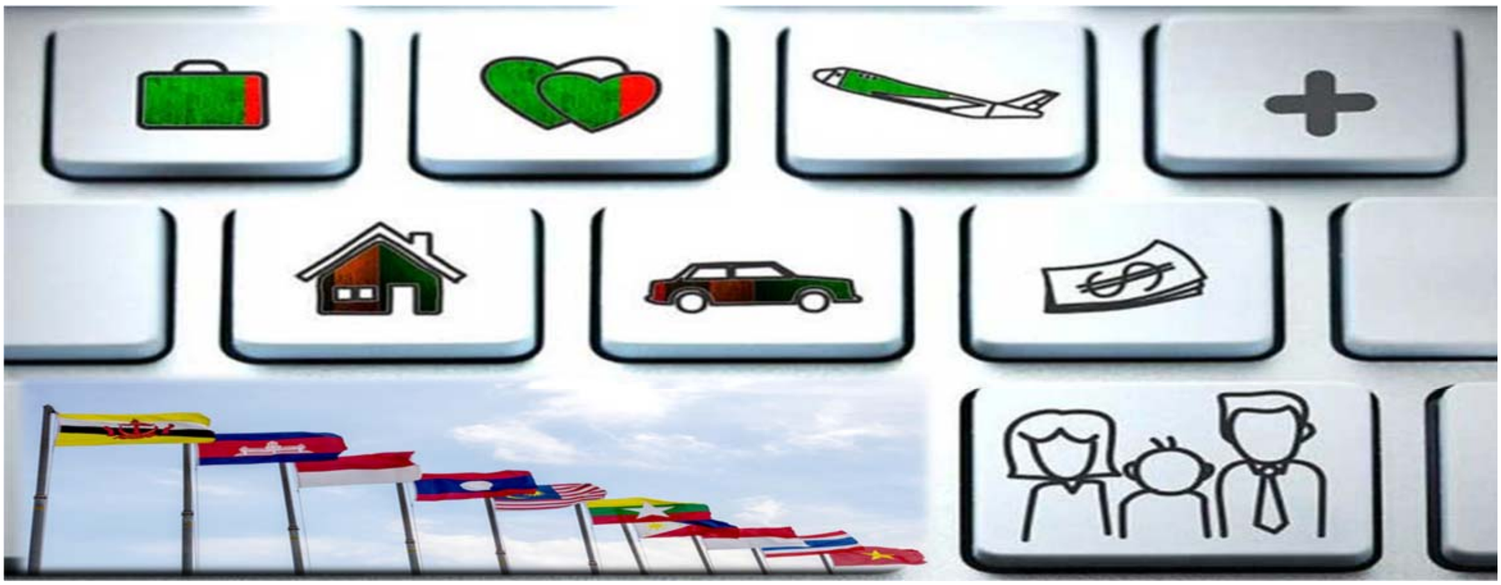
Draft as of 20 November 2017

ASEAN INSURANCE SURVEILLANCE REPORT

November 2017



Contents

Executive Summary

Despite the backdrop of global uncertainties, ASEAN insurance markets' performance still remained robust, with the growth of 7.5 percent in 2016. The ASEAN's total net premium reached USD 79,207 million while the total asset of ASEAN insurance sector amounted to USD 404.6 billion. Life insurance sector continued to hold a bigger share of USD 338.3 billion, or 83.6 percent of total asset, while the non-life insurance held 16.4 percent of the total asset of ASEAN insurance, or USD 66.3 billion.

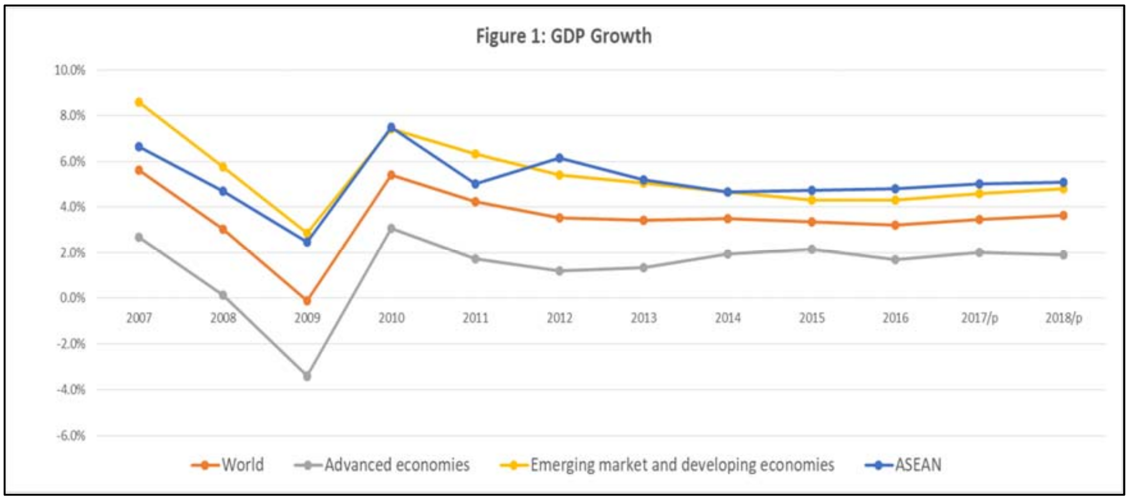
Insurance penetration rates and insurance density improved in most ASEAN markets in the life insurance industry, remarkable growth was evident in the newer ASEAN Member States (AMS). The performance; however, was mixed across the AMS in the non-life insurance business. Generally, there is room to further develop in insurance penetration rate and insurance density in ASEAN, comparatively to the ones in global market. An increase in insurance awareness, rising middle class and urbanization, acceleration of infrastructure investment, and digital distribution channel will boost insurance demand, density, and penetration rate.

Though the capitalization still well performed, the profitability of ASEAN insurance sector is still challenging due to lower investment earnings, resulted from persistently low interest rates, and weaker underwriting results. The ASEAN insurance industry thus inevitably develop alternative approaches and business strategies to maintain their profitability and competitiveness.

In terms of regional integration, only a small increase was evident for a number of ASEAN-operated companies, approximately 5.8 percent growth while domestic-owned joint venture companies continued to dominate the ASEAN markets. To strengthen the regional insurance integration, several initiatives are ongoing. These include the work-streams to implement the Roadmap for ASEAN Insurance Integration Framework (AIIF) and the draft Guiding Principles of the AIIF, the ASEAN Compulsory Motor Insurance, the development of the ASEAN Disaster Risk Financing and Insurance, and other insurance-related initiatives at the country level.

Chapter 1. Global and Regional Macroeconomic Outlook

The global economy is anticipated to grow by 3.6 percent in 2017 (from 3.2 percent in 2016) reflecting the recovery in investment and trade, spurred by strengthening business and consumer confidence. The optimism is validated by the higher than expected first half growth in major emerging and developing economies. In 2017, the advanced economies are projected to grow by 2.2percent (from 1.7percent in 2016) while growth in emerging and developing countries is expected to accelerate to 4.6percent (from 4.3percent in 2016)[1].



Source: IMF, World Economic Outlook (October 2017). For ASEAN data: 2007-2016 from ASEAN Secretariat (as of October 2017), 2017/p and 2018/p from Asian Development Bank, Asian Development Outlook (September 2017).

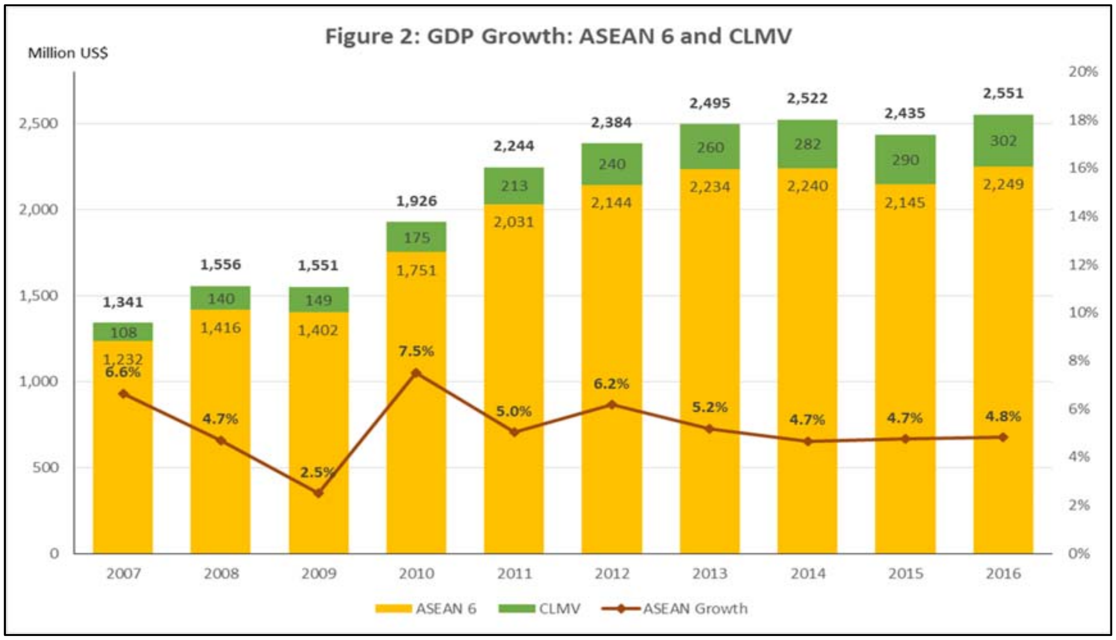
Expected growth in advanced countries varies but is generally positive. In the US, the growth has been revised down to 2.2 percent in 2017 (from 2.3 percent previously) reflecting the less expansionary fiscal stimulus and the receding market expectations for the second half of the year. By contrast, growth in the EU has been revised up to 2.1percent (from 1.7percent) as the major countries has outperformed the preliminary projections in the first half of 2017, indicating stronger momentum in domestic demand than previously anticipated. As for Japan, growth in 2017 has been revised up to 1.5 percent (from 1.2 percent) given the higher-than-expected performance in the first half of 2017 backed by strengthening global demand and supportive fiscal policy.

