EU-ASEAN
BUSINESS COUNCIL

2018

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

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EU-ASEAN BUSINESS COUNCIL

Executive Summary

This is the fourth annual position paper from the EU-ASEAN Business Council Insurance Group. In line with ASEAN's tagline 'Resilient and Innovative' this year, **we focus on the contribution that the insurance sector makes to sustainable growth in ASEAN through innovation and investment, as well as the need for financial resilience** in one of the most disaster-prone regions in the world. We also update information on European insurers and the ASEAN insurance market, and reconfirm our positive outlook for growth in the region.

As ASEAN member states become wealthier, the twin roles of insurance companies – to provide citizens with protection, and to provide the kind of long-term investment that underpins economic growth – become ever more important. **The insurance protection gap continues to grow**, with penetration rates across ASEAN just over three percent. **Catastrophes remain significantly underinsured**, with only 30% of global disaster losses insured in 2016, and Asia the hardest hit incurring the majority of the disaster losses. **The funding gap for infrastructure projects is also growing**. The Asia Development Bank estimates that ASEAN needs around US$3 trillion in infrastructure investment between 2016 and 2030[1].

European insurers continue to lead the way in growing the insurance markets in ASEAN member states to the benefit of both international and local companies. But we cannot be complacent; more needs to be done to provide protection to the poorest citizens in ASEAN, and to help the emerging middle class to protect and grow their wealth to meet their aspirations for retirement, education of their children and healthcare for the whole family. We focus on three areas for action.

[1] See: *ADB 2017 Report "Meeting Asia's infrastructure needs"*

Disaster Risk Finance	Long-term Investment	Digital Economy & Insurance
Various studies confirm that the protection gap in the ASEAN region is one of the world's widest due to divergence of growth and insured assets. Over the past two decades, Asia as a whole has accounted for almost 50% of the world's economic losses from natural disasters. Taking action to protect the hard-earned progress in ASEAN Member States is a clear priority.	Current bank and capital market finance will not be sufficient to close the infrastructure gap in ASEAN, nor to fund the corporate growth needed to meet member state ambitions for economic development. Long term investors, such as insurance companies have a key role to play in the region's financial architecture, to provide long-term predictable funding to companies and the public sector, (to be used for infrastructure projects among other things) , and to develop investment vehicles for savers.	Digital technologies are offering new opportunities as well as challenges for insurance companies, customers and regulators. Digitising insurance companies' businesses benefits all stakeholders – it reduces costs and accelerates success for businesses, enhances service and experience for the customers, thereby increasing efficiency, optimises financial protection and deepens financial inclusion.
Disaster Risk Finance	**Long-term Investment**	**Digital Economy & Insurance**
We recommend enhancing the working group on ASEAN Disaster Risk Financing and Insurance (ADRFI), committing to expand the use of innovative risk financing measures, such as risk transfer solutions, and agreeing a public private partnership to tap into additional disaster aid funding as well as insurance expertise for an effective and sustainable emergency response.	Attention is needed on four fronts: inclusive regulatory treatment of Infrastructure Investment; development of capital markets; promotion of green financing; action to expand blended finance and a pipeline of bankable projects.	To foster innovation, we would like to work with ASEAN governments and regulators: to establish dedicated offices overseeing insurtech; to update regulations for new technologies; to enhance cooperation between regulators in ASEAN; and to promote cross-border flow of information.

Table of Recommendations

Developing viable and efficient insurance markets must go hand-in-hand with the tasks of promoting long-term investments by insurance companies, expanding regulatory initiatives that support innovation with value-add to customers, and establishing a well-functioning insurance market in disaster risk finance.

Issue	EU-ABC Views and Recommendations
Establish a well-functioning insurance market and promote the use of public-private partnerships (PPP) in disaster risk finance	➢ **Have effective pre-financing measures in place that provide liquidity for relief efforts as soon as the disaster strikes.**
	➢ **Put different measures in place that come to play at different loss levels is economically more viable and sustainable.** The Southeast Asian Disaster Risk Insurance Facility (SEADRIF), a recent regional risk pool initiative at an opt-in basis, will only be able to bring limited value in the immediate to short-term future.
	➢ **Expand and advance the work done by the ASEAN Disaster Risk Finance and Insurance (ADRFI) working group.**
	➢ **Build on and replicate the UN Central Emergency Response Fund (UN CERF) by extending the mandate of the ASEAN Disaster Management and Emergency Relief (ADMER) Fund** to include the use of innovative risk financing measures, such as risk transfer solutions.
	➢ **Agree on a public-private partnership under the lead of a partnering donor** to tap into additional disaster aid funding as well as insurance expertise for an effective and sustainable emergency response.
Promote long-term investments by insurance companies	➢ **Improve investment conditions and the offering of inclusive regulatory regimes** that encourage greater participation by insurers in long-term and illiquid investments which are appropriate to hold against their liabilities, especially those aimed at supporting infrastructure development.
	➢ **Introduce region-wide standardised reporting, documentation and benchmarking** to help develop markets and make it quicker and easier for companies to assess projects and so facilitate private finance.
	➢ **Promote green financing, such as Green bonds,** earmarking proceeds for projects that deliver environmental and climate-friendly investments. Continue to support the development of the ASEAN Green Bond Principles for developing the market.
	➢ **Expand public-private sector blended finance initiatives.** Create the right risk-return profile by encouraging other financial actors to pick up some of the risks typically associated with large scale infrastructure projects that the private sector finds difficult to take on its own.
	➢ **Build a pipeline of approved investment-ready projects.** Prioritise projects, with the projects that can be designed to be investible with only private funding accelerated.
Expand regulatory initiatives that support innovations with value-add to customers	➢ **Establish a dedicated office overseeing insurtech.**
	➢ **Revise regulations that address issues raised by new technologies.** For example, statutory tariffs that regulate allowable premiums, commissions and coverage may hinder innovative developments in new distribution channels; safeguards and regulations in the areas of robotics and artificial intelligence.
	➢ **Enhance cooperation and collaboration between regulators**
	➢ **Promote collaboration between the regulator and the industry to develop innovations,** such as financial industry application programming interfaces (API).
	➢ **Promote cross-border flow of information.** Assess the adequacy of their data frameworks and pursue equivalence regimes in order to allow for free flow of data across borders.

