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In 2017, Willis Towers Watson continued to build our footprint in Asia, with the commencement of our Corporate Risk and Broking offering in the Philippines in May, followed in July with the announcement of our joint venture with Almondz Insurance Brokers in India, combining Willis Towers Watson’s global network and expertise with Almondz’s skilled team and wealth of experience in India. In addition, we have also brought new leaders into our Singapore, Hong Kong and Indonesia businesses, to work with our regional experts to deliver leading Specialty and Risk advice to our clients.

Willis Towers Watson is delighted to have been crowned Asia Broker of the Year by our peers in the industry at the Asia Insurance Awards. This award related to an example of our innovative service offerings to clients, adding significant value to the insurance process through our proprietary Cyber Quantified Tool. This tool has helped clients take a robust approach toward assessing their cyber exposure and quantifying its potential financial impact, which, in turn has allowed Willis Towers Watson to guide clients in their insurance strategy and allowed them to articulate cyber risk and exposure to their key internal stakeholders.

Willis Towers Watson has also been recognised as the Risk Advisory of the Year by StrategicRisk APAC Risk and Insurance Management Awards. This related to our delivery of claims and forensic accounting advisory services, where we helped a major power station secure optimum settlement for a highly complex and large-scale incident.

Building on our Risk Advisory expertise, Willis Towers Watson is proud to have partnered with PARIMA to deliver the Willis Towers Watson Risk Labs – educational programmes for risk managers designed to examine risk management best practice, with real world examples from various industries.

We will continue the innovation and collaboration with our clients and business partners in 2018, and further develop our market leading servicing and expertise. We look forward to working with you over the next 12 months and beyond.

Simon Weaver
Head of Corporate Risk and Broking (CRB), Asia
Market Outlook
Cliff Jeyes

In 2017, we have seen significant changes to the underwriting models of major insurers. The trend is moving towards simplification, with a number of carriers moving to a more general insurance model.

Last year, we suggested the insurance market has moved into a ‘new normal’. In 2017, significant natural catastrophes impacted the insurance market around the world. Whether the new normal will be challenged remains to be seen. There has been widespread commentary that the global events of 2017 are an ‘earnings’ event, as the market remains well capitalized with very little exiting; it is difficult to envisage a paradigm shift when capital remains so stable.

In recent years, the industry has become more scientific in its approach to aggregation control, with risks modeled down to precise postcodes. It is, however, interesting that in post loss analysis to the major event, there have been substantial discrepancies among modeling agency predictions of loss quantum. Estimates continue to vary and swings continue to remain in underwriting reserves.

We have also seen insurers move towards more streamlined underwriting models, splitting Life and General Insurance, as well as simplification of appetites in certain class lines. Perhaps this reflects that the industry has overcomplicated the approach to products and customers in recent times, with conversations consistently referring to a ‘back to basics approach’.

Meanwhile, technology is introducing a new language to the world of insurance; InsurTech, digitalization, aggregators, blockchain, disruptors, artificial intelligence (AI), the Internet of Things (IoT) are all commonly referenced in the press. It is clear that insurance needs to keep pace in this rapidly evolving landscape. However, whilst we are getting used to new technologies and the language that comes with it, we are yet to see major impact to the traditional global operating models of mega insurers. The theories behind new technology make a lot of sense in an industry where the administration process has changed little in many years. It is unlikely, however, that this will change the conversation we need to have with customers whose risks are large and complex in the near future.

Cyber risk has been the persistent topic of conversation, impacting all industries and frequently grabbing media headlines, with cyberattacks disrupting the operations of many major corporations as well as the impacts to customers and colleagues. Market capacity and available cover currently lag clients’ needs and perhaps gives insight to the limited take-up rate seen so far, and difficulty remaining with risk quantification for both clients and insurers.

As we move into 2018, it is clear that there are many changing factors impacting the world of insurance. Keeping abreast of these changes has never been more important, as we look to ensure a balanced and accurate view of the dynamic and fast moving market place.
Trends We’re Watching
Cyber Insurance

The Asia region underwent important developments in cyber 2016 and 2017.

While the industrial revolution valued physical assets, such as factories, machinery and other property, the technological revolution has seen companies harness the importance of big data and operational efficiencies though advanced IT systems. Some of the world's largest companies own no physical stock. So why are some companies still not insuring their most valuable assets – data and intellectual property?

As the world further embraces technology and digitalization in business and in everyday life, the insurance industry is unveiling groundbreaking risk transfer solutions to address the challenging environment that cyber presents. The market is demanding innovative ideas that target industry-specific exposures and a more bespoke approach that spans not only liability, but also Property & Casualty divisions.

The first cyber insurance policies were developed in the 1990s, originally attaching to a professional indemnity policy to cover data destruction, unauthorized access to client systems, and the transfer of viruses. With companies now reliant on IT systems for everything from data storage to general business operations, demand for stand-alone cyber insurance policies has surged although the market is still in its infancy. As has occurred in other regions globally, we expect that cyber insurance will become an essential inclusion in the insurance programmes for Asia-based enterprises in all industries and of all sizes as losses continue to rise.

While traditional property and liability policies have been relied on in the past to provide coverage for cyber exposures, insurers are beginning to make their intentions clear through exclusions that non-cyber policies are not designed to cover such losses. For those that have historically tied in cover with a professional indemnity policy, this is now proving to be a short-term solution as such limits could be easily eroded if a serious cyber event was to occur, and coverage cannot be expected to be as broad as a stand-alone cyber insurance policy.

New regulations and amendments most notably in Japan, the Philippines and China. Singapore is expected to welcome the Cybersecurity Bill in Q1 of 2018, and we are awaiting Thailand’s confirmation of the enactment of their Data Protection Law. Such regulation has brought an increase in fines and penalties, including potential criminal charges, and a larger onus on companies to ensure all third-party data is collected, stored, processed and disposed of correctly.

While we have largely heard discussions in the Asia market about the liability and data protection risks that cyber presents, business interruption will in fact be the most critical, exposure for many businesses. The first buyers of cyber insurance were sectors that held large amounts of personal data: telecommunications, health care and retail. With almost all organisations now having to embrace interconnectivity, we have seen an increasing interest by energy, utilities, transport, financial institutions and others who are realizing that much of their day-to-day business operations are reliant on potentially vulnerable IT infrastructure. The following table shows the percentage of cyber breaches by industry based on Willis Towers Watson’s cyber claims data.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Utilities</td>
<td>22%</td>
</tr>
<tr>
<td>Transportation</td>
<td>16%</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>12%</td>
</tr>
<tr>
<td>Technology</td>
<td>12%</td>
</tr>
<tr>
<td>Service</td>
<td>10%</td>
</tr>
<tr>
<td>Retail</td>
<td>7%</td>
</tr>
<tr>
<td>Professional services</td>
<td>3%</td>
</tr>
<tr>
<td>Nonprofit</td>
<td>3%</td>
</tr>
<tr>
<td>Insurance</td>
<td>3%</td>
</tr>
<tr>
<td>Hospitality</td>
<td>3%</td>
</tr>
<tr>
<td>Health care</td>
<td>3%</td>
</tr>
<tr>
<td>Government</td>
<td>3%</td>
</tr>
<tr>
<td>Financial</td>
<td>2%</td>
</tr>
<tr>
<td>Education</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>
We all know that even the best systems are not impenetrable, which has been proven time and time again with mature companies worldwide being affected by malicious cyber-attacks. While companies may invest significantly in their own cyber security systems, they have little control over that of their business partners and supply chains. This can be managed through contracts and regulatory requirements for cyber security verification, but still poses a large risk in the event of a breach as the company that collected the data is still legally responsible for ensuring its safe keeping.

Here in Asia, we hear almost daily reports of cyber-attacks, new government cyber initiatives, and the vast potential losses a cyber event can cause. Most of the liability insurers in the market have released their own cyber insurance policies, although breach consultants to assist in the event of a claim have not been arranged by some insurers in less developed countries. This is a key focus for the insurance market in 2018 – to ensure that in the event of a claim, breach consultants (including legal, IT, forensics and public relations) are pre-agreed with clients to be engaged at the earliest time to mitigate the effects of a cyber event. To complicate the cyber environment further, policy coverage varies markedly between insurers making it even more important to have a knowledgeable insurance broker to guide clients to the best possible solution for their company’s exposure. While insurance may be the main pillar, risk assessment and employee awareness are also important considerations when reviewing the company cyber strategy.

Despite the concerns in the insurance industry around aggregation of risk, the competitive environment in Asia has pushed premiums downwards. Claims data is currently limited due to the relative newness of cyber insurance, and we expect rates to remain favourable only in the short-term. Mandatory notification and an increase in the uptake of cyber insurance will allow the insurance industry to collect valuable data on the breadth and depth of cyber losses. It has been long expected that a large cyber loss, such as that of a cloud service provider, could be more devastating than a catastrophic natural disaster. A catastrophic cyber event, such as one that affects power and utilities or other public infrastructure, can not only result in significant financial impact but also loss of life. The cyber industry as a whole is trying to raise awareness, but a significant event would ultimately highlight the true risk faced by all organizations and boost demand for cyber insurance.

Despite the widespread interest in cyber risk, many companies in the Asia region do not yet conduct regular penetration testing or security audits, and do not have in place data protection policies, incident response plans, or business continuity policies that specifically address cyber. With data protection and privacy regulation becoming more stringent and the increasing potential for cyber events to cause significant business interruption, it has become critical for all businesses to review their cyber security strategies and consider the benefits of transferring some of that risk to the insurance sector.
Natural Catastrophes

In Asia, Natural Catastrophes are becoming more frequent and intense, and disaster risk is outpacing the United Nations Economic and Social Commission for Asia and the Pacific.

Tropical Storm Pakhar, Typhoon Hato, Typhoon Damrey, monsoon flooding in Bangladesh, Typhoon Tembin in Vietnam, mudslides in Mindanao (Philippines), earthquake in Jiuzhaigou (China), flooding of Yangtze River (China) have all led to severe property damage and loss of souls.

According to Swiss Re’s Preliminary sigma estimates for 2017, global insured losses from disaster events in 2017 were around USD 136 billion, up from USD 65 billion in 2016 and well above the previous 10-year annual average (USD 58 billion). Natural catastrophes accounted for USD 131 billion of 2017’s insured losses, and man-made disasters for the remaining USD 5 billion. More than 11,000 people have died or gone missing in catastrophe events. This means that 2017 could rival 2011 and 2005 as one of the most expensive loss years on record.

Unfortunately for insurers and reinsurers, the wish list of big premium increases in the aftermath of the natural catastrophe events has not been fulfilled. According to Willis Re 1st View released on 2 January 2018, catastrophe losses have stopped a further downward movement in risk-adjusted rates in most markets and classes. Pricing across global property catastrophe and risk programs is seeing average adjusted increases of 0% to +7.5% with a few outliers on either side of this range. In the US, where the biggest losses were recorded, rates renewed flat to up to 5% on loss-free programmes. Loss-affected programmes recorded increases of between 10% and 20%.