The emerging markets and developing economies continue to be the main driver in the pick-up of global growth in 2017, as reflected by the positive performances shown in the first half of the year. Growth in China is projected at 6.8 percent in 2017, backed by continued government policy support to achieve growth targets. In India, growth outlook in 2017 has been revised down to 6.7percent reflecting the associated impacts

[1] International Monetary Fund, World Economic Outlook (October 2017)

of the demonetization initiative in November 2016 as well as the transition costs related to the tax policy introduced in July 2017.

ASEAN continued to record strong economic performance, growing by 4.8 percent in 2016, as shown in Figure 2, mainly supported by strong private consumption and private investment. In 2017, the growth is projected to accelerate to 5.0percent, which to date has been validated by strong first-half 2017 performance exceeding preliminary expectations.



Source: ASEAN Secretariat (as of October 2017)

The uptrend in global and regional economic outlook in 2017 is nevertheless still overshadowed by several downside risks, notably, the potential disruption arising from trade policy adjustments in major economies, notably the US. Also, tighter global financial conditions, sharp capital flow reversals, and adverse balance sheet implications of volatile currency movements weigh down on growth prospects. Economies with relatively elevated corporate debt, limited policy space, and weak bank balance sheets will be particularly vulnerable. All these economic uncertainties are interconnected and can be mutually reinforcing, thus motivating each economy to adopt appropriate policy mix in order to cushion the impacts.

A relatively modest global environment has adversely affected trade and investment in ASEAN in 2016. Total trade in the region stood at USD 2.2 trillion, a decline of 1.6 percent from 2015 (Figure 3). At USD 516.0 billion, intra-ASEAN trade constituted 23.1percent of total trade and remained as the largest market for ASEAN in 2016. China upheld its position as ASEAN’s largest external trade partner, accounting for 16.5percent of total trade, followed by EU-28 at 10.4 percent and Japan at 9 percent.

Global trade is expected to rebound in 2017 with an expected increase of 4.2 percent in the volume of trade compared to 2.4 percent recorded in 2016, reflecting the recovery in global demand especially capital spending[2]. The expected recovery in both global and regional trade is recently validated by the gains registered in the latest WTO's World Trade Outlook Indicator (WTOI). In ASEAN, preliminary data also point to strengthening trade prospects with most member states experiencing double digit growth in their merchandise export during the first half of 2017.The most notable case is Viet Nam which recorded a growth of 19.0percent followed by Philippines at 18 percent and Myanmar at 17 percent[3].

Source: ASEAN Secretariat (as of October 2017)

Total FDI inflows to ASEAN also fell in 2016 by 18.6percent to reach USD 98 billion (Figure 3) in step with the slowdown in global FDI flows. However, intra-ASEAN FDI flows remained solid at USD 24.7 billion, an increase of 14.4 percent year-on-year. At 25.2 percent, intra-ASEAN was the second largest source of FDI inflows to the region after the EU-28 at 32.9 percent. The US was the third largest source of FDI inflows to ASEAN at 12.5 percent, followed by Japan at 11.8 percent.

Similar to global trade, after losing momentum in 2016, global FDI is also projected to enjoy a recovery in 2017, growing by 5 percent (from -1.6percent in 2016)[4]. Higher economic growth expectations across major economies, a resumption of global trade, and recovery in business confidence are expected to boost cross-border investment outlook. FDI flows to developed economies is expected to remain steady while flows to developing economies are likely to see approximately 10 percent increase in 2017[5].

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[2] International Monetary Fund, World Economic Outlook (October 2017)
[3] Asian Development Bank, Asian Development Outlook (September 2017)
[4] United Nations Conference on Trade and Development, World Investment Report 2017
[5] United Nations Conference on Trade and Development, World Investment Report 2017

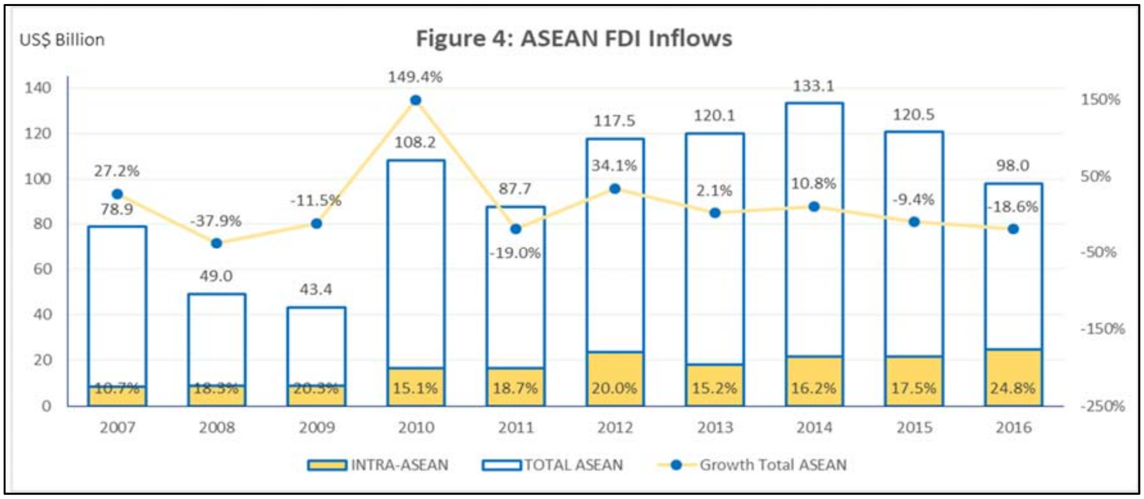


Figure 4: ASEAN FDI Inflows

Source: ASEAN Secretariat (as of October 2017)

Global financial stability has continued to improve since the last quarter of 2016 and is expected to be sustained in 2017, as reflected by the gains in a number of asset prices and long-term bonds. At the same time, risk premiums and volatility have declined. However, uncertainty in US monetary policy and the credit growth in China may adversely affect global stability, increasing fiscal imbalance and raise global risk premiums. Such outcomes could generate negative spillovers to emerging markets, reigniting capital outflows and raising credit funding risks.

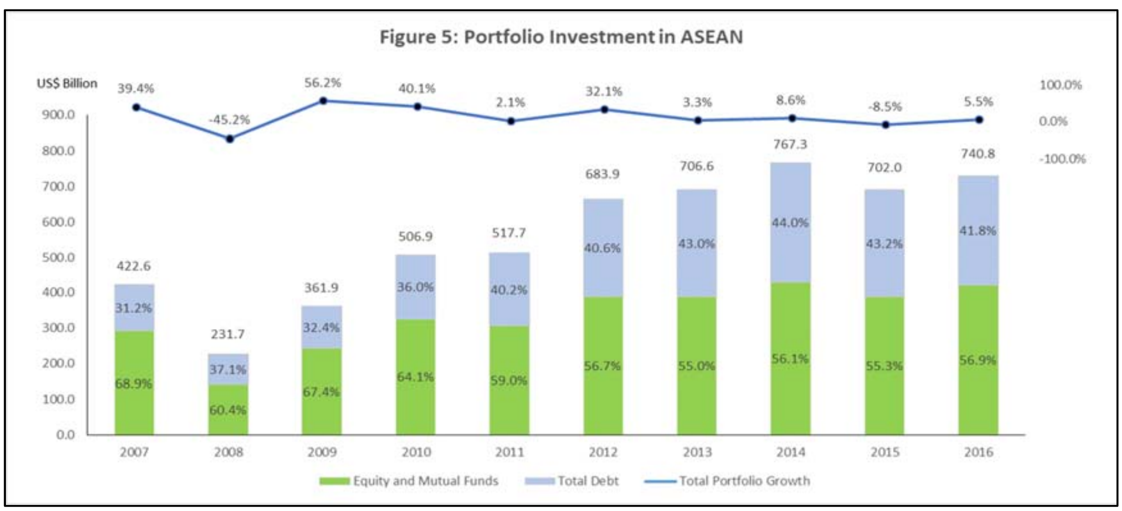


Figure 5: Portfolio Investment in ASEAN

Source: International Monetary Funds, Coordinated Portfolio Investment Survey, September 2017