European Insurers and the ASEAN Insurance Market

European insurance companies have a long history in ASEAN markets. Today, more than 25 European insurance companies operate across ASEAN. They make a significant contribution to the population's savings, investment, and insurance needs. In 2016, European insurers contributed nearly 25% of total premiums in major ASEAN states, premiums which are invested in local economies. Total assets of European insurers were in excess of US$80 billion.

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

Country	European Insurers Premiums (mil US$)	Total Premiums (mil US$)	%	European Insurers Assets (mil US$)	Total Assets (mil US$)	%
Indonesia	4,886	20,038	24%	10,539	41,071	26%
Malaysia	3,233	13,930	23%	13,512	58,208	23%
Philippines	1,004	5,407	19%	4,258	26,596	16%
Singapore	6,410	21,029	30%	35,846	132,524	27%
Thailand	2,727	22,044	12%	13,727	85,816	16%
Vietnam	730	3,622	20%	2,213[2]	10,979	20%

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

The ASEAN Economic Community is developing and contributing to more wealth in the region. The ASEAN growth story is still good. Over the medium to long term, ASEAN is expected to continue to be one of the fastest growing regions in the world, averaging a growth rate of 5% in the forecast period of 2016-2020[3]. However, insurance penetration rates in most ASEAN Member States remain low. Many countries in ASEAN demonstrate a worrying savings and protection gap as populations grow older and increasingly wealthy.

In 2016, penetration rate across ASEAN stood at just over three percent, well below the global average of over six per cent. Although ASEAN economies continue to grow, the region is prone to natural disasters, and the protection gap continues to widen. Total worldwide economic losses caused by disaster events reached the highest since 2012 at US$175 billion in 2016, with only 30% of losses insured, indicating a significant catastrophe gap. Asia was hardest hit, incurring more than 50% of total losses[4]. In addition, the mortality protection gap is widening, growing at a rate of 10% from 2004 to 2014, and standing at an estimated US$58 trillion for 13 Asian countries (which include the ten ASEAN Member States)[5]. The aged dependent population[6] continues to grow; 100 working age persons who used to support 8.5 aged persons in 1990 now supported 10.1 persons. Thus, there is considerable need to uplift protection coverage in ASEAN.

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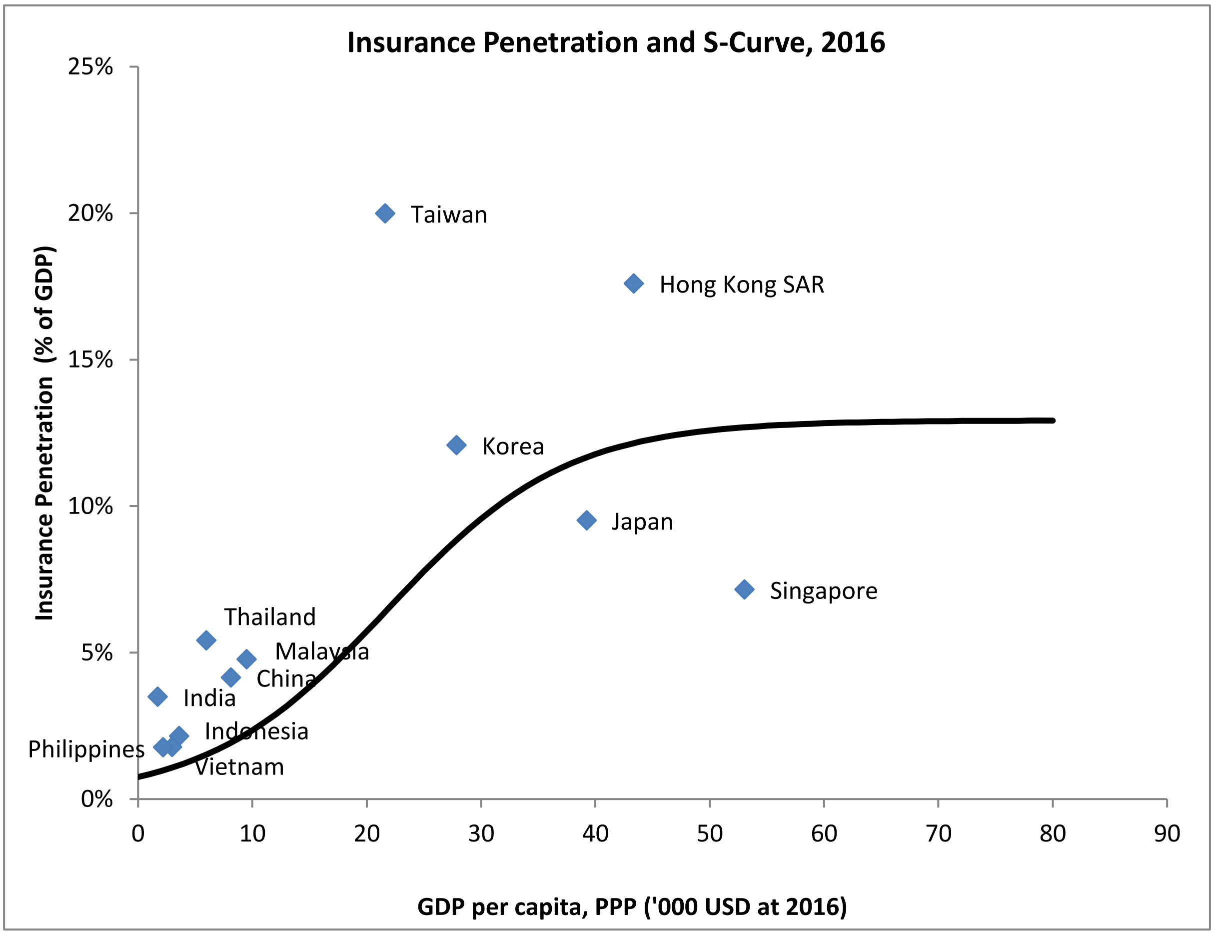
[2] EU Insurers' assets for Vietnam are estimated based on % market share for premiums * total assets
[3] OECD, Economic Outlook for South East Asia, China and India 2016, Table 1, p. 26
[4] Swiss Re's sigma report; World insurance in 2016
[5] Swiss Re's Mortality Protection Gap Report, Asia Pacific 2015, Figure 1, p. 10
[6] Old-age dependency ratio = 65+ /100 population 20-64 age group

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

Market	Penetration rate (%)
Europe	6.7
USA	7.3
ASEAN	3.4

Source: Swiss Re

Diagram 1: Insurance penetration in countries across Asia



Further investment in the industry is needed to ensure that protection coverage grows to match increasing income and asset ownership across ASEAN.