In Asia, the 1/1 treaty renewal suggested a flat trend on overall pricing movement. Capacity remains stable, and no significant additional coverage issues have been spotted. Profitability in non-catastrophe lines, together with the continued growth in Insurance Linked Securities (ILS) capacity, continued to support the capital sufficiency of the insurance market. For countries with limited natural disaster exposures, such as Korea and Singapore, buyers continued to increase retentions to control reinsurance costs. For countries with larger natural catastrophe exposure, namely China, Philippines, Japan, Thailand, Taiwan, Indonesia and Vietnam, there is growing evidence of tighter placements such that buyer options and future flexibility are reducing, but not yet to the extent of a hard market.

Estimated insured losses of major natural catastrophes events in 2017

<table>
<thead>
<tr>
<th>Event</th>
<th>Insured Losses</th>
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<tbody>
<tr>
<td>Hurricanes Harvey, Irma and Maria (HIM)</td>
<td>USD 93 billion</td>
</tr>
<tr>
<td>California wildfires</td>
<td>USD 7.3 billion</td>
</tr>
<tr>
<td>US thunderstorms</td>
<td>USD 2.5 billion</td>
</tr>
<tr>
<td>Mexican earthquake</td>
<td>USD 2 billion</td>
</tr>
<tr>
<td>Cyclone Debbie</td>
<td>USD 1.3 billion</td>
</tr>
<tr>
<td>Typhoon Hato</td>
<td>USD 330 million</td>
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<tr>
<td>Typhoon Damrey</td>
<td>USD 1 billion (Estimated economic loss)</td>
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InsurTech

According to Willis Towers Watson internal research, globally there are approximately 1,500 InsurTech start-ups. In Asia, there are just over 100 recognized InsurTech start-ups, meaning that Asian InsurTechs comprise around 7% of the global total.

As technology transforms insurance and impacts various functions in the value chain, there has been speculation by industry practitioners on how business models may evolve from integrated carriers to distribution and product experts, and from balance sheet businesses to capital light structures, supported by third-party investors and capital markets. InsurTech not only has the potential to disrupt insurance markets but to also rebalance the global power between reinsurers in developed markets and those in emerging economies. Companies in emerging markets are often able to create new innovative solutions faster and can also attract intellectual and financial capital from partnerships unseen in developed, heavily regulated countries with high penetration of insurance products.

Life, health and microinsurance have seen the most impact from digital propositions and InsurTech – within these business lines, digital distribution and aggregator technology have been particularly successful in bridging the gap between supply and demand. Increase in demand for more responsive and tailored insurance products, together with lack of incumbents in these markets, is a real opportunity for new entrants.

There has also been adoption of new data analytics tools across insurers’ business value chain. Data analytics capability provides insights and improves operations across underwriting, pricing, claims management and customer acquisitions. Machine learning predictive tools are used to automate underwriting processes. Telematics uses data collected from sensors to calculate premium according to risk profile of the insured. Claims and social data assist in detecting claims fraud and assessing loses. Customer segmentation enhances client acquisition and retention rate.

The Asian InsurTech ecosystem remains relatively small. Activity is predominantly centered on Singapore, Hong Kong and China, but Malaysia, Indonesia, Thailand and Vietnam have also recently made regulatory provisions to allow for the development and growth of local InsurTechs.

The existing infrastructure does not constrain the explosive growth of insurance in China. The Chinese insurance revolution has led to new mainstream products as pure protection and product return. In addition, tech giants are more forcefully expanding into insurance in China. The likes of Alibaba and Tencent have all been actively acquiring shares of existing insurance companies and co-funding new InsurTech companies. Their experience highlights the benefits of digital distribution versus the challenges of building traditional distribution in a large and relatively underdeveloped country.

The largest single InsurTech in the market today is digital insurer Zhong An, which was launched and financed by Ping An, Tencent and Alibaba in 2013. Zhong An was the first, and is now one of only four companies nationwide in China, to receive a license from the China Insurance Regulatory Commission (CIRC) to sell insurance products online. Zhong An boasts more than 240 niche products, all of which are distributed digitally, mostly through online platforms of the company’s many ecosystem partners. Zhong An has raised over USD 2.4 billion of capital to date, including its recent USD 1.5 billion IPO on the Hong Kong Stock Exchange (at a valuation in excess of USD 10 billion) in September 2017. Another notable entrant is Singapore Life, a digital insurer specializing in life and health products, specifically for high net worth individuals. Singapore Life is the first Singaporean insurance company to be domestically licensed since 1970. The Monetary Authority of Singapore (MAS) has taken steps to create a regulatory sandbox for InsurTechs, allowing new companies the opportunity to test their value propositions in the sanctuary of a low regulation environment. Following this move by the MAS, Malaysia has established a similar mechanism. These provisions are expected to drive a wave of transition to meet the needs of the large and growing, increasingly sophisticated online consumer base in Asia.

Mobile Network Operators (MNOs) are having a meaningful impact within the microinsurance sector, particularly in emerging markets where traditional financial services penetration is low but mobile phone penetration, particularly pre-paid, is high. The latest study carried out by microinsurance Network and Munich Re Foundation estimates that MNOs provide microinsurance to over 40 million people. Protection gap of those who are not targeted by traditional distribution channels could be narrowed by the low-cost and simple products.
As one of the largest underdeveloped reinsurance markets globally, Asia may have the most to gain from an InsurTech revolution. It also may have the fewest barriers to the successful implementation of emerging technologies in the insurance industry, due to the relatively limited suite of current products in the market and the region’s high rate of e-commerce penetration. As markets become more globalized, individual capabilities or functions in the value chain are becoming increasingly transferable between markets. Successful InsurTechs have the potential to be replicated across markets if they are built upon solution-driven businesses with sound product offering, geographical relevance and financial sense. While Asia may be in its infancy of financial development, the region may effectively serve as an incubator for InsurTechs that ultimately end up transforming more developed markets currently controlled by traditional incumbents.

For more, please find our Q3 2017 Insurtech briefing at https://www.willistowerswatson.com/en-GB/insights/2017/10/quarterly-insurtech-briefing-q3-2017

Market Review by Country
China

In the first eight months, non-life insurance premium grew 13.36% to USD 96.3 billion.

2017 was another year of strong growth for the Chinese insurance market. Motor insurance and six mega construction projects currently underway in China, each with investment value ranging between USD 8 to 10 billion, were the drivers of this growth. Life insurance premium in the first eight months of 2017 grew 27.29% compared to the previous year.

Political landscape changes continued to impact the insurance market. Management changes in the China Insurance Regulatory Commission (CIRC) led to many initiatives previously devised to be put on hold. License issuance to reinsurance and Internet insurance companies could slow down as the regulatory body may adopt a more conservative approach.

The One Belt One Road initiative is generating massive opportunities for insurers from overseas construction projects. Chinese insurers are using this opportunity to expand overseas, often forming partnerships with Chinese banks to leverage overseas networks for their own expansion. For the first time, Chinese insurers’ overseas offices have been given the authority to insure overseas risks which do not have Chinese interests. It is likely that more representative offices of such insurers will be converted to fully owned subsidiaries.

Technology is starting to disrupt the traditional operating model of the insurance companies. Top technology companies that control big data, such as Alibaba and Tencent, are buying shares in insurance companies and challenging the role of the actuary in the set-up and operation of insurers.

Cyber insurance continues to generate interest in China; however, client take-up is very limited. While the new Internet safety law may raise more interest in Cyber insurance, large Internet companies usually have adequate capital as well as multiple backups for their servers and hence are not as concerned about the limited losses in the event of a cyber-attack.

In the coming year, Liability insurance is expected to see considerable growth, while Motor insurance growth is expected to slow down. Products for which the government provides premium subsidies, such as “insurance for the first piece (set) of heavy machinery equipment”, will continue to be of interest to insurance markets. Chinese insurers are focused on expanding overseas and developing innovative products such as parametric solutions and temperature triggered products. They will likely expand together with their existing clients who are investing overseas.
The soft market cycle continued into 2017, with clients generally able to achieve significant reductions in their premium spend across most classes of insurance; however, Employees Compensation and Construction insurance rates did show signs of flattening out or increasing towards the end of 2017.

### Impact of typhoons

2017 saw some of the most destructive typhoons in the past 50 years make landfall in the Pearl River Delta economic zone (PRD), and the insurance market in 2018 may well see increasing rates and/or a reduction in capacity for the most impacted classes as a result. Specifically, Typhoon's Hato and Pakhar which struck within days of one another; Typhoon Hato was the first “super typhoon” in five years in Hong Kong and the strongest to hit Macau in 53 years, causing over USD 2 billion of economic losses across the two territories, and insured losses estimated at over USD 300 million. The final number will not be known until some of the more complex Business Interruption claims have been settled.

Typhoon Hato also highlighted the issue of inadequate sub-limits and the importance of risk and claims management, with sub-limits covering everything from outdoor planting to debris removal being challenged.

### Influences

The Insurance Authority (IA) became the official regulator of the industry, taking over from the Office of the Commissioner of Insurance in 2017, with objectives to modernize the insurance industry and implement a more robust regulatory infrastructure. We expect more control to be embedded in the industry, to support increased professionalism and better protection to policyholders. The IA wrote to domestic insurers at the end of 2017 addressing the performance of the Hong Kong general insurance industry, setting out expectations with respect to: underwriting discipline, exposure accumulation, reserving and reinsurance as it looks to ensure a long-term sustainable marketplace. This is against a backdrop of a continuing soft market, deteriorating profitability in the Property & Casualty insurance market, severe typhoon-related losses and the unprofitability of Motor and Employees’ Compensation insurance. This increased focus on regulation and continued pressure on price and margin may lead to some consolidation in the broker and insurer market in 2018. Additionally, the increasing involvement of Mainland Chinese insurers, with five new entrants expected in 2018, further intensifies competition.

Twenty-five years ago, Hong Kong would have accounted for 27% of China’s GDP, but by the end of 2017 this was forecasted to be less than 3%. This is not a consequence of a reversal of fortunes in Hong Kong but is a direct result of sustained economic policy development in China which has given rise to considerable economic growth. This can be evidenced all over the country and most visibly in the rise of super cites, such as Shanghai and Shenzhen. This is an opportunity for Hong Kong to support its domestic growth by lending expertise to these new growth engines, such as Foreign Direct Investment into One Belt One Road.
Product Growth

Cyber risk continued to be a major topic, with businesses increasingly relying on technology. As a consequence, business leaders are looking to see how they can protect their companies from cyber-attacks; Cyber insurance is increasingly seen as a way to do this and protect against the financial impact of these risks. We expect to see growing interest from our clients in 2018 as part of a broader risk management framework.