Figure 6: Intra-ASEAN Investment Portfolio

Source: International Monetary Funds, Coordinated Portfolio Investment Survey, September 2017

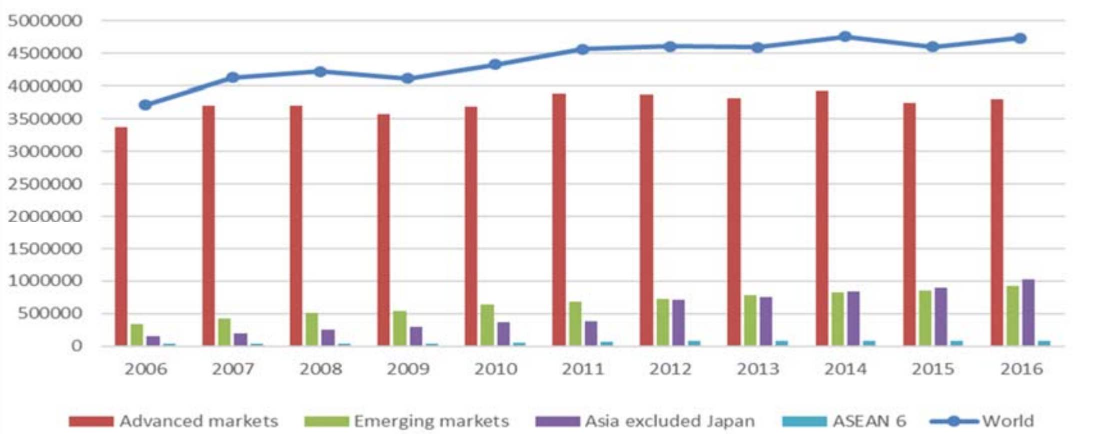
Similar to FDI, ASEAN remains as an attractive portfolio investment destination indicated by the increase in total portfolio investment flows to ASEAN of 5.5 percent in 2016 despite the decline of 1.7 percent in global portfolio investment. The region received USD 740.8 billion portfolio investment in 2016, comprising of 56.7percent equities and 41.8 percent debts (Figure 5). Moreover, intra-ASEAN portfolio inflows increased by 12.9 percent compared to 2016 to reach USD 89.2 billion. The composition of intra-ASEAN portfolio investment is broadly balanced with 49.1 percent in equities and 50.9 percent in debts. In 2017, portfolio investment flows to ASEAN is expected to be sustained given the strength of the region's economic fundamentals and improvement in global finance.

Chapter 2. Development of Global Insurance Markets

Though the global economic growth slightly improved in 2016, the global economy is continuing to grow modestly due to political stability, change in trade and economic policies, slowdown in Chinese economy, and massive impacts from natural disasters across the world. Moderate GDP growth is expected over the next two years as monetary policy will remain highly accommodative even with the Fed interest hikes. Under this macroeconomic environment, it is increasingly difficult to find asset classes with robust upside potential with high rate of returns i.e., bond yields and equity valuations are dependent to low interest rates. This circumstance hindered profitability and capital position of insurance companies and insurers. Together, economic uncertainties negatively impacted the global economy; thus, the global insurance growth.

Due to the economic slowdown, particular in advanced markets, the growth of total insurance premium declined from 4.3 percent in 2015 to 3.1 percent in 2016, though the world's total insurance premiums reached a greater amount of USD 4,732 billion. Emerging markets still performed better than the advance countries as the total real premium grew by 14 percent, compared to 9.8 percent in the previous year, mainly supported by the robust growth in China. The share of emerging markets in the global share has gradually increased from 17.4 percent in 2015 to 19.7 percent in 2016. Figure 7 shows the global premium volume and the premium volume of the various economic groups.

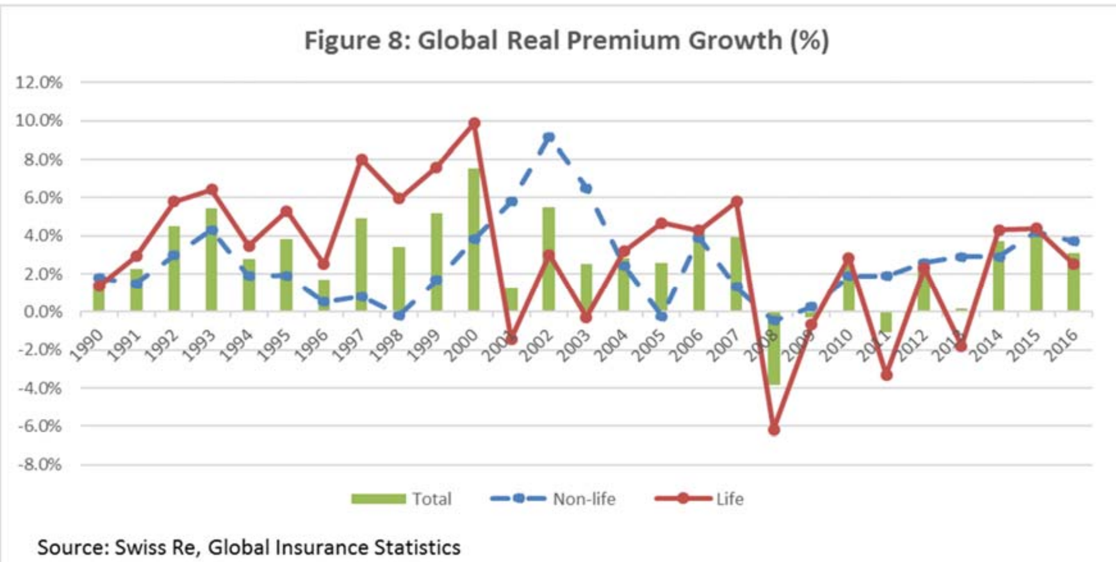
Figure 7: Total Premium Volume (USD million)



Source: Swiss Re, World Insurance Report (2006-2016)

Figure 8 shows the trends of global premium real growth rates in terms of business type. Since the global financial crisis in 2008, real growth of global insurance premiums has been fluctuated due to the flux in the growth of global life insurance premiums. As mentioned, due to economic contraction in advanced economies, the global ***life premium*** growth slowed to 2.5 percent, down from 4.4 percent in 2015, where the life-insurance premium written totalled USD 2,617 billion. The growth was driven mainly by emerging economies, China in particular. The growth in emerging economies improved impressively by 17 percent in 2016, compared to 12 percent in the previous year, supported by resilient performance in emerging Asia. The life insurance premiums in emerging Asia reached USD 375 billion, or 23 percent growth, in 2016. The premiums are expected to increase by double digit in the next two years due to the rise of digital distribution channels and increasing product varieties.

On the other hand, the increasing trend of global ***non-life insurance premium*** growth is consistent since 2008. The premiums improved by 3.7 percent, to USD 2,115 billion, in 2016. Similar to the life premiums, the non-life insurance premium growth increased significantly by 9.6 percent, driven mainly by China. Emerging Asia showed solid performance as the total non-life premiums reached USD 244 billion with the growth of 18 percent. Nonetheless, the buoyant growth was sustained by healthy growth in China, which accounts for more than 80 percent of the region's non-life premiums. India, to some extent, also contributed to the growth supported by health, agriculture, and motor lines. For the rest of emerging Asia, the performance was mixed.



Risks and threats still remained, as mentioned. The persistently low interest rates, for close to a decade, continued to pressure insurers' profitability in life and non-life insurance sectors. Returns of equity declined in both sectors. The government bond yields have been moderate while equities tend to retain or gain value when interest rates are low. Corporate bond yields could also tighten further. Currently, interest rates majorly determine both bond yields and equity value. In addition, the policy uncertainties caused from advanced economies i.e., U.S. and E.U. shook market confidence, which could reduce economic activities. The Trump's presidency has brought many policy changes, particular trade policy. The protectionism would possibly lead to an increase in import prices, higher inflation, and lower export due to potential retaliation from other countries. Direct impacts to insurers could come from the Trump's proposals relating to Obamacare and the environment due to the rejection to Paris Treaty. The Brexit vote would likely have implications to insurers due to changes in new trade agreements, particular trade in services, between UK and its former EU partners. This could affect the market access right for UK insurers to the EU single market and vice versa. This, thus, hinders financial activities and potentially ability of insurers, especially UK-based insurers, to capitalize.

