
Appendix	
Benefits of a Fully Involved Insurance Industry	14
Cross-Regional Issues Grid	18
About the EU-ASEAN Business Council and Insurance Working Group	24

Update of Issues from 2017 Insurance Paper

Shareholding

The EU-ABC supports steps taken by governments to further open up the insurance sector and provide confidence for investors by allowing foreign shareholdings of up to 100%. 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. There is no evidence that foreign insurers undercut the foothold of local insurers. On the contrary, a study from Indonesia [1]showed that local insurers' share of their mainstay products remained stable and dominant. The presence of foreign insurers, only created positive spillovers in terms of product diversity, talent development, knowledge transfer, public education about insurance and increased consumer trust in the financial sector. In Indonesia, current foreign shareholder limit is capped at 80%. A revised regulation is expected to grandfather existing arrangements with a foreign shareholding above this limit, until such time as a new capital injection is made into the company. In Malaysia, foreign ownership is limited at 70% with a general direction to strictly enforce it.

The EU-ABC cautions against any move that rescind existing shareholder rights or to hold back positive developments in opening up the sector. Such moves conflict with the basic tenets of market access in trade agreements and are adverse for overall investor confidence at a time when ASEAN looks to enhance its attractiveness as an investment destination.

Investment-Linked Products / Product Development

The EU-ABC recommends not significantly dis-incentivising distributors against investment-linked products (ILPs) and significantly constraining insurers from investing in certain asset classes in financial markets. We welcome public-private sector consultation on ILP development and regulation and stand ready to engage with regulators on how all stakeholders can make ILPs more sustainable.

We have recently observed regulations in a few non-ASEAN countries that resulted in insurers pulling out from the ILP market. Consumer interest and protection is at top of the regulatory agenda in many jurisdictions. European insurers will continue to dedicate significant resources towards sales conduct and treating customers fairly for a more sustainable organisation. Better consumer outcomes can be achieved through best practices in conduct than restrictions on product features and pricing that significantly disincentivise insurers from providing ILPs. While these regulatory constraints are primarily driven by a willingness to protect consumers' interests, ILPs 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.

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

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 7.0% between 2014 and 2016)[2]. Strong growth of an average of 6.7% is predicted for the period 2018-2022. The Cambodian government is keen to see the insurance sector develop further. The life (non-life) penetration rate stood at 0.12% (0.34$) and density per capita at US$1.40 (US$4.00)[3]. 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 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. In 2017, the Securities Exchange Commission of Cambodia (SECC) issued a series of regulations governing the offering of debt securities. EU-ABC members have been providers of long-term stable financing to countries and look forward to the government finalising regulations 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 1.64% (0.51%), while insurance density per capita stands at US$58.60 (US$18.20). Strong growth of premiums between 20 and 30% were registered in 2015. Distribution channel data for life insurance indicates agency has 39%, bancassurance 43% and 18% other channels[4]. European

[2] Economist Intelligence Unit
[3] 2015 figure from SwissRe's Small ASEAN report
[4] AAJI 2016 data

insurers operating in Indonesia include Aegon, Allianz, Aviva, AXA, Generali, Prudential and Zurich.

Issue 1: Foreign ownership limits

In Indonesia, current foreign shareholder limit is capped at 80%. A revised regulation is expected to grandfather existing arrangements with a foreign shareholding above this limit, until such time as a new capital injection is made into the company.

The EU-ABC supports the grandfathering arrangement. We caution against any moves running contrary to developing an open investment regime at a time when Indonesia 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.

Issue 2: Mandatory cession to 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 it creates high local exposure in the event. 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.

Issue 4: Policyholder protection fund

New Insurance Law mandates the establishment of policyholder protection fund (PPF) through new regulations. A range of regulatory and supervisory measures are planned to be established to ensure financial and managerial soundness of insurance companies and supervisory authorities are expected to avoid the failure of supervised companies.

The EU-ABC supports PPF regulation to protect the industry. Continued involvement of insurance players in drafting the regulation is important. Coverage, funding and gating considerations of the PPF scheme must balance policyholder protection considerations with cost of funding and moral hazard issues.

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.