There has also been increased attention to Terrorism and Political Violence insurance, for gaming and hospitality clients in particular, especially liability resulting from terrorist attacks. In 2017 we again saw numerous acts of terrorism and political violence in particular around public events. We expect continued interest in Terrorism insurance, particularly in industries which have major public attractions, including gaming, retail and tourist attractions.

Outlook

In addition to the major typhoon losses in Macau, there was also a significant construction fire claim at one of the last remaining casino developments during the final quarter of 2017. As a result, we are likely to see some upward pressure on Property insurance rates for Macau and increased underwriting discipline and pricing in both Macau and Hong Kong for major construction projects.

Overall, we expect Hong Kong and Macau will continue to be highly competitive markets. Rates may firm somewhat for risks with poor claims experience and for certain industries, but overall it will continue as a buyers’ market in 2018. More long-term the view is somewhat less certain, thus it may be an opportune time for those taking a longer view to agree to multi-year policies to secure current market pricing.
The Indian insurance industry witnessed a double-digit growth of 17% in 2017.

This was primarily credited to a growing middle class, a young insurable population, increasing awareness of insurance products and the introduction of government initiatives. Health and motor insurance is expected to grow at a rapid pace in India. Further, Agriculture insurance is an upcoming line of business, which contributed a huge percentage toward this growth.

On 16 January, the Insurance Regulatory and Development Authority of India (IRDAI) announced that all Indian insurers are required to cede business to reinsurers according to a prescribed order of preference. This started to impact the amount of Indian reinsurance business placed offshore. At the same time, the IRDAI has granted new licenses to nine foreign insurance companies to open branches in India. This takes the total tally of reinsurers to twelve, along with the state-owned player General Insurance Corporation of India (GIC), the erstwhile monopolist. These new entrants are expected to usher in a whole new range of specialised covers and added capacity.

The insurance market in India has remained hypercompetitive in recent times, with companies competing fiercely to offer better prices and services. Moreover, 2017 has not witnessed any significant losses in the sector.

Some new products have started gaining traction. Until recently, Cyber insurance was a less known cover, with only a handful of companies opting for it. However, with increased awareness and a strong nationwide push on digitisation, there have been more enquiries today on cyber risk and cover than ever. As the number of reported claims is beginning to swell, carriers have become more mindful of underwriting practices. However, these practices in India are yet to mature, with a few of those still quoting abysmally low risk prices to capture market share.

Title insurance has untapped potential in India, and a large number of real estate developers have expressed interest in the same. It can add tremendous value to the Indian real estate market by providing more certainty and transparency for all major players. Following its increasing importance, chances are that Title insurance will be made mandatory in a number of states in the country.

Technology has taken rapid strides in India. InsurTech is propelling with great momentum in the B2C space. On the other hand, global players in the field of telematics, artificial intelligence and blockchain are entering India as well. Licenses have been issued to a few digital insurers for the first time. While businesses and markets are still trying to understand the impact of technology in this space, the customer is bound to emerge as the ultimate winner.

The Indian insurance market is expected to continue this growth trajectory in the future. While InsurTech will increase reachability and penetration in B2C space, the focus of the government on ‘mass schemes’ will further fuel this growth. The government’s intent seems to be quite clear around more inclusive protection through mass-market health, life, personal accident and agriculture schemes. Agriculture insurance will continue to be the dominating segment in 2018 and provide necessary tailwinds to the flight of growth of the insurance sector in India. Further, a significant uptake in the construction space can be expected, owing to the impetus on infrastructure projects by the government that announced a contribution of approximately INR 3.96 trillion (USD 59 billion) on infrastructure spending. The market seems to be gradually shifting toward better risk management practices and has started appreciating value addition in terms of risk analysis and consulting with the help of new-age technology.
The Financial Services Authority (OJK) has expressed optimism that insurance and reinsurance premium revenue will reach IDR 258 trillion (USD 19.1 billion) by the end of 2017, a growth of 12% compared to 2016.

The Indonesian market continued its strong growth in premiums in 2017, against the backdrop of a liberal investment environment and a low insurance penetration rate. General Motor Insurance premium has witnessed a 9% increase in the first six months of 2017, and the trend is expected to continue due to the increasing demand for automotive products.

The profitability of reinsurance business in Indonesia has been strong in the past and is expected to keep increasing following more efficient underwriting practices and increased reliance on underwriting activity. Local capacity optimisation triggered major growth in Indonesia’s reinsurance industry and improved the sector’s competitiveness in Asia. The industry’s mitigation of catastrophe exposure has also improved, with most Indonesian reinsurers able to cover a return period of around 400 years, more than the Financial Services Authority of Indonesia’s requirement of 250 years. Despite rapid growth in total premium volume, the market still remains soft. Rates continue to move downward especially in the Marine and Engineering lines of business.

PT Asuransi Jiwa Syariah Jasa Mitra Abadi (JMA Syariah) is in the process of launching an Initial Public Offering (IPO), being the first Islamic insurer to go public on the Indonesia Stock Exchange with an expected capital of IDR 60 billion (USD 4.44 million). The Financial Services Authority (OJK) is looking into a new scheme to save AJB Bumiputera 1912 (AJBB), after more than a year of attempting to restructure the insurer’s operations. AJBB is the only mutual insurance company in Indonesia.

OJK has issued a five point strategic plan for 2018, giving direction to expand access to finance by increasing the range of insurance products that are able to reach and meet the needs of the community.

The regulator also emphasises the development of Fintech, expansion of information technology, and increased joint supervision between the bank supervisory unit and the IKNB supervisor. Despite the election in 2019, the confidence in the current government remains high and stable. Therefore, the economy is expected to strengthen in 2018, attracting more investment into the country. Positive economic development is expected to boost Indonesia’s insurance premium growth, especially in property, credit guarantee and engineering insurance, following a larger government budget for infrastructure.
2017 was a stable year for the general insurance market. Between April and June, non-life direct premiums grew 1.6%. General Liability, Non-Nursing Pecuniary Loss and Workers Compensation were the main drivers of growth, while Personal Accident premium declined.

The top three Japanese insurers continued to dominate the market. Their overseas presence exposed them to the recent natural catastrophe in the United States, resulting in the expectation of a higher combined ratio for the industry. Agency and direct channels remain to be the main distribution channels in Japan, but some corporations have begun to transact via brokers in recent years.

Further consolidation of the industry occurred as AIU Insurance Company Ltd. and The Fuji Fire and Marine Insurance Company Ltd. merged to become AIG General Insurance Co. Ltd. The completion date of the merger is set for 1 January 2018.

The demand for Cyber insurance has seen a substantial growth in Japan. It has been reported that Mitsui Sumitomo Insurance Co. witnessed a 250% increase, Tokio Marine & Nichido Fire Insurance Co. tripled its sales, AIU Insurance Co. posted a 50% increase, and Sompo Japan Nipponkoa Insurance Inc. had a 350% increase in cyber premium income in fiscal year 2016. Insurers are trying to upsell cyber coverage on top of the well-established personal privacy insurance. However, the overall portfolio is still relatively small and the strong growth is expected to continue in 2018.

Motor insurance demand is expected to decline in the long run due to the shrinking population and well developed public transportation system in Japan. The development of autonomous driving technologies will expand the demand for product liability insurance, telematics automobile products as well as cyber protection.

Japanese companies’ overseas M&A strategy strengthened despite a slowdown in global M&A transactions. Government support, low interest rates and development in technologies all helped fuel outbound M&A deals. This trend is expected to continue in 2018, and the focus will remain on mature markets such as the US and Europe. This will further drive the demand for insurance to protect Japanese companies’ overseas investments.
The local insurance market was relatively flat in 2017. However, due to the recent rate changes in Motor insurance, local insurers’ profitability improved. The market continued to soften despite recent natural catastrophes, mainly due to benign domestic losses.

Most lines suffered from overcapacity as local markets are already saturated and there is stiff competition for market share. Most local insurers have increased their retention in 2017.

Despite a few significant losses such as GS Caltex (Operational Energy) and Pyeontaek Grand Bridge (Construction), 5% to 10% rate reductions continued to be the norm. A similar trend was witnessed in the reinsurance markets up until the hurricane season that affected the United States in late 2017. This is not envisaged to change in the near future, as client perception of the market softening has been a trend for many years.

Clients are focused on pricing rather than the coverage or the risk-fitted product. They have begun expressing interest in Cyber insurance, but as there have not been many instances of insurance covering cyber losses, clients are still reluctant to buy something that they are unsure of.

The outlook for 2018 is similar to that of 2017. As local insurers can quote Property risk (KRW 100 billion or less) on their own, they do not need reinsurers to quote for the risk. The changes in the domestic market are unknown, but there will definitely be an effect on the reinsurance markets which write Korean risks. The Government has also announced a plan to reduce the SOC construction projects, which will also affect the overall construction insurance premium. 2018 performance also depends on 2018 Cat treaty renewal, but it will be a difficult year for the domestic insurers and brokers to match the client’s interest due to the reinsurance cost increase.
2018 is expected to be a tougher year for insurers with regulations such as the fire de-tariffication coming into place, which will result in stiffer competition and a negative growth in premium.

The market remained mostly flat due to the de-tariffication of Motor insurance and the lack of new risks. Clients benefitted from the soft market and the continued rate reductions. Price continues to be a major criterion for clients purchasing insurance, as a number of tenders are driven by the procurement side. However, there is uncertainty around whether the rate reductions will continue following the disastrous hurricanes in the US. International insurers have talked about rate increases and the hardening of the market, but the results of these losses are becoming evident with the conclusion of 1/1 renewal season.

Business declined for the Marine Hull line, as ship owners struggled with the lack of business. Many have had vessels laid up, causing cash flow issues. Low oil prices pushed many companies such as Petronas to cut down on capital expenditure, as a result of which supporting companies were affected.

There were no changes in regulations except for the implementation of flexible pricing for motor insurance effective 1 July 2017, guidelines for which were released in 2016. Premiums would be set based on the driver’s gender, age and occupation, type and make of car, and claims history. However, most insurers have not changed premiums yet as they are either not ready to employ their risk-based rating tools or are waiting to see what their competitors will do. De-tariffication of fire insurance is anticipated in 2018, which could potentially allow for 30% rate reductions.

Clients have also shown an interest in cyber insurance, but the take-up is slow despite several high-profile losses. For example, several Malaysian telcos were affected by a data breach in 2014, but the incident was only uncovered in 2017. Data of over 46 million customers was stolen and put up for sale online. Response from the service providers have been limited and the case is still under investigation.