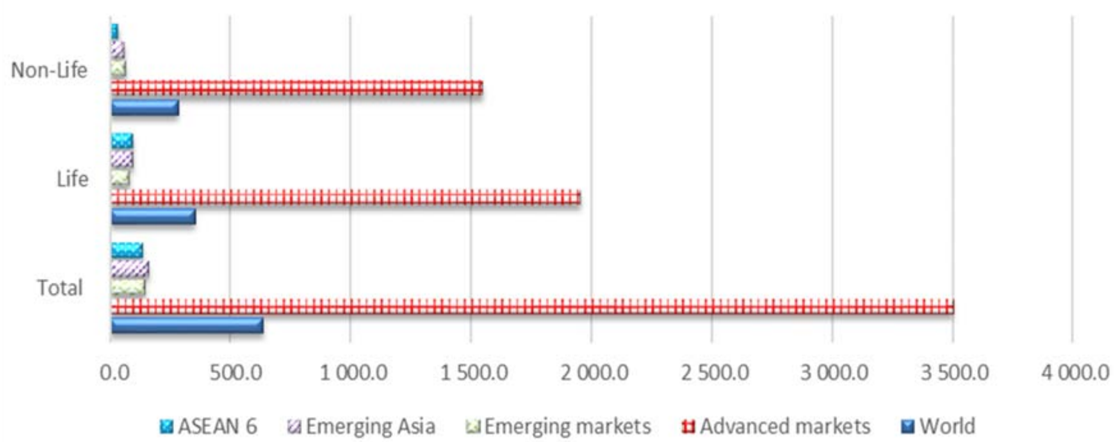
Additionally, political instability, increased anti-globalization, has undermined economic growth and derailed the projected modest global recovery. The ongoing geo-political tensions around the world could impede economic activities further; thus, adversely influence economic outlook through three transmission channels; heightened policy uncertainty, increased volatility in financial markets, and sub-optimal policies (Swiss Re, Global Insurance Review 2016 and outlook 2017/18). With all these threats, aggregate demand in short-term could be tempered while long-term productivity could be weakened. Over the short-term, re/insurers will be mostly affected on the asset side due to financial volatility while slower growth may dampen the outlook of the insurance premium growth. Beyond that, the impacts could come from political instability that complicate or hamper international business transactions e.g., capital restrictions. Another challenge facing the insurance and reinsurance sectors is a decline in underwriting profitability due to high catastrophe losses as well as lower reserve releases. These natural disasters included hurricanes, earthquakes, storms and floods. Given these challenges, both life and non-life insurance sectors remain well capitalized, however.

Despite the mentioned challenges, global insurance density[6] increased by 2.7 percent from USD 621 in 2015 to USD 638 in 2016, contributed mainly from emerging economies. The performance in emerging Asia was outstanding with 17.1 percent growth, or increased from USD 140 in 2015 to USD 164 in 2016. The insurance density of advanced economies slightly improved from USD 3,440 to USD 3,503 while one for emerging economies climbed up by 10 percent to USD 149 in 2016 due to hearty economic situation, supported by China's robust premium growth. An expansion in insurance density was also found in ASEAN 6 by 6.1 percent, up to USD 136 from USD 128.1 in the previous year.

By sector, the global life insurance density was slightly up by 2.1 percent from USD 346 in 2015 to USD 353 in 2016 as the global non-life insurance density increased by 2.9 percent to USD 285 from USD 277 in the previous year. A significant increase was evident for life and non-life insurance density rates in emerging Asia, by 18.7 percent and 13.1 percent respectively. China, accounted for 70 percent approximately of the region's life market, was the main driving force supported by increasing growth in tradition life and health lines. Considerable growth was also found in India and some countries in Southeast Asia. For non-life insurance, fiscal expansion and solid foreign direct investment are key drivers in Southeast Asia as well as government initiatives to boost demand for insurance personal lines in China and India. Figure 9 shows that the life insurance density continued to dominate non-life insurance in all economic groupings in 2016.

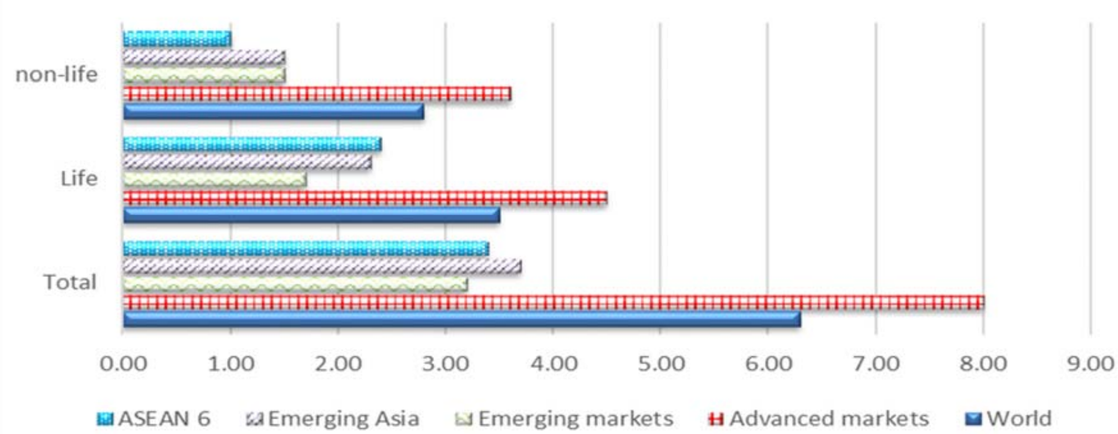
[6] Premium insurance per capita in USD

Figure 9: Global Insurance Density 2016 (USD)



Source: Swiss Re, World Insurance 2016, Sigma 3/2017

Figure 10: Global Insurance Penetration Rate (percent)



Source: Swiss Re, World Insurance 2016, Sigma 3/2017

Only small rise in the global insurance penetration rate[7] was shown in 2016 from 6.2 percent in 2015 to 6.3 percent, which 3.5 percent went to life insurance and 2.8 percent to non-life insurance. Advance economies were underperformed as the penetration rates, of life and non-life, reduced by 2.6 percent. On the other hand, emerging economies performed well with growth of 9.6 percent. The penetration rate increased to 3.2 percent, which 1.7 went to life insurance and 1.5 percent to non-life insurance. The stabilizing economic growth, growing populations, urbanization and a rising middle class are factors to underpin positive outlook for insurance penetration rates, particular life insurance, in emerging economies. As for emerging Asia, the penetration rate grew by 12.1 percent in 2016, driven mainly by growth of Chinese insurance penetration rates. The penetration rate of ASEAN 6 went up slightly by 1.5 percent in 2016, from 3.35 percent in 2015 to 3.4 percent.

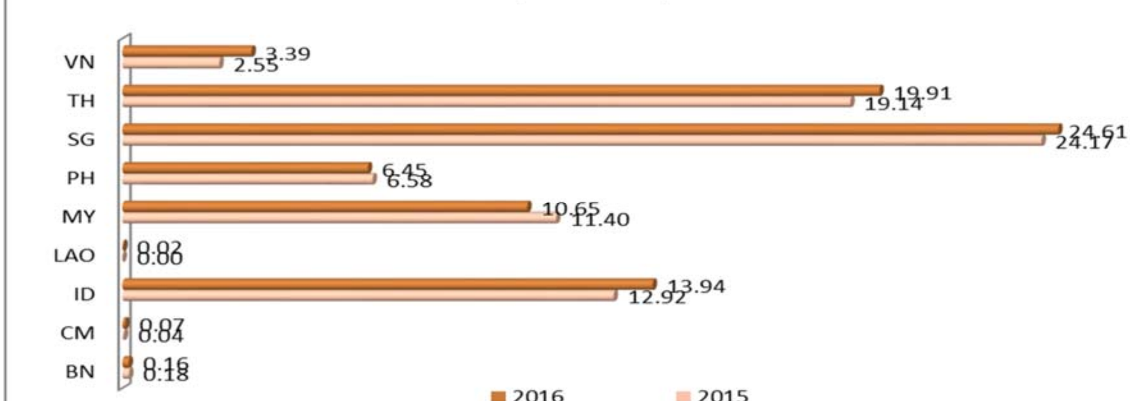
[7] Premium in percentage of GDP

Overall, risks and challenges remain elevated, which dampen economic growth and negatively influence insurance industry. The global outlook for insurance industry is mixed. A source of growth come from emerging economies; however, advanced markets should also grow at moderate rate. China and India will remain the growth engines for life insurance while growth in non-life insurance sector is expected to remain moderate. The profitability will possibly continue to subdue due to prolonged low interest rates; nonetheless, capitalization should still remain strong.

Chapter 3. Trends in ASEAN Insurance Market

Despite the global uncertainties and downside risks, the major ASEAN insurance markets managed to gain the growth of 7.5 percent in 2016, or reached USD 86,515 million of total premium volume (Swiss Re, no. 3/2017). The robust performance was underpinned by growth in Indonesia and Vietnam due to rising insurance awareness and continued expansion of bancassurance channel. The fiscal expansion and strong FDI, as previously mentioned, should be factors that boost infrastructure and construction-related lines of insurance in ASEAN. The growth of insurance premium is expected to sustain.