Regulation No. 69/POJK.05/2016 on Business Implementation for Insurance Companies, Syariah Insurance Companies, Reinsurance Companies and Syariah Reinsurance Companies requires insurance companies to have a data centre and a disaster recovery centre in Indonesia.

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 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 EU data protection rules (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 to deepen financial inclusion and promote insurtech innovation. The EU-ABC encourages a considered approach by regulators that does not run contrary to Indonesia's long-term aim of growing an inclusive digital economy.

Laos

Laos is an emerging market with a population of 7.1 million. It has experienced strong economic growth in recent years (real GDP growth average of 7.1% between 2015 and 2017[5]). Growth is expected to slow down to an average of 6.4% for the period 2018 – 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).[6] 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 insurance licensees 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.

Malaysia

Malaysia is a developed ASEAN market, with a relatively high life (non-life) penetration rate of 3.15% (1.62%) and Insurance density per capita at US$298.30 (US$153.90). Agency remains the main distribution channel for both life and non-life insurance. Distribution channel data for life

[5] Economist Intelligence Unit
[6] 2015 figure from SwissRe's Small ASEAN report

insurance indicates agency had 50%, bancassurance 38% and 12% other channels[7]. European insurers operating in Malaysia include Allianz, Aon, AXA, Hanover Re, Munich Re, Prudential and Zurich.

Issue 1: Foreign ownership limits

Malaysia's foreign ownership is currently capped at 70%. 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 caution against any moves running contrary to developing an open investment regime. We support any steps the Government can take to lift restrictions on foreign ownership as with other ASEAN member states.

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.***

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).[8] 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. 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 NLDP Government is committed to liberalisation of the insurance market, including opening up to foreign companies. A selection committee led by the Deputy Finance Minister has been established to work on granting licences to some of the 24 foreign firms which have opened representative offices in Myanmar. The announcement about the form of liberalisation is expected soon. ***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.***

[7] Bank Negara Malaysia
[8] 2015 figure from SwissRe's Small ASEAN report

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 in 2016 with the Ministry of Agriculture 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 1.23% (0.55%) and insurance density per capita stands at US$36.50 (US$16.30). Distribution channel data for life insurance indicates agency had 55%, bancassurance had 45% and 0% via other channels[9]. European insurers operating in the Philippines include Generali, AXA and Prudential.

Issue 1: 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 2: Taxes

The newly implemented tax reform law (TRAIN), the first in the planned five-part tax reform package, covers mostly personal income tax reforms. Taxes are high on invested assets currently, including withholding taxes (on bonds), corporate loans at 20%. In addition, life insurance premium tax is at 2%, but non-life premium tax at 26.7%. ***The EU-ABC looks forward to TRAIN covering these tax reforms in its subsequent packages.***

Singapore

Singapore has a well-developed economy, with insurance penetration rate at 5.48% (1.67%) and Insurance density per capita at US$2,894.50 (US$882.40). Distribution channel data for life insurance indicates agency had 37%, bancassurance 38% and 25% other channels[10]. 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

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[9] Insurance Commissioner 2013 data

[10] Life Association of Singapore 2016 data. 21% of direct marketing and 4% brokers.

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: Approval requirement for equity investments

There exists a 10% restriction on holdings of a single company's shares in Singapore where shareholdings exceeding this threshold would need approval from MAS. The ability of insurance companies to take advantage of investment opportunities in a competitive market is made uncertain by this requirement during deal identification and negotiation. This has the potential to restrict the investment choices for insurers and their customers to obtain the desired risk-return profile. It also restricts 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 introduce separate guidelines on equity investments in qualified infrastructure projects***.

Thailand

Thailand has a fairly strong life (non-life) penetration rate of 3.72% (1.70%), and insurance density per capita stands at US$222.00 (US$101.40). Distribution channel data for life insurance indicates agency had 49%, bancassurance 45% and 6% other channels[11]. European insurers operating in Thailand include Allianz, Aon, 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%.

Issue 2: Investment restrictions

Current investment restrictions have constrained the ability of insurance companies to diversify its investments. Diversification of investments help to create the appropriate risk-return profile for clients and policyholders, lend to creditworthy companies and contribute to building of liquidity in capital markets. Blanket restrictions on institutional investors being able to invest in the asset class, such as the requirement to invest in only investment-grade bonds, and asset

[11] Thai Life Association 2016 data

allocation regulations, such as a maximum of 5% total investments in unlisted equity and subordinated debt, and a 15% offshore limit, unnecessarily reduce appropriate risk-adjusted returns to clients and policy holders.