Bank Negara is keen to promote website aggregators/comparison websites as an alternate distribution channel for insurance sales. There has been mention of this in a few policy documents and guidelines about how this could be implemented in 2018. In anticipation of this, a few companies have already begun talks with insurers.

In terms of market developments, Munich Re ceased operations in Malaysia. New syndicates such as Berkshire Hathaway and WR Berkley have commenced business in Labuan. There is a possibility of further mergers and acquisitions taking place as the industry looks to consolidate further.

There is a bigger challenge to grow premium volume in Malaysia, given that not much growth is expected in other lines.
Singapore is largely regarded as a regional hub for insurance and reinsurance transactions in Asia. It is home to locally owned players and the regional base for a large number of major international intermediaries, ancillary service providers, insurers, reinsurers and captives. Offshore insurance business has become a major driver of industry growth.

Whilst still ostensibly profitable, the Singapore market remains soft. Rates dropped further across all lines with Construction leading the pack. Loss ratio is still relatively healthy, as a result of which most lines continue to be profitable. There have been no major losses in 2017, other than the collapse of the PIE uncompleted highway structure. However, the reduced income with higher exposures and increasing operating cost, have put the pressures on the senior management in both underwriters and brokers. This has resulted in at least two syndicates in the Lloyd's Asia platform withdrawing from the market in 2017.

In August 2017, Mitsui Sumitomo Insurance Group (MSIG) bought Fairfax Group's 97.7% share of First Capital Insurance Co Ltd, purely as an investment, and will allow the current management to operate the company in a different space to MSIG's present market-leading general insurance operation.

Singapore has been on red alert for terrorism threats, as there have been known cases of targeted plots by extremist groups. The demand for terrorism cover has been increasing as a result. The government’s smart nation strategy and the recent cyber incidents continue to fuel the interest cyber cover. There has been active encouragement for the development of driverless cars, cashless payment, artificial intelligence, Fintech and Internet of Things (IoT). On the other hand, global cyber-attacks such as WannaCry and Petya have raised alarms that a robust cyber defence strategy is necessary for the greater game plan. With this backdrop, the government has drafted a Cybersecurity Bill for public consultation, which will be introduced in Parliament in 2018. An increasing number of carriers have started building their cyber solution offerings. It is expected that Cyber insurance will continue to draw interest in 2018. However, an uptick on take-up rate will depend on quantification of risk exposure, both for clients as well as carriers.

The total gross written premium in Singapore continued to grow in 2017. Direct gross premium under Singapore Insurance Fund has increased by 11% in the first three quarters of 2017, mainly driven by growth in Engineering, Professional Indemnity and Public Liability.

The total gross written premium in Singapore continued to grow in 2017. Direct gross premium under Singapore Insurance Fund has increased by 11% in the first three quarters of 2017, mainly driven by growth in Engineering, Professional Indemnity and Public Liability.
The non-life insurance market experienced moderate growth in 2017. Total gross written premium grew 7.4% and non-life premium reached USD 4.3 billion in the first ten months.

Auto insurance takes up approximately 54% of all non-life insurance written, followed by Property insurance, which constitutes 17% (USD 719 million). We have seen single digit to flat reductions for premium rates for most businesses. The impact from US hurricane losses is still unknown. Overseas underwriters are concerned about upcoming treaty renewals in 1/1, especially since Taiwan is prone to natural catastrophes such as typhoons.

Property insurance was the main driver of the overall premium growth. Regulation changes in 2016 which addressed pricing inadequacy for mega risks have taken effect and spurred growth in property insurance. Marine insurance which amounted to USD 196 million in the first 10 months has continued to be plagued by reductions of at least 20%. However, the expectation is that rates will be flat in 2018 or even increase.

Internet insurance has taken a significant leap forward. Life insurance premiums from online channels totalled USD 5.8 million and non-life online insurance premium reached USD 16.6 million. The Insurance Bureau intends to continue to loosen regulations to encourage the development of Internet insurance.

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<th>Top life insurer by online premium</th>
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<th>Top non-life insurer by online premium</th>
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Source: Financial Supervisory Commission, R.O.C (Taiwan) Insurance Bureau – first 10 months data

The Taiwanese government has laid out a plan to develop renewable energy to phase out nuclear power plants and reduce the reliance on fossil fuel. The government has planned to attract as much as USD 59 billion investment and raise the percentage of renewable energy in the total energy mix to 20% by 2025. The Taiwanese Cabinet has tried to encourage investment in green energy development by relaxing regulations governing the financial sector. Insurance for the renewable energy sector will be an area of growth in the coming years as the construction and operation of the renewable energy industry comes to fruition.
Insurance market conditions in Brunei in 2017 were similar to 2016, with no losses, flat rates and stable capacity. Economic development remained constant as well. There were no regulation changes and current regulations remained unaffected. Non-admitted insurance is not permitted – policies cannot be issued unless obtained from a licensed insurer registered in Brunei. A few projects were awarded but due to their limited size, there was no effect on the insurance market.

The local insurance market in Brunei is very competitive. 60-70% of the market is motor insurance, and the private sector’s share of this is small. Buyers tend to purchase minimum insurance that is mandated by law. However, the interest in Professional Indemnity has become evident in the Construction, Architecture and Legal industries. There has also been an increase in understanding of and need for Directors and Officers liability policies.

Limited new contracts and business is expected to materialise in 2018. There could potentially be minor growth in motor insurance and technology development in the offshore industry, but the impact on local markets would not be significant.
There were no major changes in the insurance market in 2017 as the liberalisation of insurance sector is still underway. Reinsurance rate reductions continue to be expected.

Premium rates declined between 10% and 30% depending on the line of business; sharp decline in the Property and Casualty, Construction and Aviation insurances. Over the last year, the telecom sector was affected by flood loss during the rainy season, although it did not have much impact on premium and coverage.

Greater capacity is becoming available offshore for Myanmar risks along with the lifting of US sanctions, increased familiarity of the risks and more statistics becoming available however strict underwriting guidelines still apply as the premium reflecting the quality and occupancy of the risks.

Health insurance can be viewed as a potential area of growth as it is still underserved for local companies, and there will be opportunities if reinsurance providers look to offer benefits and premiums that are suitable for local market requirements and affordability.

There are more foreign brokers competing for businesses. Local clients still look at pricing as a key factor, whereas foreign investors view the coverage, credit rating of the carriers, servicing and claim capability as a higher priority.

The Power sector has the potential to grow as there is a requirement for power to develop the economy. The pace of reforms, clarity of government policies, and the stability of the current government are factors leading to an increase in the development cost of projects. At the same time, developers are placing a higher priority on social and environmental impact as reputational risk is high on corporate agendas. It is indeed a very challenging time for this much anticipated frontier market. Therefore, clear allocation of the risk under the project suite of agreements is needed with the risk allocated to the party in the best position to control or mitigate them.

Recently, Myanma Insurance (MI) has announced a new rule, either to retain 30% of the risk if the sum insured is up to USD 8 million, or a certain percentage equivalent to maximum USD 2.5 million if the sum insured exceeds USD 8 million. This new rule has been effective since 1 November 2017 for new risks; however, MI has extended to 1 January 2018 for renewal business. MI will take retention in all fronting businesses except the motor insurance.

Myanma Insurance Association was launched official on 15-Jan-2018. Membership is restricted to the insurance companies who have their license registered in Myanmar hence restricted only to local companies.

The outlook for 2018 from insurance sector perspective is positive as the plans to liberalise the insurance market that were not implemented in 2017 are anticipated to materialise. It is also expected that local private insurance company to be able to transact outward reinsurance to manage their risk profile which will then create greater opportunities to the overseas reinsurance brokers/reinsurance market to offer innovative suite of products to Myanmar clients.

As more foreign direct investment (FDI) begins to flow into the country, investors are likely to select international brokers to fulfil specific insurance requirements, leading to an increase in demand for reinsurance business.
In 2017, the Philippine non-life insurance industry reached new heights and achieved greater success, owing to the competitive landscape and the innovative products and solutions that were offered in the local market.

While premiums were still skewed toward Property and Motor Insurance, the increased awareness and heightened interest in Financial/Specialty Lines (i.e. Cyber insurance, Directors and Officers’ Liability, Political Violence) is a testament to the sophistication of risks that are becoming more prevalent in one of Southeast Asia’s fastest growing economies. There is adequate capacity available locally for most lines of business, although Specialty Lines remain reliant on international reinsurance capacity.

While the government’s ambitious “Build, Build, Build” infrastructure development plan is still in the course of full implementation, the economy remains robust and potential participants, both from the private and public sectors, remain optimistic that plans will materialize soon, as inadequate infrastructure remains a barrier to the Philippines reaching its full socio-economic potential. The bulk of the funding requirements for this ambitious drive will be taken from the Tax Reform for Acceleration and Inclusion (TRAIN), which was signed into law in December 19, 2017. Aside from aiming to simplify and leveling the antiquated tax system in the Philippines, TRAIN will also lower personal income tax rates, which will enable an increased level of consumer spending. Foregone revenues will be offset by higher excise taxes on petroleum and automobiles, among others.

From a legislative standpoint, the full implementation of the Data Privacy Act of 2012, or Republic Act 10173, has put to the forefront the importance of maintaining a sound and resilient Cyber Risk Management Plan, particularly for banks, financial institutions and business processing outsourcing (BPO) firms, owing to the confidential and personal information that they possess on behalf of their respective clients. In view of this development, there may be an increase in the number of Cyber insurance policies obtained in the local market, although the number of local insurers who offer this specialized coverage remains limited.

From a regulatory standpoint, the Insurance Commission (IC) has maintained that it will strictly enforce the increase in paid-up capital requirements for life and non-life insurers, which will increase significantly to PHP 900 million (approximately USD 18 million) by the end of 2019 and PHP 1.3 billion (approximately USD 26 million) by the end of 2021. As a result of this, four non-life insurers have advised the IC that they will not be able to comply with the increase in paid-up capital requirements, thereby ceasing their respective operations.

By virtue of Circular Letter (CL) No. 2017-49, issued 30 October 2017, the IC definitively disallowed the compensability of exemplary and punitive damages that were otherwise covered in Liability insurance policies, as these have been deemed uninsurable under Philippine laws on the ground that these run counter to established and accepted public policies.

All things considered, the outlook for 2018 remains conservatively optimistic, as consumer spending is expected to be sustained and the implementation of the government’s infrastructure spending plan is expected to come into full effect. The latter will result in increased take-up of Construction-related insurance requirements, such as Contractor’s All Risks (CAR) Insurance, Erection All Risks (EAR) Insurance and Bonds.
Thailand

Non-life insurance premium grew 3.7% in the first half of 2017 compared to same period in 2016.