For the total net insurance premium[8], the ASEAN's total premium climbed up from USD 76,979 million in 2015 to USD 79,207 million in 2016, accounted for 3 percent growth. The improvement was found in Cambodia, Indonesia, Lao PDR, Singapore, Thailand, and Vietnam. Though there was a decline in Malaysia's total net premium due to Ringgit depreciation, the overall new premium, in local currency, written by the Malaysian general and life/ family insurance as well as takaful sector increased. The contraction in the Philippines was caused from lower sales of single-premium products. Life premiums grew strongly in most countries in ASEAN, including Indonesia, Malaysia, and Vietnam. For non-life business, the premium growth was supported by infrastructure projects and stable expansion in the motor insurance sector. Singapore took lead with total net premium of USD 24.61 billion, followed by Thailand (USD 19.91), and Indonesia (USD 13.94).

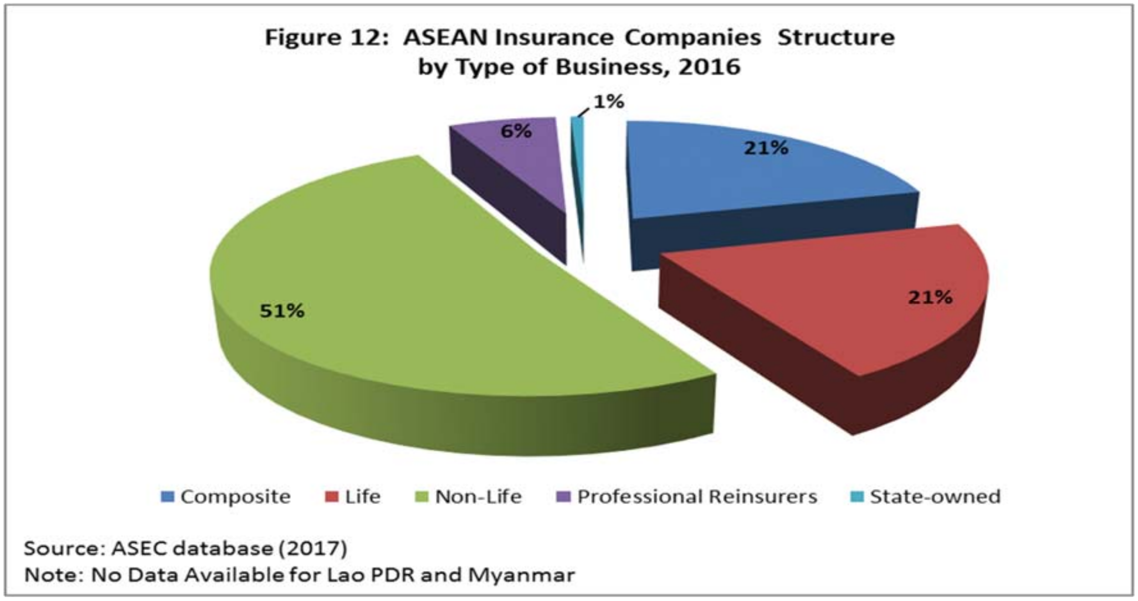


Source: ASEC database (2017)
Note: No Data Available for Myanmar

In 2016, a total of 771 insurance companies were reported in ASEAN, increased from 720 companies (or 7 percent of growth) in 2015. By business, non-life companies continued to take the largest proportion of 51 percent, followed by composite insurance (21 percent), life insurance (21 percent), professional reinsurers (6 percent), and state-owed insurance (1 percent). It is worth noting that the composite insurance was accounted mainly by Indonesia companies (146 out of 162 companies). The

[8] Total net insurance premium = Gross premium income – (outward) reinsurance premiums

biggest growth was seen in the number of life companies by 12 percent as a number of non-life companies went up for 8 percent in 2016.



Categorized by form of establishment, domestic-owned joint venture companies continued to dominate the ASEAN markets for more than half of the total number of companies (61.3 percent), followed by foreign-owned companies (35 percent), state-owned (2.1 percent), and mutual (1.7 percent). If we consider the share of insurance companies by origin, domestic companies still held the biggest share with the total 290 companies, or 52.7 percent, in 2016. A slight increase was evident for a number of ASEAN-operated companies, approximately 5.8 percent growth, and less than 1 percent growth for non-ASEAN companies.

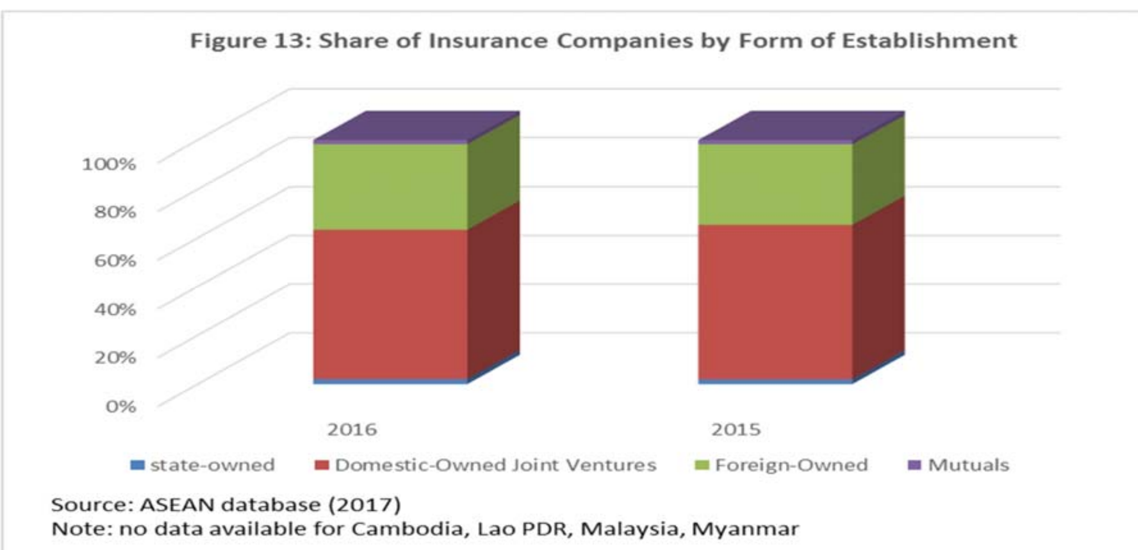
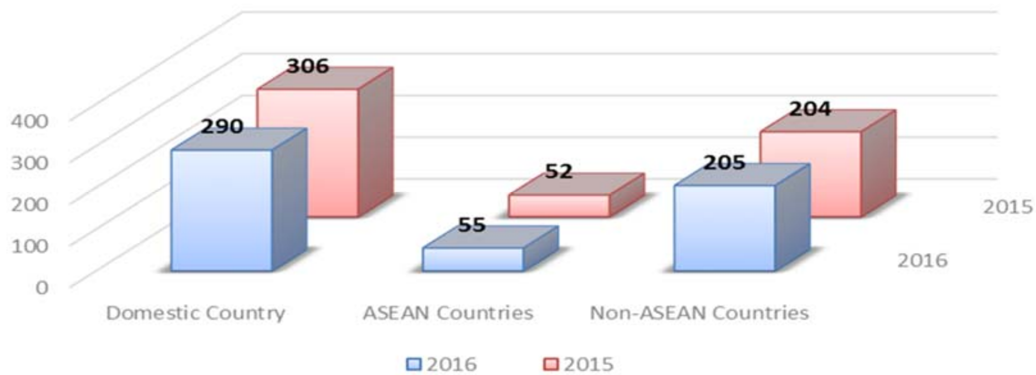


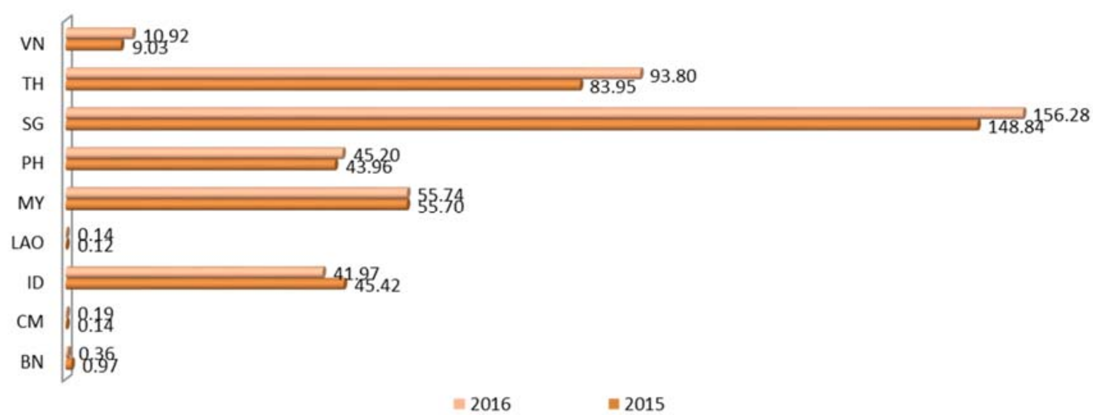
Figure 14: Share of insurance companies by its origin



Source: ASEAN database (2017)
Note: no data available for Brunei,Cambodia, Lao PDR, Myanmar, Vietnam

ASEAN's performance improved from the previous year, the total asset of the ASEAN insurance sector grew by 4 percent, reached the amount of USD 404.6 billion in 2016. Life insurance sector still contributed a bigger share of USD 338.3 billion, or 83.6 percent of total asset, while the non-life insurance held 16.4 percent of the total asset of ASEAN insurance, or USD 66.3 billion. Singapore held the highest share of regional insurance total assets in 2016, followed by Thailand and Malaysia. Besides Brunei Darussalam, ASEAN member states have gained higher value of total assets of the insurance industry.