Focus Issues

Disaster Risk Finance

An Enabler to an Effective and Comprehensive Disaster Risk Management Strategy

The Protection Gap in ASEAN

ASEAN member states have experienced great economic progress over the last 50 years, with the value of quality of life as well as goods and assets having increased tremendously. Yet it is also one of the regions that is most prone to natural disasters. As the region continues its growth trajectory in economic and societal terms, more lives and assets will become vulnerable to natural catastrophes. Various studies confirm that the protection gap in the ASEAN region is one of the widest due to divergence of growth and insured assets. Over the past two decades, Asia as a whole has accounted for almost 50% of the world's economic losses from natural disasters; estimates reach beyond US$900 billion. Taking action to protect the hard-earned progress is not a question of whether or not disaster risk management is needed, but rather of when and how it is organised most effectively.

There is No One Panacea to Deal with Disasters

When looking at the amount needed to cover economic losses from natural disasters in ASEAN, it is undisputable that only a sound mix of disaster risk financing measures would be able to absorb a meaningful share of the incurred losses from natural adverse events. Such a mix of disaster risk measures will span across pre-event financing options, such as public budget reserves, contingent credits and risk transfer solutions.

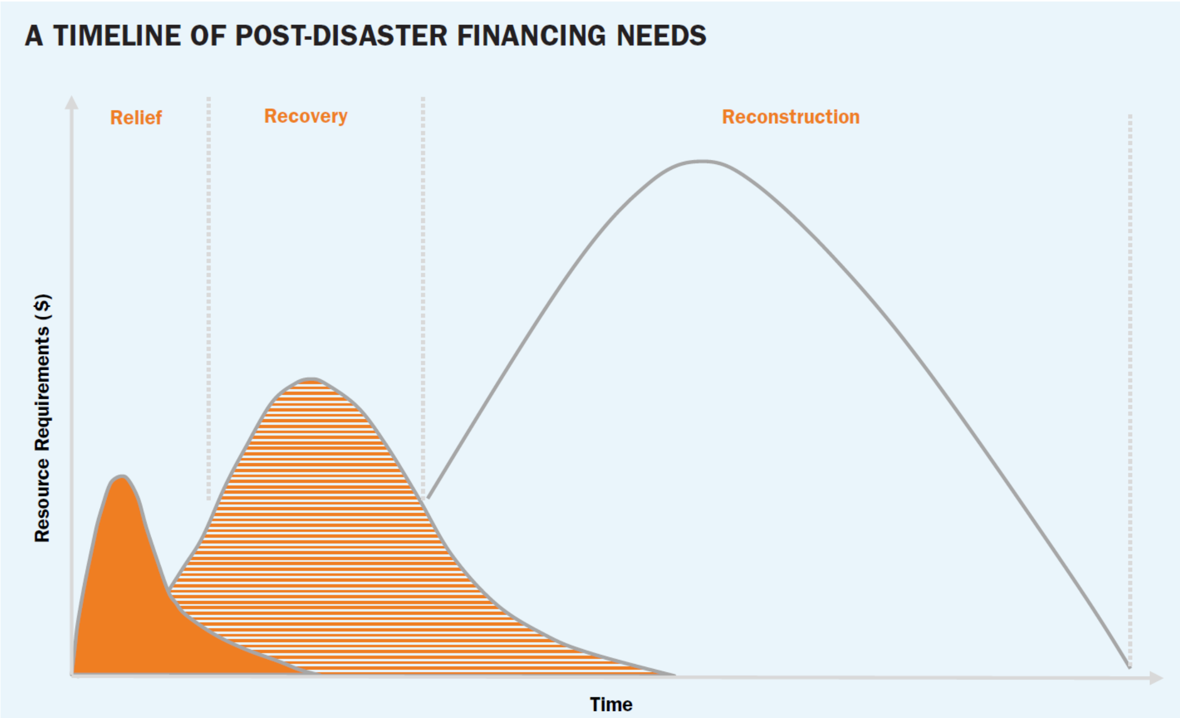
If a country is not financially prepared for large scale events, the post-event options are costly: raising revenues, increasing public debt levels, reallocating budget or relying on international donations. Amongst those measures many remain within the realm of the public budget and can only be mobilised under certain constraints. (International) donations are prone to time-lags and the uncertainty of the amount that would finally flow. In addition, donor aid competes with many pressing issues globally. The shortfall of available donor aid for disaster related events continuously increases year by year. Alternative sources come from the private sector and capital markets. Only a few financing vehicles allow to pull capital from the private sector, such as bond placements or sovereign risk transfer solutions.

So why do not more governments invest in pre-event financing options? There are several reasons: disaster relief financing is not always top of mind, it is more likely than not something new to a government. Furthermore, insurance is reaching its limitations on what is insurable under traditional indemnity based products, especially when it comes to large scale events. Traditional indemnity products, whilst precise in their assessment, tend to be slow in the payout. After a catastrophic event with a large affected area, claims assessment and settlement can take months if not years, resulting in high costs and undesirable delays in getting funds to those most in need. Indemnity based insurance tends to have higher transaction costs and complexity. Terms and conditions can be overwhelming containing warranties, conditions and exclusions.

