

Keynote Address
by H.E. Le Luong Minh,
Secretary General of ASEAN
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Dr. Firdaus Djaelani, Chief Executive Officer of the Non-Bank Financial Industry
Supervision, Indonesia Financial Services Authority,

Madam Evelina Pietruschka, Secretary General of the ASEAN Insurance Council,
Distinguished Participants,

Ladies and Gentlemen

It is my pleasure to join you here at the 14th Asia CEO Insurance Summit. I would like to thank the Asia Insurance Review and the Geneva Association for the opportunity to share with you the progress of ASEAN's economic integration.

While the deadline for achieving the target of establishing the ASEAN Economic Community or the AEC, one and a crucial pillar of the three-pillared ASEAN Community, is only less than two years away, the liberalization and strengthening of ASEAN's financial services sectors such as the insurance industry will be crucial for the realization of the AEC by December 2015. This Summit is a good opportunity for the insurance sector to discuss the challenges and opportunities in preparation for the AEC.

General Economic Outlook for ASEAN Region

While the current global uncertainty will cause the regional growth to be modest, ASEAN maintained its economic resilience with the GDP growth of 4.8% by the end of 2013. The 2014 outlook remains broadly positive as ASEAN is expected to grow at approximately 5.2%. In that context, notable progress has been made towards the establishment of the AEC. By now, nearly 80% of the measures due under the AEC Blueprint have been or are being implemented. Important gains include the implementation of measures to promote trade facilitation, capital market development, food security, pro-competition and intellectual property rights (IPR) rules and regulations, and infrastructure development. Focusing closer to the financial services sector, the implementation rate was impressive reaching above 90%.

The recent ASEAN Integration Monitoring Report 2013 reported that positive impacts from regional economic integration came from five channels: (1) trade creating block due to tariff elimination and reduction, (2) gains from improvement of trade facilitation, (3) development of trade in services through the **ASEAN Framework Agreement on Services**, (4) a significant increase in foreign direct investment, and (5) the closing development gap between the ASEAN 6 and CLMV countries (meaning Cambodia, Lao PDR, Myanmar and Viet Nam) by stimulating economic activities in the CLMV.

As the region's impressive economic growth rates and large and growing consumer markets are the key reasons for growing business confidence, the possibilities for greater ASEAN integration is beginning to attract businesses to the region. It is, thus, critical for ASEAN to maintain the momentum leading to 2015

by focusing on completing the remaining measures in the areas of trade facilitation, services, investment, and transport. Attention now needs to be refocused on basic policies like streamlining regulations, trade and investment liberalization and facilitation, and investment in infrastructure and human capital. ASEAN is also working on further improving the investment climate in the region and promote intra-ASEAN foreign direct investment (FDI), particularly through an integrated and regional approach.

In 2012, in line with the Phnom Penh Agenda for ASEAN Community Building, ASEAN Leaders adopted a list of **Key Deliverables and Prioritized Measures for 2013 and 2015** to address the challenges and obstacles to AEC 2015. These included measures towards the establishment of a single market and production base by facilitating the flow of goods, services, investment, skilled labor, and capital in ASEAN. Specifically to achieve a freer flow of capital, ASEAN endeavors to have (1) substantial progress in the development of ASEAN Banking Integration Framework including harmonization of banking standards and regulations, (2) development of semi-integrated banking and insurance sector and (3) full implementation of ASEAN Linkages covering all stock markets in ASEAN.

ASEAN Insurance Industry: Performance and Opportunities

Ladies and Gentlemen,

The insurance industry in the region has a critical role in providing security and safety to both individuals and business or industry against losses and risks. Thus, it is crucial for the insurance industry to remain resilient and competitive to contribute to the regional and national economies of ASEAN.