The market in 2017 showed no signs of change compared to the previous year. All lines of business experienced a decline in rates across the board. Insurance such as Personal Lines and Travel were impacted as the influence of technology became more apparent in the industry – more consumers have begun buying insurance online or via apps; however, corporate buyers continue to use broking channels. The demand and interest for Cyber insurance continued to gain traction, especially following recent malware attacks such as Ransomware and Petya, but this line faces a dearth of local Cyber claims experts and is heavily reliant on international expertise.

The main contributors of the growth came from Motor, Personal Accident and Health. Motor insurance accounts for 58% of the market premium and has a loss ratio of 55%. There is a possibility that the government will deregulate Motor insurance, encouraging more competition. More competition would ultimately benefit the end users. However, no major impact is expected in the short-term as insurers are not allowed to compete over prices or underwriting criteria due to regulatory wording requirements.

A major change in regulation that took place was the opening of full foreign ownership of insurers. In January 2017, OIC published a notification setting out the requirement for foreign ownership that is greater than a 49% stake, subject to ministerial approval. These regulation changes intend to encourage reputable and financially robust foreign insurers to expand in Thailand, a move that could potentially boost Thailand’s standing in the ASEAN economic community. Another regulation was to allow the sale of both life and general insurance products online in response to the increasing number of consumers purchasing insurance online. This is expected to encourage digitalization of the insurance carriers.

Market conditions in 2018 are expected to mirror that of 2017, unless major natural catastrophes cause significant losses in the country. Technological advances continue to drive strategies of both insurers and the regulator, with an increased focus on digitalization, FinTech and other innovations contributing to the creation of a new era in insurance.
The first six months of 2017 reflected the trend seen in the Vietnamese insurance market for the past three years. Life insurance grew at a rate of 26%, reaching a value of VND 28.3 billion (USD 1.26 billion). The non-life market grew by 12% to reach a value of VND 19.8 billion (USD 870 million).

This is markedly different from 10 years ago, where both the life and non-life markets were the same size. In 2012, a shift occurred as more people began to gain access to insurance, and life insurance began to accelerate its growth as the middle class income population began to grow.

The demand for health care and Motor insurance has grown in the past few years. Traditionally, Motor insurance was mostly bought by corporates looking to insure their company vehicles; however, as people began to purchase more expensive cars, the demand for private Motor insurance showed significant growth. More insurance products have started entering the Vietnamese market. In the past, a number of products were not sold due to limited market size. However, some lines such as Trade Credit insurance have started to see demand increase. Vietnamese insurance companies are trying to keep pace with continuous change in the market by offering more sophisticated products, catering to those who want to spend more on better coverage.

There are 18 life and 30 non-life carriers in the market. Due to high capital requirements, entry into the market is restricted to large foreign ventures. Groupama, the smallest foreign insurer in Vietnam, is trying to transfer ownership of its Vietnamese branch. A number of regional insurance companies from Korea, Japan and China have started buying shares of Vietnamese insurers. For example, Dongbu has a 37% share of PTI, Sumitomo holds 18% shareholding of Bao Viet Holdings, and Samsung Fire and Marine (SFMI) has a 20% share of PJICO. With the deal, PJICO becomes the fifth non-life insurer in the market, along with Bao Viet, Bao Minh, PVI, and PTI, to enter into strategic partnerships with foreign shareholders.

With SFMI, a non-life insurance company ranked first in South Korea and 23rd on the global market as a strategic partner, PJICO has proven its competitiveness and brand reputation in the market.

In March 2017, a circular guiding decree No 119 came into effect, mandating purchase of three types of compulsory insurance in construction: Construction Works Professional Liability, and Workmen Compensation. In May 2017, the MOF issued a circular guiding decree No. 73, providing regulations for the whole insurance industry including insurers, reinsurers, brokers, agents, from conditions to apply for license to detail regulations for their operations. The cooperation between a licensed broker and overseas brokers has been accepted, provided that the overseas brokers meet the criteria to provide cross-border services into Vietnam, such as the maximum net retention by an insurer per individual risk has been increased from 5% of its owners’ equity up to 10% of its owners’ equity.

The economy is still growing, and the expectation is that certain personal lines will continue to strengthen. Business Interruption insurance is expected to rise in demand as the transport and logistics industries develop – however, this growth is expected in the long-term, possibly three years from now, unless there is a change in regulation to bring in more capacity to the market. The questions that remain is how the market will grow and how the reinsurance market will develop, and whether this growth will be accessible to foreign brokers, especially in the oil, gas, and infrastructure sectors.
Market Review by Product
Aviation

Based on our assumptions and best estimates, in 2017, capacity started to fall away from the maximum available capacity of around 214% to a more realistic (deployed) capacity of between 130% and 150% on major wide-bodied operators. Typically, this includes airlines with high aircraft values (excess of USD 250 million) and high liability limits in excess of USD 1.75 billion.

If one excludes the Space market, the Aviation market can be split simplistically among:

1) The airline operators;
2) The Service Providers (Airports, Maintenance and Repair Organisations (MRO), Ground Handlers, Refuellers, Air Navigation Service Providers (ANSP); and
3) General Aviation (Fixed wing and Rotor wing).

The airline risks are the ones that drive the overall Aviation market due to their profile and significant premium levels. The majority of the risk carriers (and capacity) is primarily focused on the London market with the majority of the remaining capacity based in Europe.

In recent years, airlines have been reminded of underwriters’ concerns of insufficient pricing and the desire for market stability. Airlines understandably waited for the market to act on its words, and increasingly became ambivalent of the warnings when the pricing continued to fall year on year.

2016 was no different to previous years, with lead underwriters offering premium reductions and rate reductions notwithstanding the unprofitability of this class of insurance. Following underwriters competed for their share against peers on pricing, which exacerbated the price reductions as differentials to the lead pricing were stretched, thus delivering greater savings to the buyer. The majority of the following underwriters were discounting up to 10% on the lead price and, in several cases, underwriters agreed greater discounts on the most attractive risks.

Underwriters exhibited greater risk selectivity with a new confidence to decline business (however important to their portfolio previously) and underwriters’ resolve grew stronger in the final quarter of 2017. Faced by unprecedented hurricane, windstorm and fire losses in the US, multi-line underwriters were directed by their senior management (and/or capital providers) to engage on renewals with far greater discipline than in the past. Differential pricing to the lead (in most cases) shrunk, underwriters reduced their participations, and in cases where airlines had suffered high loss ratios or were repeat offenders when it came to attritional losses, many underwriters demanded higher terms than the lead pricing or declined to renew at all.

Interest from following underwriters, as to the leader’s pricing level, has now almost disappeared. This is largely due to the increasing indifference that following underwriters have with the leader’s pricing of a risk and the fact that certain leading underwriters are able to offer package deals across the various aviation policies which has distorted the true pricing of any individual placement. In addition, some leading underwriters have charged the clients additional fees, in order to cover the additional costs that the leader has in administering the placement on behalf of the rest of the following underwriters.

However, on Low Cost Carriers (LCC’s) and regional airlines operating single-aisle aircraft, capacity still remains plentiful, and this class of aviation insurance still attracts the greatest appetite amongst underwriters based on the low frequency and severity of losses to date. In addition to which, with lower limits having to be covered, underwriters are, in many cases, able to deploy larger shares thus increasing the competitive levers that drive pricing downwards. As such, pressure on underwriters to continue discounting pricing remains – although not to the same levels that have been seen in the past.

The effect of attritional claims on underwriters’ profitability is an increasing factor in the underwriters’ attitude to airline risks. In the past, based on our assumptions and best estimates, attritional claims used to represent around 25% of the total costs of claims. As such, the majority of premium was paid to fund major/catastrophe losses (which eroded much of the global airline premium base). Based on our best estimates, the world airline premium is currently around USD 1 billion – USD 1.2 billion. Today, attrition claims erode around 65% of the global annual premium, leaving little left as reserves to pay for catastrophe claims.
Whilst the industry is safer and there are fewer fatal accidents today than in the past, the reality, as far as insurance is concerned, is that in the drive for greater operational efficiency, the change in construction materials today – from aluminum to composites – has resulted in repair bills that are potentially multiples of what they used to be. As such, underwriters have not allowed for this tectonic shift within their pricing. Engine damage (which plays a major part in airlines’ attritional losses) proves the point further. A new aircraft engine today is the same value as an entire 15-year-old aircraft on which it can be mounted. Yet self-retained deductibles remain unchanged. Quite simply, airline underwriters have been unable to ‘upgrade’ their insurance coverage from ‘Airline 1985’ to ‘Airline 2017’.

**How does this affect aviation insurance buyers in Asia?**

For the airline operators, there is likely to still be a disparity in premium costings between the Low Cost Carriers (for whom capacity is still relatively plentiful) and those airlines operating high-valued aircraft (primarily A350, B787 and A380) into higher-cost jurisdictions. Those airlines that have effective risk management in place with minimal attritional claims will also benefit from more competition for their business.

The result is that the catastrophe element of exposure that the aviation insurance product was supposed to protect has now evolved into coverage for the airline’s attritional losses, but without the premiums to be able to cover both. More worryingly, if the airline insurance market continues as it is and catastrophe and attritional losses increase, there will not be sufficient premium for either.

Therefore, airline operators in Asia need to be even more diligent in avoiding any type of loss at this hiatus in the market’s cycle. There is now a clearer delineation of airlines amongst underwriters between the ‘desirable’ and the ‘less desirable’ risks and it is therefore critical a buyer remains in the former. Those airlines that may have benefitted from the historic lack of underwriter discipline, excess capacity and dependence on their size or brand at the expense of underwriter profitability, may start to ‘feel the pinch’ as underwriters start to look at the underlying figures that justify the risk-to-reward.

As for General Aviation operators, they will continue to benefit from the significant treaty capacity offered to the domestic underwriters, which gives the underwriters considerable autonomy in terms of rating – especially in countries such as China, India, Japan and Korea. Other countries without such significant treaty capacity will be dependent on the competitiveness of the Singapore and Australian markets, as well as underwriters in London, who are still willing to be competitive in order to diversify their portfolio.

Airport operators and other service providers will also still continue to benefit from a relatively benign loss history and plentiful capacity. However, many airport operators in Asia are not purchasing essential coverage, or are purchasing limits well below their exposures. As such, those buyers would be wise to review their risk transfer strategy and, if necessary, increase their budgets either for retaining the risks, or for the additional cost of transferring these risks, going forward. It is important for Governments to also consider the benefits of laying off their risks into the private sector while capacity is so plentiful and pricing, so competitive, rather than being seen to pass on these costs to the taxpayer.