The answer to these shortfalls is in digitisation and index-based parametric solutions. The solution is based on financing what is agreed and pre-defined before the event. Payout is then linked to an objective, independent index, e.g. the higher the recorded wind speeds or the stronger the earthquake the higher the payout. The advantages of parametric solutions are a payout in as little as two weeks, with simple, straightforward claims handling. Parametric risk financing has also opened the possibility to cover risks which traditionally were difficult to insure.

Another inevitable fact is that none of the disaster risk financing measures on a standalone basis would serve the purpose to deal with the uncertainty and scale of disasters. The full eruption of Mount Agung on Bali since September 2017 not only evoked evacuation of citizens but also hurt the booming tourism industry causing lost revenues of hundreds of millions of US dollars. Typhoon Damrey took its turn over Vietnam and with it more than 100 lives were lost, at the same time challenging the prestigious APEC meetings to take place smoothly and safely for all involved stakeholders. The Philippines was confronted with the devastating tropical storms of Kai-Tak and Tembin before Christmas 2017, followed by the eruption of Mount Mayon. Time may heal wounds, but it does not undo the damage Mother Nature causes. Inaction is the least advised option as it only inflates the problem after a disaster, and takes its wider toll on the economies and societies affected. Disrupted businesses affect domestic and regional trade flows, while displaced communities may be forced to become economic migrants in the search for better opportunities and stir up geo-political tensions in the long-run.

Diagram 2: Stages of disaster response and levels of resources required



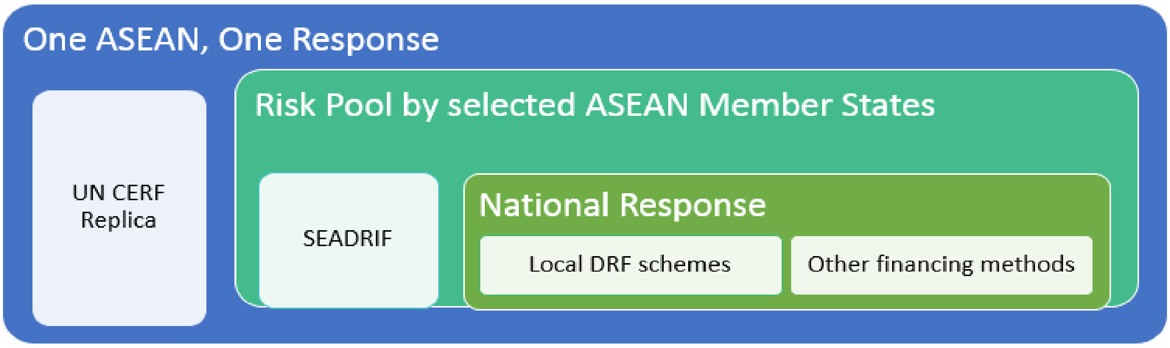
Source: World Bank

The faster actions are taken in the relief stage, the lower and shorter will the subsequent economic impact be during the recovery and reconstruction phase. Hence having effective pre-financing measures in place that provide liquidity for relief efforts as soon as the disaster strikes is a decision that should not be postponed further.

Disaster Risk Financing Needs Careful Layers

Diagram 3: Different layers of response

There is no panacea that can fully absorb the loss & damage resulting from disasters, ...



..., hence putting different measures in place that comes to play at different loss levels is economically more viable and sustainable.

Limited Value of the Southeast Asian Disaster Risk Insurance Facility

The World Bank released a policy brief in May 2017 to the G20, commissioned by Germany under its G20 presidency, setting out the necessity for ASEAN to have its own regional risk pool like the one that the Caribbean island states, the Pacific island states and African nations have founded for sharing sovereign financial stress amongst each other. Pooling risks and sharing burdens amongst partnering nations would help ASEAN member states to bounce back better and faster after an adverse event.

Turning its advocacy into action, the World Bank, with support from some donors, has started the Southeast Asian Disaster Risk Insurance Facility (SEADRIF). It intends to complement national disaster risk management efforts at a regional level, starting with Cambodia, Lao PDR and Myanmar as the first member states on its platform. Those nations will be provided with a sovereign risk transfer solution for drought and flood. This initiative was officially and formally brought to life in 2017 but is likely to take some more years to develop until the first risk transfer solution is put in place.

The development of a sound regional risk pool on an opt-in basis for ASEAN member states requires careful designing and implementation which in return explains the time lag that is to be expected.

In the immediate to short-term future, SEADRIF will only be able to bring limited value to ASEAN's efforts of becoming more resilient through innovative financing measures.

Additional Layer of Disaster Pre-Financing at the ASEAN Level

The timing gap for a more resilient ASEAN could be bridged by another type of innovative disaster risk financing solution. An additional layer of disaster pre-financing could be housed at ASEAN Secretariat level. This would be in line with the vision of the ASEAN Agreement on Disaster Management and Emergency Response (AADMER) of "One ASEAN, One Response". This layer could be a replication of the United Nations' Central Emergency Response Fund (UN CERF). UN CERF has proven its value for more than one decade and is not only supported by UN member states, but also regional government bodies, international organisations and private donors. With the successful implementation of the AADMER work programme, ASEAN already has a solid foundation to build on and to replicate UN CERF for itself, i.e. the ASEAN Disaster Management and Emergency Relief (ADMER) Fund which is currently mainly sourced by ASEAN Member States under the United Nations Development Programme (UNDP). Such an emergency response fund vehicle would be centrally administrated for all member countries. The fund could be constructed in a way that it consists of a complementary set of financing mechanisms with the purpose to diversify the sources of financial contribution. Furthermore, through existing public private partnerships, international re/insurance players will be able to design bespoke and innovative risk transfer solutions that address the risk concerns of each ASEAN member state concurrently.

The EU-ABC supports the expansion and advancement of work done by the working group on ASEAN Disaster Risk Financing and Insurance (ADRFI). We look forward to ASEAN members' commitment to explore the UN CERF replica by extending the mandate of ADMER Fund to include innovative risk financing measures, such as risk transfer solutions, and attract diversified donors to the fund.