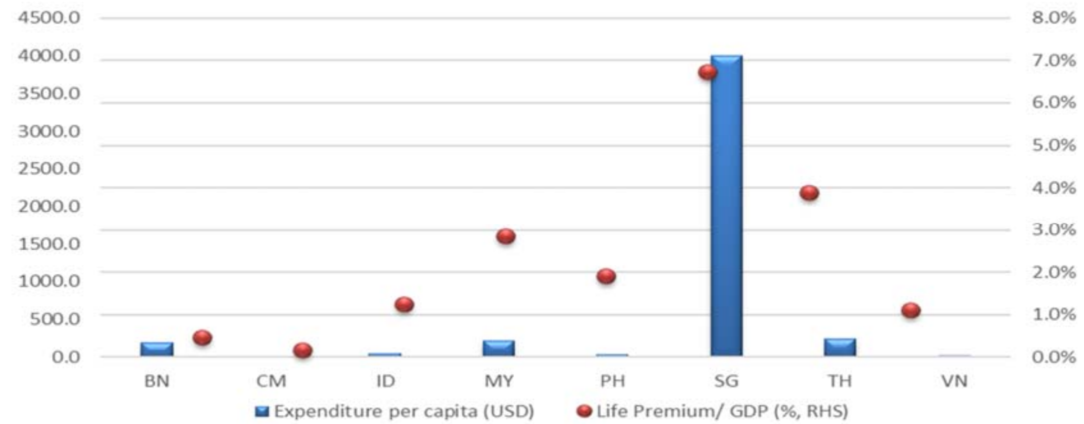
Figure 15: Total Assets of Insurance Industry in ASEAN, 2015 and 2016 (USD billion)



Source: ASEC database (2017)
Note: No Data Available for Myanmar

For life insurance sector, most AMS improved their insurance penetration rate, except for Thailand. Singapore posted the highest insurance expenditure per capita of USD 3,994.5, followed by Thailand (USD 240.2), and Malaysia (USD 221.1). Growth of insurance density was remarkable in Cambodia (94.4 percent) and Vietnam (30 percent).

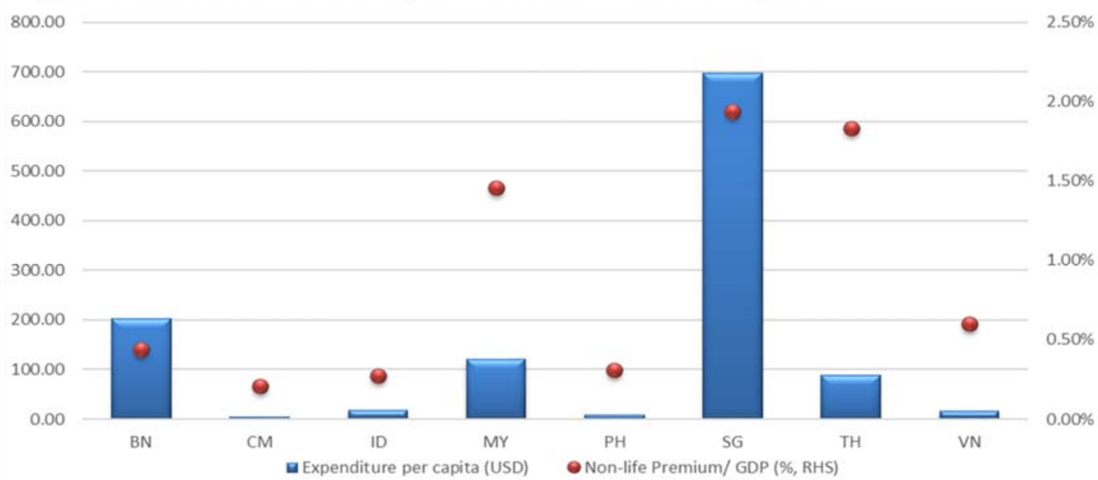
Figure 16: Life Insurance Density and Penetration Rates in ASEAN, 2016



Source: ASEC database (2017)
Note: No Data Available for Lao PDR and Myanmar

In the non-life sector, the performances of AMS were mixed. Though Singapore still led the region at USD 698.1 per capita, an improvement was evident in Cambodia (USD 4.46 per capita in 2016 from USD 3.9 in 2015), Indonesia (USD 18.2 per capita in 2016 from USD 15.2 in 2015), the Philippines (USD 8.7 per capital in 2016 from USD 8.3 per capita in 2015), and Vietnam (USD 16.6 per capita from USD 15.1 in 2015). Besides Singapore, there was no significant improvement in the penetration rate of non-life insurance in ASEAN markets.

Figure 17: Non-life Insurance Density and Penetration Rates in ASEAN, 2016

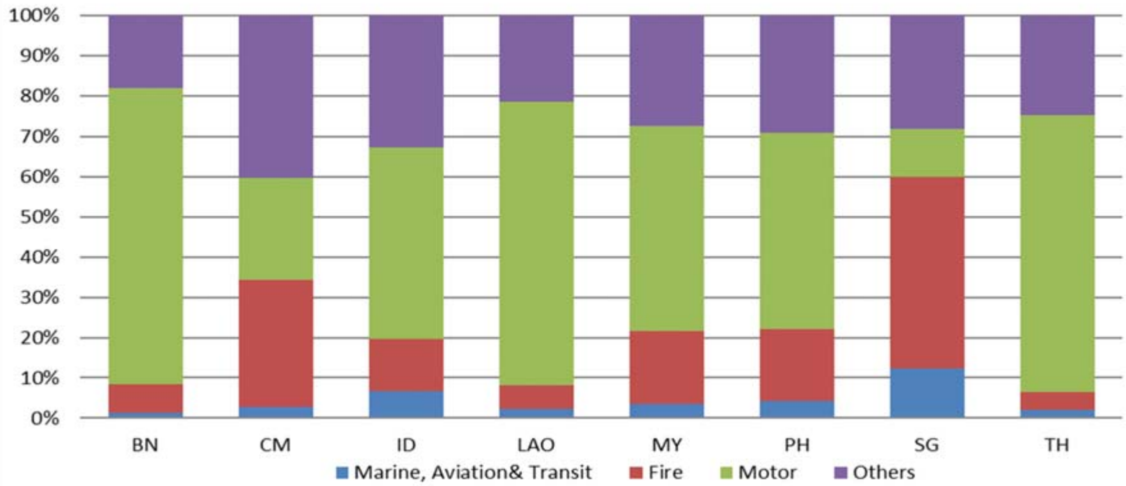


Source: ASEC database (2017)
Note: No Data Available for Lao PDR and Myanmar

By non-life subsector, besides Singapore where fire insurance dominated, motor insurance continued to dominate in all ASEAN Member States (AMS). The motor insurance accounted for 42.6 percent of the total net non-life insurance premium in 2016, followed by other non-life insurance (27.7 percent) and fire insurance (23.3 percent). In terms of the net claims, the motor insurance sector still took a lead, accounted for 48.2 percent of the total net claims of the non-life insurance in ASEAN.