It is recommended that investment rules and regulations be made consistent across the region, and permission to invest should be based on a company's resources and capabilities to manage risk.

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. In general, life insurance and pension companies do not face a local currency risk, as they typically have liabilities (their promises to their customers) in the local currency. 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.***

Issue 4: Unit-linked products

Recently, there has been a strong encouragement to reduce prices to consumers, including a strong push to reduce charges to policyholders for Unit-Linked products. We have recently observed regulations in a few non-ASEAN countries that resulted in insurers pulling out from the ILP market. While these regulatory constraints are primarily driven by a willingness to protect consumers' interests, ILPs 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. ***The EU-ABC recommends not significantly disincentivising distributors against IL products and welcomes public-private consultation on IL product development and regulation.***

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 1.0% (0.77%) and Insurance density per capita of US$21.80 (US$16.60) 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 Aon, Aviva, Generali, Groupama, Prudential, Prevoir, and BNP Paribas.

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.

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.***[12]

Issue 2: Decreasing yield rate

The decreasing yield rate on government bonds in Vietnam is challenging for the life insurance industry to maintain bonuses and policyholder dividends. The expectation is for the government bond yield to remain at a record low level over the short-term duration, and potentially move further down on a medium to long-term basis. **EU-ABC members remain open to discuss different measures with the regulator to find a suitable approach to reduce some of the impact from the low yield rate.**

Issue 3: 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. Such blanket restrictions on institutional investors being able to invest in the asset class should be removed/made consistent across the region, and permission to invest should be based on a company's resources and capabilities to manage risk. ***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 4: Barriers to development of the corporate bond market

There are a number of obstacles that limit investors' confidence to invest in corporate bonds:

- Low level of disclosure of company operations to investors and public;
- Lack of credit rating agency and of data on bonds, which reduces the ability of the companies to access funds from a wider group of investors who rely on credit ratings given by credit rating agencies in their investment decisions;

[12] 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

- MSCI retained Vietnam as a MSCI Frontier Market instead of upgrading it to a MSCI Emerging Market due to stock market constraints and foreign investment limits. This includes:
    - Foreign Exchange Market Liberalization Level: There is no offshore currency market and there are constraints on the onshore currency market (e.g., foreign exchange transactions must be linked to security transactions). In addition, liquidity on the onshore currency market has been relatively low in the recent past
    - Information Flow: Stock market information is not always disclosed in English and occasionally is not detailed enough.

The development of the market is also constrained by current regulations which restrict bond issuances. For instance, companies must be profitable the year before, and must have the prior year's audited financial statements available (which are usually only available 3 to 4 months after the Financial Year).

The Vietnam Bond Market Association and the Vietnam government commit to find a solution to accelerate the development in the bond market. For instance, Prudential, together with the industry has suggested government to issue guaranteed bonds or to allow local authority to issue municipal bonds for infrastructure projects. **Standardisation in terms of reporting, documentation and benchmarking together with clear rules for public/private collaboration, including common dispute resolution and potential for risk mitigation / credit enhancements will help to develop the market. We also look forward to seeing more of instruments with public, multilateral and private sector collaboration in the bond markets, similar to CGIF, a multilateral facility whose contributors were the ASEAN + 3 countries.**

Appendix

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.

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.

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.

- **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 by 60 million from 372 million in 2015 to 432 million in 2030[13].

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[14]. Insurance companies can help address these gaps by offering protection policies/products and raising awareness of how insurance products can mitigate risks[15].

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

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[13] United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, DVD Edition

[14] OECD (2013). Pension at a Glance Asia/Pacific 2013. Paris: OECD Publishing. Retrieved from: https://www.genevaassociation.org/media/909569/ga2014-the_global_insurance_protection_gap.pdf

[15] Life Insurance Association of Malaysia (2013). "Addressing the Life Insurance Protection Gap in Malaysia". Life Insurance Association of Malaysia Official Website. Retrieved from: http://www.liam.org.my/index.php/newsmedia-room/media-releasepress-statements/english/200-addressing-the-life-insurance-protection-gap-in-malaysia-

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.