Partnering with Donors on Funding and Expertise

At the 5th ASEAN Ministerial Meeting on Disaster Risk Management in Luang Prabang on 17-19 October 2017 as well as the 3rd ASEAN Cross-Sectoral Coordination Committee Summit on Disaster Risk Financing and Insurance on 21 November 2017, ASEAN delegates have reiterated their keen interest and need to see innovative disaster risk financing solutions being introduced in the region. Aside from the World Bank, many donors such as the German development agencies GIZ and KFW have expressed their will to provide technical assistance to ASEAN in order to implement alternative risk transfer solutions to SEADRIF.

The EU-ABC supports the sign-off on a public-private partnership under the lead of a partnering donor like KFW to tap into additional disaster aid funding as well as insurance expertise for an effective and sustainable emergency response.

Long-term Investment

The Importance of Long-term Investments

Long-term investment is essential for economic growth. It expands the productive capacity of the economy. This capacity encompasses tangible assets such as infrastructure, and intangible assets such as education and research and development that improve prospects for innovation and competitiveness. The Asia Development Bank (ADB) estimates that ASEAN needs US$3 trillion in infrastructure investment between 2016 and 2030 to close the infrastructure gap[7]. Infrastructure needs for the region will only continue to grow as ASEAN adds 60 million to its working population[8] and 100 million people move into cities across ASEAN between 2015 to 2030[9].

Current bank and capital market finance will not be sufficient to close the infrastructure gap. it is equivalent to 90% of total bank assets and 130% of stock market capitalisation in the region. Public finance reforms, according to the ADB, can also only provide 50% of the required investment. So new sources of funding are needed. Long term investors, such as insurance companies and pension funds have a key role to play in the region's financial architecture, to fund infrastructure projects, to provide long-term predictable funding to companies, and to develop investment vehicles for savers.

Attention Needed on Five Fronts

Promote Inclusive Regulatory Treatment of Infrastructure Investment

We have highlighted the need to increase the role of insurance companies and pension funds in providing long-term investment, as public funding, bank finance and current capital market capacity cannot meet ASEAN's infrastructure financing needs. In the insurance sector, a holistic approach to the asset class of infrastructure projects does not really exist. Varied regulatory treatment – solvency regimes, accounting standards and investment rules - have constrained the ability of insurance companies to make long-term investments in these projects. In Singapore, MAS is engaging insurers on their interest in an infrastructure asset class, and the specific types and characteristics of infrastructure financing appropriate for insurers, in order to formulate specific capital requirements for this asset class. In Europe, the Solvency II regime has been amended to include infrastructure criteria that will reduce capital charges for qualifying projects. **The EU-ABC seeks greater urgency to improve investment conditions and the offering of inclusive regulatory regimes that encourage greater participation by insurers in long-term investments.**

Current regulatory treatment of infrastructure investment is largely based on how the investment is made, focusing on limitations/prohibitions on the instrument for investment instead of the overall risk profile of the underlying substance. Varied regulatory treatment has constrained the ability of insurance companies to make long-term investments. Table 3 below illustrates some examples for six ASEAN members states. Currently, capital charges focus on the instrument of investment, which can impose very high charges on long-term assets. This can be as high as 50% for unlisted equities and exceeding 20% for unrated bonds and loans. This is inappropriate as insurance companies, unlike banks, do not engage in maturity transformation – investing short-term deposits in longer term assets. Life insurance policies are typically long-term instruments, and so the companies actually reduce risk by holding long-term debt to match

[7] ADB report, Meeting Asia's Infrastructure Needs, Feb 2017

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

[9] United Nations, Department of Economic and Social Affairs, Population Division (2014). World Urbanisation Prospects: The 2014 Revision, CD-ROM Edition. 2014 is the latest edition UN has

their liabilities, and increase risk if they have short-term instruments that need to reinvesting during the lifetime of a guaranteed product.

Table 3: Regulatory treatment of investments across selected ASEAN countries

	Singapore	*Indonesia*	*Malaysia*	*Vietnam*	*Thailand*	*Philippines*
Private loans to infrastructure project	Allowed	Allowed with limits	Allowed with limits	Not allowed	Not allowed	Allowed with limits
Restrictions in foreign asset investments	No specific restriction	No specific restriction	Detailed investment limits	Detailed investment limits	% limit of overall investments	Detailed investment limits
Requirement to invest in only investment-grade bonds	No	Yes	% limit of overall investments for non-investment grade bonds	No	Yes	No
Ownership stake in a company	Require regulatory approval for holding >10% stake in a company	Maximum 10% per issuer	Different limits for different counterparty types. Often limited to maximum 5% per issuer	No specific issuer limit	No specific issuer limit	Maximum 10% per issuer
Specific restrictions in unlisted equity	Follows listed equity limit	Maximum 10% of total investments	Maximum 5% per issuer	Follows listed equity limit	Maximum 5% of total investments	Require regulatory approval for investing in equities of other FIs
Specific limits for subordinated debt	No specific restriction	No specific restriction	No specific restriction	No specific restriction	Maximum 5% of total investments	No specific restriction

Development of Capital Markets

Deep, liquid and efficient capital markets promote non-bank sources of credit for infrastructure projects. Nine out of ten markets in ASEAN are either classified as an emerging or frontier market or not classified by MSCI due to stock market constraints. There are a number of obstacles that limit investors' confidence to invest in companies via capital markets: shortage of information around company operations and corporate governance 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; and current regulations which restrict bond issuances. **Standardisation in terms of reporting, documentation and benchmarking will help to categorise projects and make rating easier. This in turn will help to develop the market for all types of investment, debt and equity, listed and unlisted.**

It is our view that the ASEAN Markets would benefit from a greater standardisation in local currency credit pricing. The standards in Europe and the United States Markets are rising, and the gulf between these markets and the local currency ones is widening. For Euro or US Dollar markets the documentation platform is pretty standardised, but this is not the case for local currency bonds where often the decision to invest is based more on existing relationships. Standardisation of documentation would help local currency markets to attract investors, and ease the steps for borrowers who wish to tap the offshore markets.