Fueled by the region's economic growth, enhanced household incomes, and greater risk awareness in the region, I am pleased to note that ASEAN's insurance markets remain resilient and have kept growing in the past couple years. In 2012, the premium growth reached 8% as the robust growth of insurance premiums is expected to continue. We have also seen increasing rates of insurance penetration and insurance density in ASEAN. By the end of 2012, ASEAN's insurance penetration rate reached 3.19% of GDP, which is higher than 2.65% in emerging markets and 2.96% in emerging Asia. ASEAN's insurance density also improved to USD 134.4 from USD 122 in 2011.

However, it is worth noting that these rates varied among the ASEAN Member States due to different stages of development and there are areas for improvement. By type of business, currently, the ASEAN citizen tends to spend more on the life insurance products than on the non-life insurance ones. Nonetheless, the improvement in both insurance penetration and density emphasize the increasing importance of insurance sector in the region.

ASEAN Initiatives for the Insurance Industry

Ladies and Gentlemen,

Towards the strategic objective of creating a single market and production base and a single investment area, ASEAN has implemented many measures aiming at free flow of goods through the **ASEAN Trade in Goods Agreement** and trade facilitation measures. ASEAN also aims to realize free flow of services and investment through the **ASEAN Framework Agreement on Services** and the **ASEAN Comprehensive Investment Agreement**.

Along these, the ASEAN Finance Ministers also endorsed the **Roadmap for Monetary and Financial Integration in ASEAN**. The Roadmap emphasizes liberalization and integration in banking and non-banking sectors as well as the capital market. Commitments to further deepen cooperative efforts in reserve pooling and local bond market development are being strengthened. The region is also looking at banking integration by 2020. Altogether, the success of the Roadmap will help facilitate business transactions as well as improve the ease of doing business in the region.

Insurance, as a crucial non-banking sector, has gradually developed the initiatives towards regional integration. The ASEAN Financial Services package continues to be negotiated by ASEAN Member States. It is envisioned that the Protocol to Implement the Sixth Package of Financial Services will be signed by the ASEAN Finance Ministers this year. For the first time, the protocol will include provisions for the integration of the banking sector in the region. It must be noted that negotiations in financial services trade are done in a very prudent manner, taking into account the risks of opening up the financial sector too rapidly to the overall economy.

Ladies and Gentlemen,

The **ASEAN Insurance Regulators' Meeting (AIRM)** was established to serve as a platform for insurance commissioners to discuss regional insurance promotion to supervisory development as well as issues affecting the ASEAN insurance industry to enhance insurance penetration in ASEAN. It also aims to enhance capacity building of the regulators through the ASEAN Insurance Training and Research Institute (AITRI).

The AIRM works closely with Working Committee on Financial Services Liberalization (WC-FSL) under the ASEAN Finance Ministers Meeting. The WC-FSL is in charge of the liberalization and integration side works while the AIRM would focus on the development of the insurance sector in ASEAN. While discussions are still in the preliminary stages, the two bodies will continue to work on the roadmap for integration of the ASEAN insurance sector.

Specifically for the regional insurance integration, it is envisioned that ASEAN insurance institutions & intermediaries under the ASEAN Financial Integration Framework would meaningfully support trade, investment & economic integration in line with the AEC. Substantial liberalization across all modes of supply of services is also targeted for the identified or pledged sub-sectors by 2015 and for all sub-sectors by 2020.

So far, the restriction in the banking and insurance services have been substantially removed, both for market access and national treatment. Under the current financial instability, ASEAN Member States have also made considerable progress in terms of self-assessment supervision based on the Insurance Association of Insurance Supervisor (IAIS) Core Principles. Most Member States have impressively improved their assessment on regulatory supervision in 2012.

Further integration under the Financial Service Liberalization Framework will help deliver economies of scales that attract investors and clients, which can lead to higher penetration rate in ASEAN. In addition, regional insurance

integration must be promoted through regulatory initiatives on mutual recognition agreements (MRA) and harmonization of rules and regulations across the region.