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[16]. It is worth noting that the European Union is the largest provider of FDI to ASEAN countries.

➢ **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.

[16] Ching, K. S., M. Kogid & F. Furuoka (2010). "Causal Relation between Life Insurance Funds and Economic Growth: Evidence from Malaysia", Journal of Southeast Asian Economies, Vol 27, No. 2, August 2010, pp.185-199 and Levinger, H. & C. Li (2014). "What's behind recent trend in Asian corporate bond markets". Current Issues: Emerging Markets. Deutsche Bank 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

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 disease.

- **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*,[17] 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 a critical part of any comprehensive disaster risk management strategy. Timely pay-outs enable rebuilding and recovery, which helps to reduce indirect losses[18].

[17] Global Reinsurance Forum (2014). Global reinsurance: strengthening disaster risk resilience. Basel: Global Reinsurance Forum. Retrieved from: https://www.hannover-re.com/306809/global-reinsurance-forum-grf-report-2014.pdf

[18] 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 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

Cross-Regional Issues Grid

KEY: Red: Issue of key concern for insurers in the market. Amber: Issue of less significance or issue being addressed. Green: Issue not of concern to insurers at the moment.

ASEAN 2025 Priorities	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Taxation					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".		Taxes high on invested assets, including withholding taxes (on bonds), corporate loans, at 20%. Life insurance premium tax at 2% but non-life premium tax at 26.7%.		There is a limit for consumers claiming tax benefits on premiums, capped at 100,000THB. If the tax benefit of 100,000 THB can be uplifted, it will encourage the consumers to get more protection to suit their needs.	
Consumer Protection Rules, including Policyholder Protection				We recommend that the Ministry of Finance build up a Regulatory body for the insurance sector with experienced professionals to steer and monitor the insurance industry, including to protect policyholders in case of a default. Particularly, there is a need to enhance monitoring over sales by insurers located offshore to protect consumers and ensure development of premiums to be used for the local economy.						

ASEAN 2025 Priorities	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Good Regulatory Practice				We recommend that the Ministry of Finance should build up a Regulatory body for the insurance sector with professionals experienced in the insurance sector. Workshops with officials from neighboring countries could help strengthen insurance expertise and know-how.		As FRD develops insurance regulations for the sector, EU-ABC members are happy to work together with FRD and facilitate exchanges with other markets to give recommendations on procedures, guidelines and training of dedicated staff.				
DRF / Public Private Partnerships (general recommendation: conduct more workshops to raise awareness and understanding of PPP/DRFs to officials)		Lack of government subsidies for sovereign disaster risk financing (DRF) schemes and high reliance on donor funds to cover post-event losses.	There is currently low to moderate appetite at the Central Government level to pursue DRF solutions.	We recommend to create more awareness (e.g. via workshops) of DRF as catastrophic disasters could result in contingent liability in excess of 8% in Lao.		Need to build understanding towards DRF concepts and insurance in general as market opens up.				DRF solutions lack the legal and regulatory bases which come from approval and endorsement at National Assembly and at ministerial level.
Distribution		Bancassurance Is still fairly underdeveloped.			Direct channel without intermediary compensation is encouraged and is expected to increase insurance penetration in a longer term provided that an appropriate guideline for the direct channel is put in place to ease the implementation of this channel.				OIC is drafting a new law to prescribe the number of life insurance partners each bank broker must have. This means disallowing the exclusivity clause.	