Whilst it might be desirable in the long-term to develop local capital markets, it is a not viable solution in the short to medium term as every country with infrastructure needs will not be able to develop markets at the pace, depth and scale necessary to service their own financing requirements.

Thus, we propose creating regional capital market hubs that can build critical mass behind a new infrastructure asset class. Such hubs would act as a magnet for institutional investors, build liquidity and lead to better pricing.

The Multilateral Development Banks (MDBs) have a leading role to play. As with individual infrastructure projects, they can help mitigate risk or enhance credit at the level of the pooled asset. This would provide assets with the "right" risk/return profile required by the broad public market. To provide momentum behind this approach, rating agencies should be involved to develop a unified approach to such warehoused products. And there is a key role for regulators to recognise such credit enhancement in the regulatory treatment for these vehicles, transforming them from an alternative asset to being a "true" fixed income asset class. This is necessary to meet the regulatory requirements and fiduciary duties faced by those controlling the funds.

The MDBs can also provide solutions to handling local currency risk. This is a key issue for institutional investors whose funds are based in international currencies. Without appropriate inflation or FX hedging, market movements can significantly affect the bankability of any infrastructure project that relies on foreign financing. However, in many emerging and frontier markets, basic currency hedging or inflation hedging instruments are not available. Even where some form of derivatives market exists, there is often no meaningful liquidity, or the market may be too thin or short-dated, resulting in very large bid/offer spreads, making hedging uneconomical.

However, to off-set this, MDBs could be invited to develop and introduce risk mitigation and credit enhancement instruments at the level of warehoused infrastructure assets; and, convene regulatory authorities and credit rating agencies to discuss the appropriate recognition for such an asset class.

It should be noted that, 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. Solvency regulations need to reflect this reality, and not have a 'one-size fits all' approach based on banking regulations.

Recommendations:

- Standardisation in terms of reporting, documentation and benchmarking will help to develop the market.
- Encouraging consistency in treatment of projects through international/local rating agencies.
- Creation of a regional capital market hub that can build critical mass behind a new infrastructure asset class. Such hubs would act as a magnet for institutional investors, build liquidity and lead to better pricing.
- Invite the MDBs to broaden their use of guarantees to cover, in whole or in part, losses derived from local currency and default risk; and, act as market makers in local currency instruments to permit the development of regional capital market hubs, able to support a market in local currency bonds.

Sustainable Investments

Green financing as an important funding source for sustainable developments has the potential to attract demand from a broad and growing investor base if a continuous development of today's capital markets can be ensured. There are several ways to achieve this, for example so called Green bonds, where the proceeds are earmarked for projects that deliver environmental and climate-friendly investments. Such investment prospects have received increased demand from investors seeking to incorporate global sustainability as a consideration in their investment decisions. ASEAN is currently lagging behind other capital markets in the development of a Green Bond market. According to a recent Moody's publication, China and India have accounted for a combined US$53 billion in green bond issuance since the inception of the green bond market and are anticipated to be top issuers in 2018. Recently, the ASEAN Capital Markets Forum released ASEAN Green Bond Standards in November 2017 to support the development of a green asset class and sustainable growth, especially with regards to ASEAN's infrastructure needs. The incorporation of environmentally sustainable projects to meet critical infrastructure needs benefits the public good and a growing class of investors with specific green bond mandates. The adherence to ASEAN Green Bond Principles promotes capital market development through increased standardised reporting and more transparent disclosures. **EU-ABC hopes to see these initiatives broadly supported by ASEAN** as an essential pillar to create sustainable and efficient improvements in infrastructure.

Public and Multilateral Action to Expand Private-Sector Blended Finance

Meaningful public/private agreements share project risks and increase investors’ confidence in the projects. Efforts such as the ADB’s Credit Guarantee and Investment Facility (CGIF) and the IFC’s Managed Co-Lending Portfolio Project (MCPP) use capital contributed by the ASEAN+3 countries and multilateral organisations to insulate the risk of credit default for private institutional investors in projects that they may have otherwise deemed too risky. Product innovations, e.g. infrastructure debt takeout facility which provides a guaranteed takeout arrangement; guarantees for construction risks; government or agencies issuing guaranteed infrastructure bonds and allowing for pooling and securitisation of multiple projects etc. help “crowd in” private finance.

The EU-ABC would like to see more of such initiatives to expand blended finance. As with multilateral bodies, national governments should also be encouraged to develop local capital markets facilities to do the same, e.g. the Indonesian government’s support in terms of lending and guarantees via the Indonesia Infrastructure Fund (IIF) and the Indonesia Infrastructure Guarantee Fund (IIGF).

Pension funds, asset managers, insurance companies and Sovereign Wealth Funds are seeking yield in new investment opportunities. But most are limited to opportunities of investment grade, as defined by credit rating agencies. This limits their ability to invest in infrastructure to the scale and speed required. Unless the risk return profile of the investment can be altered to crowd-in that finance, it will continue to sit on the side-lines. Creating the right risk-return profile requires other financial actors to pick up some of the risks typically associated with large scale infrastructure projects that the private sector, particularly the insurance sector, finds difficult to take on its own. These include

- *Risks associated with the political and policy environment of the host country*. For example, risks around: political stability; dependability of the legal framework and policy settings; administrative capacity; and transparency of contractual processes. It also extends to judgments on the economic fundamentals of the country and the volatility of its currency
- *Risks associated with a typical project in its design and construction phases*. Typical risks include Construction and Completion Risk which is carefully analysed by lenders, since any cost overrun or delay is highly detrimental to a project. This often depends on the credibility of the winning consortium for the project.
- *Post-construction Payment Risk*. Will the promised returns materialise? The precise nature of the risk will depend on how the scheme has been operated, for example, through a PPP scheme where the fees remunerating the project will be paid by a public entity, or under a concession scheme where the remuneration comes from tariffs paid by the users.

Ensuring these risks are picked up may require provision of guarantees or credit enhancement facilities. According to HSBC[10], and others, the key question for policy makers is how to bring scale and a degree of simplification to what are often complex, and bespoke transactions. In our view this requires three things.

