Remarks
by
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AEC 2015 – Opportunities and Challenges for the Insurance Industry
Inaugural ASEAN Insurance Summit, 1 October 2014, Singapore

Your Excellency

Mr. Lim Hng Kiang,

Minister for Trade and Industry, Singapore

Deputy Chairman, Monetary Authority of Singapore

Mr. Vincent Kwo, Chairman, ASEAN Insurance Council

Ms. Evelina Pietruschka, Secretary-General, ASEAN Insurance Council

Distinguished Guests

Ladies and Gentlemen

Good morning. I would like to thank the ASEAN Insurance Council (AIC) for the opportunity to speak to you in this inaugural ASEAN Insurance Summit. This Summit comes at a very opportune time for us in ASEAN as we are assessing where we are on AEC 2015 and deliberating on where we want to be in the next 5 to 10 years.

The role of insurance in the economy has heightened over the past decade and not without basis. Global insurance premiums have steadily risen from USD 3.0 trillion in 2003 to USD 4.6 trillion in 2013, according to Swiss Re. Over the same period, premium volume in ASEAN grew three-fold to USD 80.8 billion.

Insurance development has far-reaching impacts on our on-going efforts to establish an ASEAN Economic Community (AEC) by 2015. Insurance supports trade and commerce. It encourages investment and lending by reducing credit risk. It improves resource allocation as less funds needs to be set aside for contingencies. As insurers accumulate investible funds, they aid in the deepening of capital markets, thereby enhancing access to financing. As a risk management tool, insurance promotes financial stability for both firms and individuals. It also provides social protection for health and retirement.

It is not surprising then that the insurance industry's performance mirrors the path of the economy. World GDP growth firmed up towards end-2013 as inventory demand rose and financial conditions eased in advanced economies, while domestic demand remained resilient in emerging markets. However, it was softer than expected in the first quarter of 2014. Similarly, growth in global insurance premiums slowed down to below 2 percent in 2013, according to Swiss Re. Emerging market economies have been the driver of growth over the past years, with advanced markets posting only marginal increases in insurance premiums.

For the near term, world economic growth is expected to pick up this year and the next, with emerging market economies still leading the expansion. Global insurance premiums are projected to rise further but remain largely tepid in advanced markets. Based on the 17th Annual Global CEO Survey of PwC, more than 90% of insurance CEOs are looking at increased revenues in the next three years, and the proportion of those with optimistic one-year-ahead outlooks tripled from last year.

Higher profits may well be on the cards as monetary policy in advanced markets normalizes. Nonetheless, alternative ways of boosting income need to be found. This search for growth would be challenging amid advances in technology, changes in demographic structure, and shifts in global economic power, as highlighted in PwC survey. Consumers nowadays want transactions to be instantaneous and delivered through their preferred channels. Data analytics have enabled more innovative insurers to digest client information more quickly and thus customize products better. Insurers also have to keep up with changing preferences of an expanding young population, as well as hurdle data constraints and less market-oriented environments in emerging market economies. Alongside imminent changes in regulatory frameworks, the pressure is on for insurers across the globe to adjust operations to stay competitive.

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How are ASEAN economies and insurance markets faring? Quite well, and they are poised for continued growth in the near term. Last year, regional economic growth slowed down due to sluggish external demand, weaker investment flows and domestic disruptions, but to a still solid pace of 5.1%. Similarly, insurance premium growth decelerated but remained robust at 9.5% on the back of strong outturns in Indonesia, the Philippines, Singapore and Thailand. The continued growth of ASEAN's insurance sector is widely attributed to increasing urbanization, rising population, expanding trade networks, higher incomes, and enhanced consumer awareness. Insurers for property,

automobiles and health, in particular, are benefitting from rising incomes and improving financial literacy.
Industry experts predict sustained insurance growth in ASEAN as incomes, trade and population rise further. This may well be the case as the economic outlook remains promising despite some weakening this year – ADB's latest assessment points to regional GDP expanding by 4.6% in 2014 and 5.3% in 2015. Enhanced public awareness and low levels of insurance penetration also point to room for further growth. To give you a quick comparison, insurance penetration in EU is 7.8% of GDP, ASEAN's is 3.4%; among our Member States, it ranges from 1.4% to 5.9%.