ASEAN 2025 Priorities	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Permitted investment strategies, including investment in infrastructure			Regulation mandates life (non-life) insurers to hold at least 30% (20%) of portfolio in government bonds at a time of high prices and declining yields. Investment caps such as the requirement to invest in only investment-grade bonds.		Investment caps on financial instruments that restrict access to creditworthy organisations and infrastructure, such as non-investment grade bonds, unlisted equity and shares not listed on main market.		Investment caps on financial instruments that restrict access to creditworthy organisations and infrastructure, such as an insurer may only invest in equities of other financial institutions provided that any or all of such instruments shall be with prior approval of the Commissioner.	There exists a 10% restriction on holdings of a single company's shares in Singapore where shareholdings exceeding this threshold would need approval from MAS.	Insurance companies are not allowed to directly lend to infrastructure projects. Blanket restrictions on institutional investors being able to invest in the asset class, such as the requirement to invest in only investment-grade bonds, and asset allocation regulations, such as a maximum of 5% total investments in unlisted equity and subordinated debt, and a 15% offshore limit.	Insurance companies are not allowed to directly lend to infrastructure projects.
Foreign Ownership			Current foreign shareholder limit is capped at 80%. Revised regulation is expected to grandfather existing arrangements with a foreign shareholding above this limit, until such time as a new capital injection is made into the company.		Foreign cap - 70%.	Government committed to liberalisation of the insurance market. Form of liberalisation is to be decided following recommendations made by the Financial Regulatory Department and the Insurance Business Regulatory Board.			The MOF issued notifications to relax foreign shareholding for insurance companies. Under said measures, a licensed insurance company may apply to the Finance Minister for permission to have more than 49% (and up to 100%) foreign shareholding. It remains to be seen how the approvals will be exercised.	

ASEAN 2025 Priorities	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
New licenses		More flexibility needed in securing licenses for (foreign) life insurers (including branch of foreign life insurer).		Registered capital for insurance license is only 2 million USD which is quite low and attracts non-professional companies. To build up a regulatory office to assess the insurance licensees.	No new licenses are expected to be issued.	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.			No new licenses are expected to be issued.	
Talent Mobility			All expatriates are required to do a Fit and Proper Test. Regulation No. 67/POJK.05/2016 limits foreign employees to holding prescribed positions. The EU-ABC recommends clearly laid down and efficient processes for bringing in foreign talent.		Appointments of non-Malaysians are subject to approval of Central Bank; we would recommend clearer criteria for assessment of staff transfer from abroad (currently no need to justify a denial).					
Re-insurance				Limited retention and liability at 200 USD for each policy.						
Market access for offshore reinsurers (general recommendation: cross-border reinsurance should be unrestricted)			Mandatory requirement to increase cession locally. We recommend an open reinsurance market with no restrictions on cross boarder flow of reinsurance.	Offshore reinsurers have to fronted by a local company registered in Laos. We recommend that the local regulator should secure the quality/rating of the local reinsurer.	General insurance: At represent all reinsurance placement will have to exhaust the local market before going to offshore market.					

ASEAN 2025 Priorities	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Digital			Reliance on older regulations or regulations that do not differentiate between offline and online interaction models, such as requiring the provision of hardcopy summary for insurance policies. Statutory tariffs that regulate allowable premiums, commissions and coverage for certain lines of insurance hinder innovative developments in new distribution channels.						Statutory tariffs that regulate allowable premiums, commissions and coverage for certain lines of insurance hinder innovative developments in new distribution channels.	
Foreign Currency Capital Investments					Permitting insurers to invest into more assets would give more room for insurers to diversify investment which may yield better returns. There is a 10% absolute limit for foreign assets in jurisdictions with sovereign ratings at least equivalent to that of Malaysia.				Currently, foreign currency investments are limited and strictly regulated.	

ASEAN 2025 Priorities	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Capital Market		Need to expand Bond market.		Need to expand Bond market.		Need to expand Bond market.				The corporate bond market is still at an early stage of development. The EU-ABC welcomes improvements in market infrastructures that promote the development of the corporate bond market.
Transfer of Data Abroad			Indonesia Regulator requires insurance companies to have a data center and a disaster recovery center in Indonesia.		Malaysian Personal Data Protection Act requires personal information about Malaysian citizens to be stored on local servers.				Data Protection Bill draft requires the express consent from the data subject in the event of disclosure to third parties. We recommend to consider categorizing the different purposes of disclosure and to allow deemed consent and/or notification in certain circumstances to avoid too much operational issues (e.g. processing of data).	

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 Mr Donald Kanak.

Membership

The EU-ABC's membership consists of large European Multi-National Corporations and the nine 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 three 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, HSBC, ING, Prudential, Swiss Re and Zurich as well as the European Chambers of Commerce in ASEAN countries.