- First, create a toolbox of instruments tailored to meet common financing impediments found in project finance. This requires a systematic analysis to produce a taxonomy across: a) the different risks outlined above; b) the different sources of finance (pension, insurance, Sovereign Wealth Funds), and the risk/return characteristics required for them to invest; and c) the appropriate intervention in terms of risk mitigation or credit enhancement that can crowd-

CASE STUDY: CGIF – A CASE OF PUBLIC, MULTILATERAL AND PRIVATE SECTOR

Prudential was the lead investor for a deal in 2014 involving Masan Consumer Holdings. This is the first bond in Vietnam to be guaranteed by CGIF, a multilateral facility whose contributors were the ASEAN+3 countries, as well as the ADB. Prudential invested in over 30% of the bonds.

The deal uses the guarantee provided by CGIF, which covers 100% principal and coupon payments to provide a layer of loss protection for investors. The CGIF deal shows how private/public sector collaboration in the local currency bond markets provide confidence to investors and help companies raise long-term fixed rate funding in matching currencies. This access allows companies to make long-term investments when risks associated with refinancing as well as interest and foreign exchange rate volatility dissipate.

EU-ABC members look forward to seeing more of these instruments to support the development of bond markets in Vietnam.

[10] See: "Mind the Gap", HSBC policy paper, October 2017

in that finance, without reducing returns to a level that fails to remunerate capital.

- Second, simplify access to risk mitigation instruments. These financial instruments should be standardised and "industrialised" to promote take up by project sponsors and financiers. We propose that a series of facilities be established at regional or global level. Such facilities might be run and part-funded by MDBs, as proposed by the World Economic Forum[11]. But funding could also come from philanthropic organisations and national development agencies.
- Third, construct the project pipeline to use these instruments. Institutions such as the Global Infrastructure Hub and the Global Infrastructure Facility, formed to establish best practice in project development, should help project designers use these instruments in combinations tailored to the risk profile of specific projects.

Public sector finance alone cannot be sufficient to finance infrastructure development. Nor are banks, or capital markets as they currently stand, capable of providing sufficient funds. With the above successful examples as guide, multilateral bodies and governments need to create more capacity and facilities, specialist capabilities supported by clear rules for public/private collaboration, including common dispute resolution, to reward "crowding in" of private finance from the insurance sector and promote the best use of resources.

Building a Pipeline of Bankable Deals

Currently, the pipeline of approved investment-ready projects is in short supply to bridge the infrastructure gap.

Projects can be prioritised, with the projects that can be designed to be investible with only private funding accelerated. The OECD and the World Economic Forum had jointly established a Sustainable Development Investment Partnership (SDIP), doing just that to review governments' lists of priority infrastructure projects.

Many projects however involve risks that would necessitate public-private collaboration to attract private investors. **Several ASEAN countries have come up with PPP rules and established offices to facilitate PPPs. More now needs to be done to implement these**. Project Preparation Facilities can help developers use expertise to move a project from concept to investment readiness.

[11] WEF report on "Risk Mitigation Instruments: Infrastructure Gap Assessment" (July 2016) concluded that a significant scale-up in the use of risks mitigation tools would require, the establishment of a global or regional risk mitigation facility with or without direct participation of the MDBs, offering a standardised set of products. Such a facility would have the potential to strengthen local capital markets if applied to local currency bond financing.

Implications of a Digital Economy for Insurance

The Impact of Digital

Technologies are offering new opportunities as well as challenges for insurance companies. New technologies enable insurance companies to understand customers better, make products simpler and shorten the time to market. With an increased use of data, admittedly there is an increased possibility for breaches of data security or data privacy. But with this comes the opportunity for the industry as a whole to reconsider the regulatory frameworks in place. **The EU-ABC recognises that governments are aware of technological developments and encourages fintech activities. Nonetheless, regulatory frameworks or innovation and competition mandates that encourage fintech activities are still lacking in many ASEAN countries.**

Digitising insurance companies' businesses benefits all players on the value chain – it reduces costs and accelerates success for businesses, enhances service and experience for the customers, thereby increases efficiency, optimises financial protection and deepens financial inclusion. At the same time, we must not also dismiss expressed customer preferences for in-person advice and the importance of that advice in educating customers, thus helping to close the mortality, health and savings gaps in many ASEAN member states.

Where Do EU-ABC Members Value-Add to Customers in Technology

Members of the EU-ABC Insurance Working Group have taken on the wave of new technologies and strengthened innovation mainly in four areas – Distribution; Data Analytics; Dynamic Products; and, Partnerships. Some examples are shown in Table 4.

Table 4: Examples of digital innovations by EU-ABC members

Distribution *Empowering customers*	Aegon's joint venture company, GoBear, with its Pan-Asian presence, provides a metasearch engine allowing consumers to compare insurance and financial products online in an independent and unbiased manner. Aegon's joint venture company, Futuready, is Indonesia's first licensed insurance broker to focus on digital distribution, enabling its customers to search for and compare insurance products, obtain quotations, make payments and receive their policies digitally. This also provides a more efficient distribution solution for insurance companies compared to traditional distribution models.
Data Analytics *Supporting customer claims*	Prudential is trialling an intelligent machine learning-based solution that simplifies claims assessments in Singapore. The high-precision, data-driven decision making uses AI and machine learning to bring about faster processing times, greater control and more time to focus on more complex claims and higher-value customer initiatives.
Partnerships *Developing the technology ecosystem*	EU-ABC members (SwissRe, Generali, Aon, Allianz, Aegon and Zurich) joined the Blockchain initiative B3i which will explore the possibilities of Blockchain technologies to address key inefficiencies in the exchange of data between insurance companies. This could transform the insurance industry through a shared, transparent record of contract-related information and streamline the ways of interaction with all parties involved in the reinsurance value chain.
Dynamic Products *Addressing new and emerging risks*	SwissRe developed the first parametric insurance solution allowing quick pay out to microinsurance institutions in earthquake-prone Indonesian provinces. Supplemented by mobile applications that more accurately capture local risk characteristics, this will design more risk-sensitive parametric insurance products.