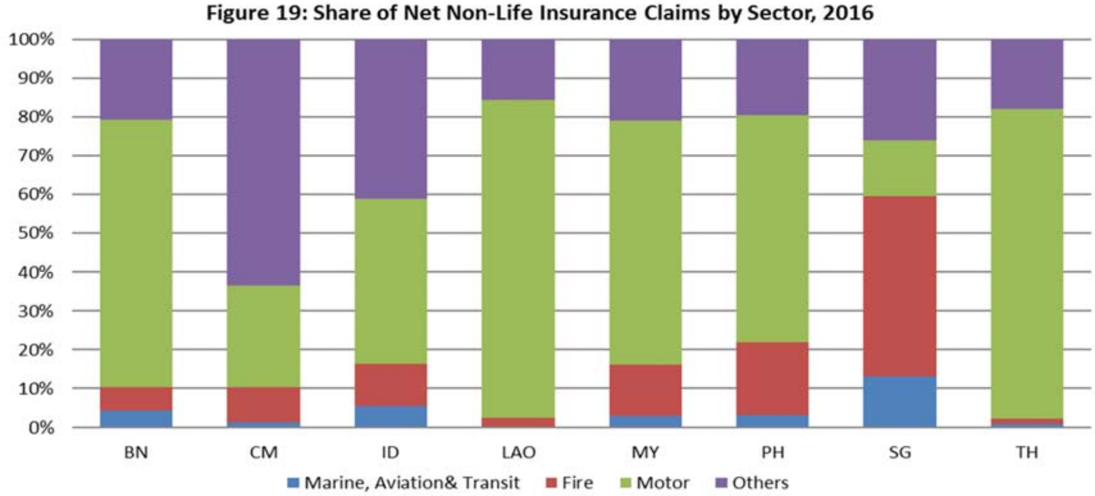
Thailand had the biggest share in motor insurance, or accounted for 80 percent of the total net claims in the economy. The difference was shown in Singapore as the net claims in fire insurance sector was the biggest share in the economy.

Figure 18: Share of Net Non-Life Insurance Premiums by Sector, 2016



Source: ASEC database (2017)
Note: No data available for Myanmar and Viet Nam

Figure 19: Share of Net Non-Life Insurance Claims by Sector, 2016



Source: ASEC database (2017)
Note: No Data Available for Myanmar and Viet Nam

For financial soundness and profitability, ASEAN has demonstrated mixed performance. Table 1 shows ASEAN Insurance Financial Soundness and Profitability Indicator 2014 – 2016. The soundness indicators show improvement, for both life and non-life insurance businesses, in asset values, particular equities and government securities and bonds. A significant increase in the number of insurance agents caused dramatic drops in gross premium/ insurance agent and asset/ insurance agent. This is the case for both life and non-life insurance. In terms of profitability, the loss ratio and the expense ratio went up slightly; thus, an increase in the combined ratio. The loss ratio climbed up due to an increase in net claims in both life and non-life insurance businesses. Moreover, the profitability of the non-life sector declined in some AMS due to price competition.

Table 1: ASEAN Insurance Financial Soundness and Profitability Indicator (2013 – 2015)

INDICATOR	2014	2015	2016
CAPITAL/ TOTAL ASSET			
LIFE	0.06	0.09	0.09
NON-LIFE	0.16	0.08	0.21
EQUITIES/ TOTAL ASSET			
LIFE	0.12	0.21	0.24
NON-LIFE	0.22	0.04	0.13
GOVT SECURITIES & BOND/ TOTAL ASSET			
LIFE	0.39	0.41	0.42
NON-LIFE	0.017	0.08	0.21
GROSS PREMIUM/ INSURANCE AGENT			
LIFE (US$)	65.64	125.39	60.21
NON-LIFE (US$)	206.11	950.11	174.78
ASSET/ INSURANCE AGENT			
LIFE (US$)	380.16	669.51	310.34
NON-LIFE (US$)	377.67	2122.19	408.76
LOSS RATIO	0.57	0.43	0.46
EXPENSE RATIO	0.14	0.16	0.18
COMBINED RATIO	0.71	0.59	0.64

Source: ASEAN Secretariat 2017
Note: the calculation excluded Myanmar

Overall, the ASEAN insurance sector has still well performed with increasing growth against the global uncertain backdrops. Despite different stages of development, ASEAN insurance markets are fast growing with development towards regional economic integration. Remarkable improvement has been evident in smaller markets i.e., Cambodia and Vietnam. Thus, the region is expected to sustain solid premium growth in 2017. An increase in insurance awareness, rising middle class and urbanization, acceleration of infrastructure investment, and digital distribution channel will boost insurance demand, density, and penetration rate. The Roadmap of the ASEAN Insurance Integration Framework (AIIF) is expected to pave developmental path for greater insurance integration in the region, which will facilitate ASEAN insurers to operate region-wide and take advantage of enhance market access resulting from the regional liberalization process. Though the capitalization still well performed, the sector's profitability is still challenging due to lower investment earnings, resulted from persistently low interest rates, and weaker underwriting results. The ASEAN insurance industry thus inevitably develop alternative approaches to maintain their profitability and competitiveness.

Chapter 4. Development and Integration of ASEAN Insurance Sector under the ASEAN Economic Community (AEC) 2025

The ASEAN Economic Community (AEC) 2025 Blueprint emphasizes the three strategic objectives in Finance Sector Integration Vision for 2025, which include Financial Integration, Financial Inclusion, and Financial Stability. As a crucial element of financial services, insurance sector continues to play important roles in regional economic development and economic integration by supporting real sector, trade, commerce, and investment. Its coverages extend to household and consumer protection as well as infrastructure development through a long-term financing project. Acting as a risk management tool, the insurance sector promotes financial stability in the region, which is one of the three highlighted areas.

As the complement to the AEC Blueprint, the ASEAN Strategic Action Plan (SAP) 2016-2025 on Financial Integration was endorsed by the ASEAN Finance Ministers and Central Bank Governors as well as the ASEAN Economic Community Council in 2016. The ten-year policy actions with the corresponding targets and timelines are planned to ensure greater regional financial integration in ASEAN. To enhance the liberalization and integration of the ASEAN insurance sector, policy actions are set towards "substantial liberalization and integration of ASEAN insurance markets". Under the targeted years of 2016-2017, eight AMS have ratified the Protocol to Implement the Seventh (7th) Package of Commitment on Financial Services under the AFAS and committed to the liberalization of the cross-border supply of international marine, aviation and goods in transit (MAT) insurance. Moreover, since the establishment of the ASEAN Insurance Forum (AIFo) in 2016, two meetings have been organized to discuss the draft Roadmap for ASEAN Insurance Integration Framework (AIIF) and the draft Guiding Principles of the AIIF in order to support insurance liberalization and integration in the region. The Roadmap of AIIF is targeted to be finalized within this year and to be endorsed by the ASEAN Finance Ministers and Central Bank Governors in April 2018. Furthermore, regarding the implementation of insurance liberalization and integration, the common definition of MAT was proposed as a baseline definition for AMS to adopt when formulating their MAT regulatory framework. In terms of financial inclusion, ASEAN has set the policy action to increase public awareness in insurance sector. The target is to organize campaigns to provide insurance knowledge and insurance products for underserved people as well as complete assessment on the types of insurance needed.

Further achievement was evident in the area of cross-border insurance under the Protocol 5 of the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT). To advance the implementation of the ASEAN Compulsory Motor Insurance (ACMI), the Council of Bureaux (CoB) and its working group were set up. Three sub-blocks[9] were established according to the geographical location. The ACMI functions as central database for compulsory motor insurance and issuing the electronic Blue Card, and the insurance document for cross border vehicles. The insurance cover and conditions shall be in accordance with each member country's regulations and requirements. A remarkable progress was witnessed in the Sub-block

[9] Sub block I Cambodia, Lao PDR, Myanmar, Thailand, Vietnam
Sub block II Malaysia, Singapore, Thailand
Sub block III Brunei, Indonesia, Malaysia

II where the completion of web-portals and technical integration with ACMI is in place for Malaysia and Thailand, Singapore's portal is currently under development. By the end of 2017, it is expected that Customer will be able purchase Third Party Liability insurance or compulsory motor insurance before crossing the border through ACMI Link - www.asean-cmi.com and www.aseancob.org.

Since the development of the ASEAN Disaster Risk Financing and Insurance (DRFI) Roadmap[10] in 2011 and the establishment of the ASEAN Cross Sectoral Coordinating Committee (ACSCC) on DRFI[11] in 2013, the inaugural meeting of the ACSCC on DRFI was held in November 2016 in Yogyakarta, Indonesia, and the first phase of the ASEAN DRFI (ADRFI) Program was implemented according to the Roadmap in 2016 and completed in June 2017. The outcomes of the ADRFI Program Phase 1 included three components: (i) risk information, assessment, and modelling, aimed to support ASEAN in developing the regional disaster-risk database system, (ii) public policy development, which is done through countries studies i.e., Philippines and Thailand, and (iii) knowledge management and training for ASEAN to enhance awareness and knowledge sharing in DRFI, this includes complementary advocacy, educational and communicational campaigns.

Consequently, AMS are putting their best effort to comply with the International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICPs) as well as improving their supervisory and prudential frameworks, though different regimes applied across the region. Given the latest Solvency II, some ASEAN regulators are looking to review their risk-based capital regime to better align them with economic balance sheets. With difference in their insurance regulations, the ASEAN regulators may need to commit on further harmonization and liberalization in order to improve the ease of doing business, compatible regulatory frameworks, and transparency. Table 2 summarizes recent and key developments in insurance regulations in ASEAN at nation-wide and region-wide levels.