In summary, 2018 should be a year of underwriters consolidating the positions of 2017, continued sensible underwriting and further selectivity of risk. Buyers would be cautioned to accept that no market can forever remain in freefall and the faster premiums drop, the more likely they are to bounce higher when the market turns. The long-term health of the Aviation insurance market is dependent on capital providers believing that it is a class worth sticking with. If the capacity starts to emigrate to more profitable lines of business, this stability may be compromised to the detriment of the buyer.
Captives

‘Captive insurance’ describes a range of techniques to help clients manage risk, by providing a formal insurance structure within which risk can be efficiently recognized and financed. We continue to see an increase in client recognition of the strategic value captives can add both in retained risk and in managing access to the reinsurance market, including capacity for non-traditional risks.

It is important to note that captives are not in competition with the insurance market, but they do provide an alternative when market coverage does not match specific client needs, or when capacity is unavailable or expensive. As such, they always gain prominence when market conditions are volatile as they help provide stability in cost of risk over time. Whilst it is too early to predict the effect of recent catastrophes on market conditions, there are areas which are likely to be more heavily impacted than others, in particular, the energy and natural resources sectors, which is reflected in the captive activity we are witnessing.

Other trends we are experiencing include:

- Continuing growth in captives for Asia-based multinationals. Captives offer unique benefits in consolidating risks assumed in a variety of risk classes and countries, increasing capital efficiency and access to reinsurance.

- Increasing interest from European and American companies in Asian captive domiciles, in particular Singapore. As the importance of Asia grows in their business portfolios, basing captives in the region under an appropriate regulatory environment can provide significant practical and strategic benefits.

- Involvement in Employee Benefits (EB) insurance, in particular, Medical insurance. The rising impact of medical inflation is factored into insurance premium, and captives can help clients to better manage the impact. When combined with general insurance risks in a captive, the spread of risk has important benefits for capital efficiency.

- Captives are also writing emerging non-traditional risks that the insurance market may be reluctant to underwrite, usually due to a lack of data on which to price transferred risk. Where traditional insurance is not available, captives can be used to finance the risk, and potentially provide access to alternative reinsurance capacity.

The OECD’s Base Erosion and Profit Sharing (BEPS) initiative has been linked to the use of offshore captives. However, captives which have been properly established and managed, with well-documented procedures, should not be significantly affected. We strongly recommend that captive owners undertake a detailed review of the governance and operation of their captive, to ensure that no BEPS related issues are likely to arise.
Construction

Global construction output reached USD 8.8 trillion in 2016 and is expected to stand at USD 10.1 trillion in 2021. The value of construction activity in the emerging world exceeded the developed countries in 2014, and it is projected that emerging markets will account for 52.8% of market share by 2021.

Asia accounted for the largest share of the global construction industry in 2017. Mega projects that originated from China’s One Belt One Road (OBOR) and 21st Century Maritime Silk Road initiatives drove the growth in the construction industry. Emerging markets of Southeast Asia, notably the Philippines, Malaysia and Indonesia, are investing heavily in new infrastructure projects, supported by government and private investment. The increasing emphasis on renewable energy also boosts the demand for construction projects in Asia, with strong investment in solar, wind and geothermal energy.

The insurance market continued to soften, with an average of 20% rate reduction in all construction-related insurance cover across Asia. Competitive market conditions were due to favourable loss records and increased capacity investment in the region. It is worth noting that unfavourable underwriting results in Construction Employee’s Compensation have caught the attention of the regulator. In December 2017, the Insurance Authority in Hong Kong issued a letter to all insurers in Hong Kong, emphasising the assessment and control over increasing disparity between risk exposure and price adequacy.

In 2018, OBOR will continue to be the centre of all discussions. More projects are expected to arise from this initiative. The outlook remains challenging, but hardening of rates started to appear in certain cases in South East Asia. Continued evolution of technology is also expected in the construction sector. Insurers will be challenged to respond with new differentiated offerings.

Top 10 Construction Risks

1. Negative changes to government financing, policies and priorities
2. Threat from new and emerging competitors
3. Capital availability, funding and liquidity
4. Macroeconomic environment uncertainty and inconsistency
5. Overreliance on/Failure of critical IT systems
6. Liabilities arising out of the widespread use of BIM
7. Third-party security vulnerability/Digital supply chain resilience
8. Complexity of the labour market: dependence on subcontractors or contract labour
9. Increased security threat from cyberattacks and data privacy breaches
10. Necessity for increasingly diversified business models

Construction Rankings of Megatrends

1. Geopolitical instability and regulatory change
2. Workforce management and talent optimization
3. Business model and strategy challenges
4. Risks resulting from digitalization and new technologies
5. Complex operating models in a global business landscape
Downstream Energy

The Asia Downstream Energy Market, like the General Property and Power Market, remains well capitalized and able to accommodate all but the largest risks in the region and it has been this excess capacity supply that has driven the soft market conditions in recent years.

The Energy market does not suffer the attritional losses of the Power market, and is characterized more by a ‘boom or bust’ nature when it comes to profitability, in recent years up until 2017, the sector has been profitable and rates have declined year on year. Excess capacity in a profitable market has been behind the extended soft market of recent years.

Total theoretical market capacity passed the USD 6 billion mark. A more realistic ‘working’ capacity number was USD 4.5 billion, which remained more than adequate for all but the largest risks and well beyond a level that any risk transfer was required. Excess capacity over demand was the single biggest factor in driving the continued downward spiral of rates we saw as insurers had to compete year on year for business, facing increased capacity offerings from notable established Energy reinsurers and the rise of regional Energy markets in the Middle East and Asia.

2017, however, produced significant losses to the Downstream market globally, far eclipsing premium income, and a distant cry 2015 and 2016 where insurers enjoyed benign insured loss years. The recent experience for insurers has been a combination of risk losses in 2017, the devastating events in the US with Hurricanes Harvey and Irma, with global premium income in decline in recent years further adding to insurers woes.

Global Energy insurers as a result are pushing for rate corrections in 2018. Messages coming down from global insurers head offices are for rate increases going forward, the degree depending on individual account performance and location. With the Asia Energy market dominated by Global Energy, some insurers are demanding rate increases regardless of risk profile, others are viewing ‘any increase as good’ and perhaps flat rate renewals on accounts unaffected by losses as a more realistic outcome. Certainly, rate reductions appear to be, for now at least, off the table.

The outlook for 2018 then is a potential upward shift in rates, though to what degree and for how long is uncertain. For individual buyers facing calls for premium increases from their insurers, much will depend on the availability of other options in the market, and the good news is that the surplus of capacity still remains with no sign of abating, with insurers still looking for revenue growth. Any opportunity to participate on better quality risks will help their cause, thus this competitive dynamic will serve to dampen the increase in rates that would otherwise be going forward.
Financial Solutions

In 2017, the global economy showed signs of upward momentum by beating estimates and demonstrating signs of a strong recovery after experiencing a sharp slowdown with lacklustre trade numbers in the previous year.

This was primarily driven by a rise in business and consumer confidence levels. However, confidence remained, as always, wafer thin and the current global geopolitical situation could pose roadblocks for the recovering economy as well as challenges for the insurance industry.

Amidst these challenges, the Political and Credit Risk insurance market continued to evolve to support clients in these uncertain times. On top of increased capacity from existing insurers, the introduction of new entries to the market further expanded the global capacity. One new development this year has come through: Beazley PLC, Talbot Underwriting Ltd. and Chaucer PLC partnering to form a political risk consortium in Asia to offer an enhanced capability to their trading partners. The new partnership would result in the consortium quoting up to USD 130 million for seven years on single deals, which would have been otherwise impossible. Increased competition between the Lloyd’s market and insurance companies has not only led to innovative products but has also led to more aggressive pricing. Nonetheless, pricing dynamics is still primarily a function of the macroeconomic conditions and whilst insurers are aggressive for certain deals this year has seen a more conservative approach to underwriting.

In 2017, the Financial Solutions division of Willis Towers Watson, which focuses on Political and Credit risks, established an onshore capability in Japan to meet the growing needs of our Japanese client base. This will complement our existing capabilities in the region.

Political Risk:

Similar to the previous year, the unstable macroeconomic environment has led to a rise in country risk. The spectre of Political risk is never far away, and you do not need to look far to see a growing sense of unease in the global economy. Brexit has been creating waves in the already turbulent waters of Europe, as right-wing parties have taken an increasing share of the popular vote. The Middle East has seen increasing levels of Political risk activity with rockets being fired into Saudi Arabia from Yemen, and the high-profile arrest of 12 princes and hundreds of ministers and business figures. The wars in Afghanistan and Syria grind on, and in Africa, we have seen continued fighting in Somalia; in the Maghreb region, the Boko Haram insurgency in Nigeria and the surrounding countries; ethnic violence in South Sudan; and now Zimbabwe is in a state of flux after the army took control of the country and ousted President Robert Mugabe.

Closer to home, the international community continues to watch Myanmar and the Government’s controversial treatment of the Rohingya people, which could lead Myanmar back into political wildness and isolation.

That is all without touching on North Korea, Iran, Catalonia independence, or the drug wars in Mexico.

However, in spite of the above, or maybe because of it, the Political Risk insurance market continued to grow both in the number of participants and in their capabilities, as evidenced by Ironshore Singapore’s recent announcement to beef up their Political Risk business lines from USD 15 million to USD 50 million in capacity, sending a strong message to the market since its acquisition by Liberty Mutual Insurance earlier this year.
Trade Credit Risk

2015 and 2016 saw some high-profile insolvencies and losses to the credit market but despite this, appetite for credit risk remains strong – fuelled by accelerated growth from China, and other emerging countries such as the Philippines, Bangladesh and Vietnam; this in addition to the recovery of developed economies like Japan and the US, adds a further boost to trade performance.

China's rise to become a key player in the global economy has, however, come at a cost of rising of corporate debt, creating high refinancing risk in 2018. Given China's hegemonic power in global trade, companies around the world will be heavily impacted by the ripple effect from China's impending slowdown. In addition to that, the world looks to see how the US-China partnership unfolds and the role the US will play in international trade, particularly as the Trans-Pacific Partnership moves ahead without its initial intended leader.

For the insurance market, one exciting development in 2017 was the re-emergence of Zurich as a key player in the credit world. Zurich has resumed their writing of credit insurance for most types of trade related financing, plus some non-trade in the form of general corporate purpose and working capital deals. This expanded underwriting scope, which also includes coverage for private obligors, will contribute to the increase in overall credit capacity as Zurich had previously restricted their credit underwriting for banks to receivable finance.

Despite the fact that the geopolitical landscape does create some uncertainty, global insurers are constantly looking for geographic and product diversification for their books, and so we expect to see more insurers invest into this space; and we expect those insurers who are already present in this space to increase their capability as competition grows. This market growth will continue to be supported by an ever-increasing number of sophisticated clients who require Political and Credit Risk insurance which Willis Towers Watson is delighted to be able to deliver.
Financial and Executive Lines

The average reduction witnessed under D&O and PI was between 10% to 15% in majority of classes.