Regulatory Initiatives within the Insurance Industry

Dedicated Office Overseeing Insurtech

The EU-ABC recognises that regulators are welcoming technological developments and encourages insurtech activities, especially evidenced by the launch of regulatory sandboxes by regulators across ASEAN including Singapore, Malaysia, Thailand and Indonesia. Nonetheless, in practice, such regulatory initiatives are more readily used by start-ups for pilots as opposed to established international insurance companies. **We would welcome a specialised division to look into how such initiatives may be adapted to attract more utilisation by established insurance companies.**

Further, clarity in regulations is vital for business success, e.g. sandbox regulations may provide that testing of new technology is allowed in a live environment for a "limited" period of time under "conditions" to be imposed by regulators, however, the duration of such test period as well as the conditions are often unclear in the sandbox regulations.

We welcome establishment of a liaison office for insurance companies dedicated to promote a closer dialogue between the stakeholders with a view to facilitate development of the insurtech initiatives and support the sustainable development of the insurance industry in ASEAN region. In certain jurisdictions, multiple regulators in the same jurisdiction may increase complexities in implementing innovative business strategies involving activities across multiple industries.

Updating Regulations for New Technologies

Statutory tariffs that regulate allowable premiums, commissions and coverage for certain lines of insurance, e.g. in Thailand and Indonesia, hinder innovative developments in new distribution channels. Regulators' approach in adopting a technologically neutral position towards regulation increases difficulties and poses challenges in applying out-of-date or unduly burdensome regulations in the implementation of new business models.

There are also areas where new legislation may be necessary to address issues raised by new developments. With the growth of robotics and artificial intelligence ("AI") capabilities, there are concerns as to whether proactive legal initiatives are necessary to lay down principles and rules for protection of rights and allocation of legal responsibilities (e.g. product liability). We would welcome ASEAN regulators to consider issues raised by European Commission's Legal Affairs Committee in its Report on Civil Law Rules on Robotics and consider whether and how ASEAN regulators would like to proactively consider the risks and the need for safeguards and regulations in the area of robotics and AI.

Regulatory Initiatives in Other Industries

The EU-ABC hopes that initiatives to promote innovation among other industries, particularly financial institutions, are similarly extended to the insurance industry.

Enhancing Cooperation and Collaboration between Regulators

Over the past year, **regulators' have taken active initiatives in enhancing cooperation and referrals between regulators**, e.g. Singapore's Monetary Authority of Singapore signed fintech cooperation agreements with Bank of Thailand and with Polish Financial Supervision Authority, and a MoU on Global Trade Connectivity Network with the Hong Kong Monetary Authority (HKMA). **We support more of such collaborative initiatives and would welcome extension of similar initiatives from the banking industry to the insurance industry**, which would help international insurance companies' expansion in ASEAN region and develop a richer insurance ecosystem in the ASEAN region.

Collaboration between the Regulator and the Industry to Develop Innovations

Singapore's MAS has developed a **financial industry application programming interfaces (API)** playbook with the Association of Banks in Singapore to identify useful APIs for the industry and to encourage innovative developments by potential market players. **We would welcome extension of similar initiatives by insurance regulators in ASEAN to the insurance industry** to stimulate innovation and improve collaboration between industry players including insurance companies, brokers and tech firms, and ultimately providing value to customers, thereby enhancing financial inclusion across the ASEAN region.

Promoting Cross-Border Flow of Information

Restrictions on cross-border transfer, processing and storage of data pose significant challenges to insurance companies in introducing insurtech innovation. In particular, requiring a data centre onshore as a condition for conducting business in the jurisdiction inhibits technological innovation and adversely affects the ability of international insurance companies in driving the sharing of best practices, e.g. insurance companies are required to have a data centre and a disaster recovery centre in Indonesia[12] and personal information about Malaysian citizens is required to be stored on local servers[13].

Public policy objectives (e.g. cybersecurity concerns over citizens' personal data) may be achieved by alternative means without impeding economic growth and stifling innovation. With EU's General Data Protection Regulation coming into force later this year, global headquarters of European insurance companies have a significant supervisory role over cross-border transfer of data among its overseas affiliates. Data is often transferred to and hosted at a centralised server (nowadays often with cloud technology). Strong risk and compliance management practices are necessarily in place to ensure overseas affiliates are subject to the same stringent requirements that the headquarters are bound by. **To strengthen ASEAN's ability to deepen financial inclusion, in particular, to provide an open and inclusive economic region for insurtech innovation, EU-ABC cautions against limitations on the cross-border transfer, processing and storage of data. Such limitations also inhibit the free flow of information in a rapidly growing digital economy.** With technological advancements, customers are demanding, if not already accustomed to, instantaneous services being delivered to them across multiple jurisdictions any time in a day. Impeding free flow of information hinders innovation that may otherwise boost efficiency and economic growth. OECD studies also cautioned that localisation rules are inefficient ways of achieving social goals with the potential of disrupting the free flow of data thereby inhibiting digitalisation progress and has advocated for enhancing cooperation between regulators to identify regulatory alternatives[14]. We would advocate for regulators to assess the adequacy of their frameworks and pursue equivalence regimes in order to allow for free flow of data across borders.

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[12] Regulation No. 69/POJK.05/2016 on Business Implementation for Insurance Companies, Syariah Insurance Companies, Reinsurance Companies and Syariah Reinsurance Companies

[13] (Malaysian) Personal Data Protection Act 2010, article 129

[14] (OECD 2018), Economic Outlook for Southeast Asia, China and India 2018 Fostering Growth Through Digitalisation, OECD Publishing, Paris. http://www.oecd-ilibrary.org/development/economic-outlook-for-southeast-asia-china-and-india-2018_9789264286184-en

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 and financial institutions: Aegon, Allianz, Aon, AXA, Generali, HSBC, ING, Prudential, Swiss Re and Zurich as well as the European Chambers of Commerce in ASEAN countries.

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