Table 2. Recent Developments in Insurance Regulations in ASEAN

	Recent and Amendments to Insurance Regulations in ASEAN
Brunei Darussalam	Autoriti Monetari Brunei Darussalam (AMBD) placed high priorities on harmonization between conventional and Takaful requirements, the adoption of International Financial Reporting Standards (IFRS) and the requirement for general insurance / Takaful business to produce an actuarial valuation report. Four regulatory notices were issues in regarding to these priorities where the list can be found in the ANNEX 1. To improve the quality of reporting package of Takaful and Insurance Financial Returns (TIFR), AMBD included the regulatory notice on Filing Requirements for Insurance Companies and Takaful Operators

[10] The Roadmap emphasizes the use of ex-ante financing options and risk transfer mechanisms at both regional and national strategies as part of a broader disaster risk management agenda to increase resilience to disasters.
[11] Composes of three sectoral bodies: the ASEAN Finance Deputies Meeting (AFDM), the ASEAN Insurance Regulators Meeting (AIRM), and the ASEAN Committee of Disaster Management (ACDM).

Recent and Amendments to Insurance Regulations in ASEAN

	AMBD continued to focus on improving the supervisory framework in accordance to the International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICPs). With the approved changes of ICP 7 Corporate Governance in 2015 in the IAIS Annual General Meeting, AMBD has also issued a new Notice below on corporate governance and risk management. To enhance the insurance supervisory framework and surveillance system, AMBD has now completed the 3 phases under the Risk-based Supervision Framework, namely, identification of significant activities, assessment of risk management control functions and composite ratings to complete its new supervision framework.
Cambodia	A new Law on Insurance, promulgated by PREAH REACH KRAM No.NS/RKM/0814/021, came into force to replace the previous Law on Insurance in August 2014 as a part of the country's "FINANCIAL SECTOR DEVELOPMENT STRATEGY 2011-2020". The new Law on Insurance has 14 chapters and 114 articles which comply with the Core Principles of the IAIS and comprises of objectives, powers and responsibilities of the Regulator, insurance contract, licensing, intermediaries, winding-up and exit from the market, and especially enforcement and mediation. In the purpose of implementing and strengthening the enforceability of the Law on Insurance, Cambodia has been drafting Sub-decree on Insurance, Micro Insurance, and Compulsory Insurance. A number of significant Prakas in more specific areas has been drafted in order to secure the insurance market, the details appear in ANNEX 1. Additionally, due to the rapid expansion of the insurance market in Cambodia, a guideline to ensure the quality of the insurance products and supervisory manuals for the operation of the Life and Micro Insurance Companies are being drafted.
Indonesia	The Indonesia's Financial Services Authority (OJK) has issued several insurance-related regulations in 2016. The issuance covers the purposes of supporting government programs on nationwide infrastructure projects, onsite supervision, business licensing, business operations, implementation of Sharia principles in insurance, financial soundness, corporate governance of insurance, asset valuation standards, risk-based supervisory framework, approval of investment placement, reserve formation, insurance reporting standards, microinsurance, anti-money laundering (AML) and Countering the Financing of Terrorism (CFT) in financial sector, and administrative sanction. The details of Indonesia's new regulations and regulatory amendments appear in ANNEX 1.

	Recent and Amendments to Insurance Regulations in ASEAN
Lao PDR	The Department of SOE Management and Development, and Insurance of Ministry of Finance (MOF) has kept close monitoring and been trying to provide necessary regulation in order to ensure fair competition and protect benefits of policyholders. To strengthen supervisory framework, the Lao PDR's MOF has received financial support from the World Bank to hire an international consultant to review the current existing regulations and Insurance Law, which is scheduled to submit the National Assembly by the end of 2018. Moreover, during this year, MOF plans to issue five new insurance regulations and revise some existing regulations to ensure timely and practical regulatory frameworks that are in line with the current development needs.
Malaysia	Following Malaysia's commitment to liberalise the cross-border supply of marine, aviation and transit insurance and insurance broking services in the Seventh Package of Commitments under the ASEAN Framework Agreement on Services, four regulations have been gazetted to give effect to the commitments made. The list of these regulations appears in ANNEX 1. For risk management and prudential requirements, Bank Negara Malaysia (BNM) has embarked on an initiative to develop a contract-based regulatory framework which specifies Shariah and operational requirements in relation to the application of various contract in Islamic financial transactions. Two policy documents on wa'd (promise) and kafalah (guarantee) were issued to industry during the first half of 2017. Two exposure draft documents on rahn (collateral) and bai al-sarf (currency exchange) are targeted for finalization by the end of 2017. In addition, a number of exposure drafts were issued to improve existing legislations covered the areas of credit risk, outsourcing arrangement, and employment screening procedures. More details appear in ANNEX 1. In terms of developmental initiatives, BNM has developed a number of new regulations and initiatives in its policy to improve market efficiency, innovation, and soundness of insurance sector e.g., direct distribution channels, affordable, accessible, and simple insurance/ takaful products, fraud intelligent system, FinTech regulatory sandbox, and phased liberalization of the tariffs. More details are shown in ANNEX 1.
Philippines	A number of regulatory issuances were made by the Philippines' Insurance Commission in 2016 and 2017, which covered many regulatory aspects and purposes in insurance industry. Among others, these included policy reserves, enhanced licensing system, insurance reporting template and filing, establishment of branches, AML, e-commerce of insurance products, microinsurance, microfinance institutions, valuation standards, bancassurance

	agreements, medical information database, Certificates of Good Moral Character and Training for qualified insurance agents, underwriting, formulation of premium rates, ASEAN corporate governance scorecard, etc. For more information and particulars of these issued circular letters, you may visit our website at https://www.insurance.gov.ph In terms of the supervisory framework, Philippines amended the Risk-Based Capital (RBC2) Framework in the areas of financial reporting framework, valuation standards for life and non-life insurance policy reserves.
Singapore	To affect the commitment on the liberalization of the cross-border supply of international marine, aviation and goods in transit insurance as part of the signed 7th AFAS package, the Monetary Authority of Singapore (MAS) had amended the Insurance (Approved Marine, Aviation and Transit Insurers) Regulations ("the MAT regulations") to allow insurers domiciled and licensed in an ASEAN country to apply to be an approved MAT insurer to offer MAT insurance policies in Singapore on a cross-border basis. MAS also issued the Guidelines on Standards of Conduct for Marketing and Distribution Activities to emphasize MAS's expectations for financial institutions and their representatives to conduct their marketing and distribution activities in a responsible and professional manner. Additionally, the Guidelines on the Online Distribution of Life Policies with No Advice to ensure was issued to ensure that consumer interests are protected and consumer are assisted before making informed decision, setting up appropriate avenues for handling of queries, complaints and claims.
Thailand	Thailand's Office of Insurance Commission (OIC) issued the notifications that specify rules and condition for life/ non-life insurance company who wants to use digital channel for issuing insurance policy, proposing insurance product to the customer or reimbursing/ making claim payments to the insured. In addition, the Guidelines for insurance regulatory sandbox were issued to specify conditions for any insurance companies, insurance brokers, FinTech firms or technology firm, who are interested in developing new insurance products, sale process, claim payment or smart contract with the new technology under deregulated scenario in one-year period.
Vietnam	The legal framework on insurance business continues to improve business environment and insurers' competitiveness in line with market development requirements as well as Vietnam's *international* integration commitments, creating a harmonized and favorable legal corridor for insurers' operation.

	Recent and Amendments to Insurance Regulations in ASEAN
	On July 1, 2016, the Government issued the Decree No 73/2016/ND-CP guiding the implementation of the Law on Insurance Business and the Law on amending and supplementing a number of articles of the Insurance Business Law. This Decree replaces Decrees No 45/2007/ND-CP, No 46/2007/ND-CP, No 123/2011/ND-CP and No 68/2014/ND-CP. This is to clarify all of business investment conditions on insurance sector in lines with the new Investment Law. In addition, the Ministry of Finance has issued Circulars guiding the implementation of universal linked insurance, civil liability insurance for motor vehicle owners, fishery insurance, and compulsory insurance in construction investment activities. In the coming time, the Ministry of Finance will improve and finalize the legal framework on insurance business and related regulation facilitating safety and sustainable market development, such as Decree on Agriculture insurance, Decree on Micro-insurance; amending and supplementing the Decree No 130/2006/ND-CP on the compulsory fire and explosion insurance regime; amending and supplementing the Decree No 98/2013/ND-CP on penalties for administrative violations in insurance business. Besides, in order to reduce time and shorten the administrative procedures for insurers and create the favorable environment supporting insurance enterprises in line with the Resolution No 19/2016/NQ-CP, Ministry of Finance will accelerate the administrative procedure reform in insurance business

Further detailed updates on the ASEAN insurance laws and regulations can be found in the information paper appears as **ANNEX 1**.

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