FINEX Product Lines continued to witness a soft market throughout 2017 on account of abundant capacity and modest losses. Rates continued to remain competitive and deductibles flat, across product lines, with few exceptions like Chinese IPOs (particularly in the US) where there were visible pressures on capacities and rates.

The trend is expected to continue in 2018 as new markets are making their way to Asia, such as Aspen, AXA, Berkley Asia etc., even though few well-established insurers are beginning to tighten their appetite in areas where markets have experienced claims.

While markets may continue to remain soft, insurers may not offer reductions across the board. Insurers are more likely to be rewarding to clients/brokers who are willing to engage effectively while presenting the risk.

The market continues to witness a large number of claim notifications but few claims develop into actual claim payments, keeping the overall claims experience of the market positive. The market also witnessed few claim disputes which were primarily on account of notification issues and prior knowledge exclusions.

The current state of the market presents a good opportunity for clients to negotiate coverage enhancements and increase their level of protection. Some caution must be exercised on long-term commitment of a few of the markets, as rates continue to fall and losses are beginning to trickle in.

Cyber Risk

Cyber risk dominated the headlines in 2017 with well-publicised cyber-attacks like WannaCry, Petya, Equifax etc. Cyber Risk is now a boardroom issue, as large and sophisticated organizations are becoming targets of cybercrime, hacktivism and espionage.

The cyber security regulatory environment continues to evolve throughout the region. We witnessed key changes in the legal landscape including the introduction of China’s Cyber Security Law, amendments to Japan’s Act on the Protection of Personal Information, and the implementation of the Philippines’ Data Privacy Act of 2012. Singapore is expected to welcome the Cybersecurity Bill in Q1 of 2018, and it is anticipated that Thailand will enact their own Data Protection Law also in 2018. All major Asian countries have some form of privacy regulations already in place which will continue to advance in years to come.

A rise in demand for Cyber insurance has resulted in an increase in appetite from the insurance market to provide a competitive offering in this space. While the market is still dominated by the likes of AIG, Chubb and Allianz, there are few notable entrants to Cyber insurance market such as Tokio Marine, Delta and XL Catlin, who are challenging the status quo in regards to service and coverage. More markets are in the fray to release new and innovative cyber offerings in 2018.

We expect premium rates to remain competitive in the short-term, reflecting the increasing number of insurers providing Cyber insurance. In the longer term, an increase in the number of claims, cyber risk data, and legislation will result in a rise in premium rates.

While the demand for Cyber insurance has surged, the market has not kept pace with clients’ demand for integrated solutions with a focus on risk management. We expect competition will drive product innovation in the future.
Warranties and Indemnities Insurance

The Asian W&I market continues to grow as both Asian buyers/sellers become increasingly comfortable using W&I insurance as a strategic tool as well as accepting its use to facilitate a clean exit. The considerable increase in demand in 2017, notably by Chinese investors across the region, has led to more competitive premiums. This trend is likely to continue in 2018 with steady increases of both outbound and inbound deals in Asia expected. The Asian W&I insurance market has also matured with both AIG and Ironshore now having a local underwriting presence focusing purely on Asian W&I deals. The Asian W&I insurance market is likely to expand in 2018 as new entrants to Asian W&I insurance, such as Tokio Marine HCC and Allianz, are also expected to establish local capabilities.

Changing D&O Landscape

The legal landscape for D&O also underwent changes in few countries. Notable amongst these changes were (i) The Malaysian Companies Act 2016 which came into effect from January 2017. The new Act deals with the issue of indemnification of directors and officers of Malaysian companies and may necessitate restructuring of D&O Insurance for Malaysian Companies. (ii) Myanmar Companies Law, which comes into effect in December 2017, significantly improves corporate governance obligations in Myanmar. The D&O insurance market will continue to expand as the demand will be driven from countries like Myanmar, Malaysia, Indonesia, Japan etc. The market may also see increasing use of Side A coverage for complete protection of directors and officers.
Over the past few years, the post-IUMI euphoria has lasted about a week. The sentiment for change this time was rapid and sustained: “No more reductions!” cried the underwriters; “the figures simply can’t take it.”

Certainly underwriters in Asia whose underwriting direction is determined in Europe seem to be holding the line, but for how long, and are we going to see a hardening?

Ultimately this is driven by reinsurance costs in a market still awash with excess capital. In early December 2017, whilst these losses were still not finalized, concern remained over the possible increases in reinsurance costs, but only minor corrections have been seen in the treaty renewal.

Marine

This time last year we predicted that, in general, market rates across Marine would drop around 25%. On average, that figure was certainly true over the first eight months of the year until the American hurricane season applied the brakes. Marine was hit hard, especially in the Yacht sector. Based on original estimates, Lloyd’s, as the world’s largest insurance market, indicated its shares at about USD 4.5 billion for Hurricanes Harvey and Irma. The insurance market is still working out its liability for Hurricane Maria, the earthquake in Mexico and typhoons in Asia, but analysts at Jefferies estimate a further USD 1 billion under various STP (stock throughput) facilities insured in the Cargo market. Whilst the cost to the Cargo market is still not fully known due to the number of locations affected, the aggregate claims will be significant. One Lloyd’s syndicate alone is estimating the total claims for their 10% line only on one facility will reach USD 70 million.

Hull and Associated Risks

2016 saw the continued downward trend of premium being roughly 10% per annum since 2014. Bad performers in early 2017 were still maintaining as expiring renewals and instances of 40%–50% were still seen in the markets. Technically, these were achieved by combining strong USD exchange rates/asset values reductions and continuing verticalised market opportunities due sustained overcapacity. All of these have increased the distance between fleet growth and viable income levels.

However, global claims including total losses appear to be down (circa 5%) on previous years; regionally, Asia accounts for approximately 40% of the losses. This is strangely proportionate given IUMI now estimates the H&M premium for Asia to be USD 2.8 billion (or 40%) of the global book. The Lloyd’s figures that we have seen show risk Code “T” (H&M) running at 90.71% loss ratio for 2016, and if recent history is anything to go by, this will deteriorate to around 110% by the end of 2018. Given losses are low at the moment, any upturn on the claims front will be detrimental. Certainly players in Asia such as QBE, India International, The Standard Syndicate and OAC have reevaluated their stance on H&M and, unfortunately, the Coastal Marine facility in Singapore pulled out before it actually started.

Cargo

The latest IUMI Cargo market results showed further deterioration with both 2015 and 2016 moving to end up in a negative position. These results are in line with the Lloyd’s Market, who previously posted a combined loss ratio of 106.2%. The concern for the market is that 2016 was a relatively benign year for major catastrophe claims and what we are seeing in 2017 is far worse.

Having been hit by a number of large losses in the commodity and pharmaceutical sectors in the first eight months of 2017, the market is now coming to terms with the impact of Hurricanes Harvey, Irma and Maria.

For their share Lloyd’s has the capital to absorb these losses without drawing on its central reserves, but this remains a major catastrophe year and the current-year losses are expected to wipe out industry earnings and impact capital for the first time since 2005.

Whilst you would not expect such an event as the California wildfires to have impacted the Marine market, large volume of the state’s wine manufacturers are insured under various STP (stock throughput) facilities insured in the Cargo market. Whilst the cost to the Cargo market is still not fully known due to the number of locations affected, the aggregate claims will be significant. One Lloyd’s syndicate alone is estimating the total claims for their 10% line only on one facility will reach USD 70 million.
All IGA clubs posted nil general increases across the market in preparation for the renewal at 20 February 2018. Most clubs are very well reserved, if not considered to be over-reserved, and some are again making significant capital rebates in various ways to their members. With another benign claim year-to-date we would anticipate the average reduction to pan out around the same figure as last year (-5.9%).

Six months ago we would have thought that we were on for another meaningful reduction in the IGA reinsurance costs. In part this was slowed by the recent catastrophes but also the deterioration in the estimates on two historic cases (AMADEO 1 and ALPINE ETERNITY) and one major case in the 2017 year (KEA TRADER), which led to the first layer of the IG excess of loss reinsurance programme in being renewed with a modest increase in premium, while the higher layers are being renewed ‘as before’.

Despite this overall inflationary rise in the International Group reinsurance premium, the increase in the size of the world fleet has allowed a modest reduction in the reinsurance allocations when translated to rates per GT that individual ship owners actually pay.

The reduction in rate per GT (-1.8%) has been allocated evenly across all ship types and will be welcome (if undramatic) news to ship operators.

The non-group markets are now made up of seven predominant providers with limits up to USD1 billion. The two dominant facilities are still BMM and Raets who represent 50.5% of the markets globally. Certain facilities have made ground in Asia, and whilst premium is highly fought after in the sector, the reductions have been moderate (3%) and there have been concerns over the actual level of authority these facilities have when paying out claims in the region. Greater transparency on their claims process will ascertain the long-term viability of certain potential risk partners.

Summary

Asia stands alone in many areas, but we should not be naive and appreciate that we are not immune to global marine influences. The final costs of catastrophe claims to the international market are still being fully assessed. The stark reality is that following year on year of rate reductions there is insufficient underwriting margin in the international market. However, new estimates in the press are now considerably lower than initially thought for our sector.

So the final treaty outcome did not result in huge increases: The Insurance Insider quoted, “The overall pre-Christmas theme of disappointment for reinsurers has continued, with most business now firm ordered with only modest rate increases for clients without losses.”

A quick tour of the London market in early January certainly resulted in many conversations of disappointment and underwriters estimating modest 2.5% – 3% increases on average (for December) on clean business.

It’s unlikely the ‘no reduction policy’ will remain for very long. Expect the softening to resume as normal in 2018.
Asia met with few catastrophic events in 2017 and experienced a generally benign loss experience with most underwriters expecting to post positive combined loss ratios in general property for the full year. However, Typhoon Hato was a substantial event in Macau in August 2017, causing massive damage to the city by strong wind and flooding, costing insurers upwards of USD 400 million; although, this is a relatively minimal amount in comparison to billions of dollars incurred by US hurricanes.

Whilst Asian buyers have not been directly affected by the major 2017 losses in the US, and for the most part, the regional losses in Asia, international insurers and reinsurers have been impacted by varying degrees through their exposures in the US, and their reaction has been to seize the perceived opportunity to drive a rate correction across the wider international market, including Asia, halting the downward rate spiral that has been the norm for so long. Softening of the reinsurance market over many years has reduced underwriting profitability for both Property & Casualty reinsurers, with rating levels essentially becoming untenable for some when viewed against cost of capital, and the commonly held view is that this is not a sustainable trend. Head office edicts are being handed down to all regional offices to readdress current rate trends – the more bullish pushing for increases where possible, and others accepting that an end to the degree of rate reductions seen year on year would be a positive result with perhaps flat renewals a more realistic target.