Disaster-Risk Financing and Insurance in the ASEAN Region

Ladies and Gentlemen,

ASEAN's geographical location and the recent challenges brought about by climate change have made disaster management and humanitarian assistance a significant priority area for ASEAN cooperation. Given the ever-increasing number, scale, and severity of disasters faced by the ASEAN region now, it is an imperative to have risk financing solutions in place.

ASEAN needs to lay down a solid foundation towards the development of a regional disaster risk insurance programme and other financing instruments. A regional risk insurance pool can help limit the fiscal exposure of Member States and enhance financial resilience against disasters in support of long-term sustainable development of the whole region. ASEAN should have an enhanced platform for generating, managing and sharing disaster risk information. There should be greater understanding of risk financing and insurance solutions through public policy development, advocacy and peer-to-peer learning. Public-Private Partnership should also be pursued to increase ASEAN's capacity in risk financing and to look into the feasibility of an ASEAN disaster risk insurance pool.

Thus, the **ASEAN Strategy on Disaster Risk Financing and Insurance (DRFI)** was formulated to help ASEAN Member States build greater financial resilience to natural disasters. The Strategy brings together the **ASEAN Finance and Central Deputies Meeting (AFDM)**, the **ASEAN Insurance Regulators Meeting (AIRM)** and the **ASEAN Committee on Disaster Management**

(ACDM) to collaborate in implementing the ASEAN DRFI Roadmap. The ASEAN Member States are also putting more efforts to develop the DRFI schemes at the national and local levels. The collaboration is also being undertaken with ASEAN's Dialogue Partners, specifically Japan, China, and the Republic of Korea. Priorities that will further help the ASEAN+3 Member States in assessing their options on financial disaster risk management include: (1) the establishment of disaster risk database for monitoring purposes and (2) provision of technical assistance under capacity building programs on disaster data analysis and risk modeling tools.

Preparing for AEC 2015: Role of the Insurance Sector

Ladies and Gentlemen,

The private sector including the insurance industry plays a very important role in achieving the AEC by 2015. While the industry's prospects in the region remain robust, there are challenges that must be addressed. Due to the weak global economy and potential natural disasters, the insurance sector is encouraged, in partnership with the regulatory agencies, to undertake key measures and seek alternatives and opportunities to ensure the industry's resilience and profitability. Focusing on consumer protection is also of paramount importance. The insurance industry should also seek to be informed of the regulatory changes brought by new measures to guarantee financial stability in the global economy. Although increasing rates have been witnessed in the past years, the insurance penetration rate is still comparatively low. Thus, to encourage a higher insurance penetration rate in the region, the insurance sector must also focus on promoting risk awareness and coming up with new products as part of its overall strategy.

Recognising this, ASEAN continues to do its outreach to the private sector. In this respect, I would like to acknowledge the contribution of the **ASEAN Insurance Council** as the insurance private sector association in the region. By engaging with the AIRM and finding ways for the sector's strategies to improve insurance penetration in the region, AIC's efforts are welcome and valuable contributions to the process of strengthening ASEAN economic integration.

I would also like to urge the participants of this Summit to seek possible avenues of cooperation with the relevant ASEAN bodies at the national and regional levels. Partnerships and sharing of valuable experience and insights will contribute to the on-going work of ASEAN.

Continued engagement with ASEAN will eventually foster better understanding and dispel misconceptions about the impacts of AEC. Eventually, it is hoped that this understanding will pave the way for greater support and confidence for ASEAN's economic integration efforts.

Conclusion

Ladies and Gentlemen,

The establishment of the ASEAN Community by 2015 will present many opportunities for the insurance industry. With ASEAN's immense growth potential, the industry start preparations by formulating strategies, identifying advantages and engaging in strategic partnerships that will enable them to reap the benefits of ASEAN integration.

The private sector's involvement in building the ASEAN Community by 2015 is of critical importance. It is imperative on the private sector to understand,

to support and to be engaged meaningfully in our efforts. And, to that end, this forum is a valuable opportunity not to be missed. I wish you fruitful discussions.

Thank you!