Public policies encouraging insurers to develop innovative products and support microinsurance for small businesses would also boost insurance development. The growing popularity of bancassurance as a distribution channel for insurers is seen to continue, and this should contribute to further market deepening.

Some Member States are putting in place new accounting standards, amending risk-based capital frameworks, and mandating increases in minimum capital. ASEAN regulators and insurers also need to adjust to the impacts of new solvency and supervision guidelines in other parts of the world. While liberalization will open new markets, insurers have also noted that they need to brace for the stiffer competition that comes with it. These suggest that industry consolidation may be in the offing.

In some Member States, stringent licensing procedures and tight restrictions on foreign ownership remain significant barriers to entry. Underdeveloped capital markets, limited underwriting capacity of domestic insurers, and insufficient technical expertise of the insurance workforce have limited the industry's growth. There are other country-specific issues such as high taxation on premiums, constraints on types of investment, limits on scope of business, and rising incidence of natural calamities. High inflation, unemployment and poverty in some Member States have also restrained insurance demand.

With these in mind, ASEAN is intensifying efforts to develop, liberalize and integrate the insurance sector. As we saw earlier, insurance has strong synergies with other sectors and promotes economic growth. Meanwhile, a more open and integrated market means a much broader customer base for insurers and wider selection of products for consumers. The cost of insurance will decline over time as insurers pursue efficiency and market share in a more competitive environment. And this bodes well for small and medium enterprises and lower-income households for whom insurance is costly.

With integration, the legal and regulatory frameworks for insurance across the region have to be aligned. Strengthening competencies of ASEAN insurance regulators is therefore critical, and on this, we have implemented various capacity building initiatives. We have also been steadfast in promoting financial literacy which should lead to higher insurance consumption. We believe integration would be successful only if its benefits are felt on the ground, so we collaborate closely with the private sector in designing and implementing initiatives. We have also accorded higher priority to disaster risk financing and insurance, having established a cross-sectoral coordination committee to promote the implementation of the related regional roadmap.

The AEC Blueprint pushes for trade openness, infrastructure development, capital market deepening and more competitive business environment, factors which have been shown to spur insurance growth. Beyond this, ASEAN Member States can strengthen the calibration of policies on other drivers of insurance development. These include promoting low and stable inflation conducive to smoother investment planning of insurers and the insured; creating fiscal space to allow for increased investment in infrastructure to support insurance operations; and enhancing access to education, boosting employment opportunities and reducing poverty, which would raise consumers' capacity to obtain insurance. Strengthening governance and rule of law would also lead to more brisk insurance growth by improving efficiency and propping up market confidence in the financial system.

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To sum up, insurance development is critical to economic growth and the success of AEC. If current projections are any indication, there is reason to be optimistic about the ASEAN insurance sector. The road ahead will be bumpy however. Insurers worldwide have to adapt to changes in regulatory frameworks, technology, demographics, consumer preferences, and global economic structure. On top of that, insurers in some ASEAN Member States are confronted with prospects of slower economic growth this year, high barriers to entry, inadequate technical expertise, underdeveloped capital markets, and limited consumer purchasing power.

I am very happy that the AIC has taken the initiative to actively participate in the development and integration of the ASEAN insurance sector. Constant dialogues and partnership with the ASEAN Insurance Regulators must continue as that is the only way the ASEAN insurance sector can grow and integrate harmoniously.

I hope that in the panel discussions and plenary sessions ahead, we will have a fruitful exchange of ideas on these issues. Your views on what steps to take next will be valuable inputs to us in ASEAN in fast-tracking the regional integration process and drawing up the post-2015 agenda for insurance. I wish you all a successful Summit.

Thank you.