Price movements for the upcoming year will to some extent, be impacted by treaty renewals as reinsurers explore the idea of restructuring their programs, and reassess how much risk they are willing to assume and at what price.
Power and Utilities

The reality of the marketplace in 2018 may be disappointing for insurers. With no sign of any reduction in capital available in the Asian market, the inevitable consequences of an excess of capacity over demand will severely compromise efforts to enforce a market correction.

2017 has followed on from previous years with continued market softening in Asia, as oversupply of capacity drove the market ever downwards. This is despite the sector as a whole remaining challenging for insurers, who continue to incur attritional losses in the face of declining premium rates, and, as a result, are feeling considerable strain on profitability in this sector.

Risk selection has been a key strategy for insurers striving for profitability, which has in turn fuelled competition amongst insurers for those power companies who can demonstrate superior risk management and a good loss record – these companies will have enjoyed another round of respectable premium savings this year. Buyers with losses and/or a poorer risk profile have been judged on their own merits, but also have benefited from a certain degree of leverage in negotiating renewal terms in an oversupplied market.

Underwriters in the region have generally maintained a disciplined approach to coverage and deductible levels, a factor differentiating this longstanding soft market from previous soft markets, without which underwriting results would almost certainly have been significantly worse.

The general consensus amongst insurers is that this downward spiral of rates is not sustainable in the long run, and now, finally, the recent events in the US and the wider impact on the market as a whole cannot be ignored. This point of view is driven in part by the following factors:

- The performance of insurers’ power portfolios has been masked to some extent by better performing general property business. This mask has effectively been removed by the catastrophic property losses suffered this year, and therefore Power, like other specialist Property classes, will fall under even more scrutiny as insurers look to shore up underperforming business lines.

Messages from the international insurers and reinsurers being delivered in Asia range from the strongly expressed opinion from more hawkish underwriters that we have reached the end of the soft market and a market ‘correction’ in rates is now required and indeed will be imposed by them going forward, to a more measured view that each risk will need to be reviewed on its own merits, with the better risk profiles still enjoying preferential terms. Certainly if risk selection remains the key strategy for insurers struggling to deliver growth whilst delivering profits, then any attempt to halt or even reverse the trend of declining rates will inevitably put at risk the retention of those risks they wish to retain, as attempts to increase rates on better quality business will present opportunities to other insurers to cherry-pick the most profitable accounts.

On the other hand, those risks deemed poorer quality, having had losses or having a significant exposure to natural catastrophe perils may see a degree of market correction going forward, the extent to which will vary risk on risk, but again perhaps not to the degree insurers would wish.

Certainly to date there has been no hard evidence of any real rate corrections, and it will be interesting to see if 2018 is any different following on from the conclusion of the January reinsurance treaty season. If there is even a slight improvement in the rating environment for insurers, the question then is just for how long would it last? It is hard to conceive of any real longevity in any degree of market correction whilst the level of insurance capacity remains available to buyers.

- The Power market in Asia is dominated by international insurers and reinsurers, all of whom have exposures to the losses in the US and are seeking rate increases across most lines of business and in most regions of the world as a result.

- Power business continues to present challenges to insurers’ profitability, and Asia is no exception. Attritional machinery breakdown losses continue to dominate, while we have also seen some natural catastrophe losses in the Power sector.
2017 was a year of volatility for oil prices.

In the early part of the year, oil prices slumped on concerns of an increase in oil production from Nigeria, Libya and elsewhere. Since the middle of the year, prices rallied almost 50% due to strong demand and compliance with the production curbs set out by the Organization of Petroleum Exporting Countries and Russia.

The entire energy value chain has been significantly affected by the oil price slump which started in 2016. Upstream energy sector in Asia, together with the rest of the world, is still recovering from the aftermath of the turmoil. In addition, high costs in Australia’s favorable waters, declining reserves in production hotspots such as Malaysia and Indonesia, as well as territorial disputes in resource-rich waters of the South China Sea all contributed to Asia’s dearth in offshore exploration and production.

The net consumption of Oil and Gas in Asia is widening as the growth of the middle sector in many Asia countries is leading the countries to become huge net importers. This has fuelled the growth of Asian Energy companies in recent years. Platt, a global energy research company, has included four Asian energy companies in its top ten global energy company ranking in 2017 compared to only one Asian company made the list back in 2012.

As the oil price rebounds, Asian companies start to relook at the economics of their individual projects. We have seen a number of construction projects commence in SEA and drilling activity in selected territories undertaken. This increase in activity is further supported by an increase in SEA rig utilisation rates. Rigzone data shows Rig utilisation rates for Asian owned unites started as c.35% at the beginning of 2017 and has risen to c.50% at the end of the year.

However this slight increase in regional activity has done little to date to change the insurance market dynamics for underwriters. The glut of reinsurance market capital, such a notable feature of the business landscape in this industry for so many years, shows no signs of being deployed elsewhere. While this remains the case, little can be done by individual insurers to break the overall softening dynamic. As a result, premium income streams continue to be squeezed still further – not only by market competition but also by the limitations in capital expenditure compared to a number of years ago due to continuing low oil prices and the consequent reductions in risk management spend.

The main issues at play are as follows:

**Capacity:** Year on year upstream market capacity is up from USD 7.56 billion to USD 7.72 billion. While the rate of capacity increase has slowed, the additional increases are doing little to halt the overall softening dynamics in our markets.

**Losses:** Upstream insurers have been significantly impacted by the deterioration of the 2015 loss record. Just over USD 5 billion of Upstream Energy losses were recorded by the Willis Towers Watson Energy Loss Database for 2015, the highest loss total for five years. USD 315 million of which recorded in Asia. Global Upstream Energy losses recorded for 2016 currently stand at just over USD 3 billion with USD 319 million in Asia.

**Premium Income:** Lloyd’s own figures point to a rapidly declining premium income pool for Energy business. From a high of GBP 1.06 billion in 2014, in two years Lloyd’s premium income from Energy business has declined to just GBP 700 million in 2016.

**Profitability:** While individual Energy portfolios generally remained profitable during 2016, we saw no dramatic change in strategy from the majority of underwriters prior to last year’s windstorm season.

**Competition:** Competition in all Energy markets remains robust, fueled by the broadening of leadership options in all lines of business. Options are now available in all major insurance hubs such as Singapore, London, and the Middle East.
With the above mentioned dynamics in play we found ourselves in a softening market, albeit a decelerating one. However, at the time of writing, we find that there is currently a certain amount of uncertainty in the energy market following this year’s natural catastrophe losses.

In October major reinsurance conferences were held in Singapore & Baden Baden where Energy reinsurers were in a bullish mood. Their frame of mind didn’t come as a surprise, given all the media speculation on how insurance markets will respond in the wake of hurricanes Harvey, Irma and Maria.

So what can we expect from the energy insurance markets? We think it’s still too early to tell. Here are three reasons why:

- Hurricane losses on their own may not be enough to turn the markets. It’s clear that in the immediate aftermath of these storms, the energy markets have become more challenging for brokers and buyers, both of whom have been used to a softening energy insurance market for years. Sounding bullish after the hurricanes is one thing; maintaining a hardening dynamic in the face of an improved upstream energy loss record and continuing record levels of underwriting capacity is quite another.

- The impact of the reinsurance buying season may be clear, but its impact on the direct energy market remains shrouded in confusion. We’ll need to be several weeks into 2018 before we can determine whether what we’re hearing now is the first sign of a genuine turnaround, or nothing more than wishful thinking.

- Overall supply may remain stable in 2018. We believe some major insurers, sensing a hardening market environment, may take the opportunity to scale up their operations, balancing out any potential withdrawals. And if the same amount of capacity continues to be available, simple economics suggest any market hardening will be difficult to sustain in the long-term.

So, to conclude, even though the treaty renewal season has been and gone for many, it will still be a little longer before the broking community be in a position to confidently help shape buyers’ risk management strategies going forwards. We can however be confident that given the current over supply of market capacity and hunger for premium, leadership and coverage options for Asian clients remain plentiful.
Due to the destructive hurricane season, which is likely to impact insurance carriers’ reinsurance structures, including Terrorism and Political Violence, there is consensus that these recent events will adversely affect the predicted rate decreases as the market impact is clarified.

The combination of market opinion and modelling agencies suggests that global markets will suffer an aggregate insured loss of between USD 100 billion and USD 125 billion over recent hurricane events. This compares to an unindexed insured loss of USD 41 billion for Katrina in 2005. The losses of 2005 heralded a market change. Historically, the London market would usually demonstrate shifts in market trajectory before other regional insurance hubs and in this regard, based on the current London market rating environment, we anticipate a potential change in underwriting approach within the Terrorism and Political Violence Asia market in 2018.

Terrorist attacks of recent time and throughout 2017 have increasingly been carried out by lone wolves inspired by radical ideology and operate with less sophisticated weapons, including available small arms, homemade explosives and cars and trucks. Risk managers in Asia have also increased their attention on the potential impact of terrorism and political violence attacks without the need of a physical trigger. This has fostered the development of new products which insures crisis management expenses as well as non-damage business interruption.

Active Assailant and Loss of Attraction are some of such product offering which are gaining interest in Asia. Active Assailant covers property damage, business interruption (including non-damage business interruption) and extra expenses following a premeditated malicious physical attack by a person armed with a weapon. Loss of Attraction covers any business interruption caused when a terrorism event occurs at a location within 1km of the insured’s premises or at a pre-specified attraction property, without any property damage to the insured’s premises.

Traditional Active Assailant products have now been broadened to include all ‘hand-held’ weapons, including explosive devices worn on the body and motor vehicles.

The current heightened tensions surrounding North Korea have led to an increase in the number of enquiries regarding full Political Violence coverage with many clients seeking clarity of cover in the event of a potential escalation and conflict in North Asia. Coverage clarifications specifically relate to Nuclear, Chemical, Biological and Radiological exposures as well as applicability of cover for cross-border conflict in key territories surrounding North Korea.

Countries such as Singapore have increased public awareness surrounding the threat of terrorism by way of numerous public announcements and advertisements as well as the utilisation of a dedicated app, SGSecure, which seeks to promote vigilance, cohesion and resilience in a country which faces its highest terror threat level from the Islamic State in Iraq and Syria (ISIS). As a result, the penetration rate for Terrorism insurance in Singapore has increased.

Terrorism and Political Violence underwriters will seek to monitor their existing portfolios and most likely withhold significant rate reductions for renewal business, as well as apply rate increases for certain higher risk occupancies and territories.

Whilst the Terrorism and Political Violence market remains mostly over-capitalised, but profitable, the destructive hurricane season has impacted reinsurance rates for certain carriers in Asia, and rating expectations for 2018 are -5% to +5% depending on risk profile and capacity requirements.

The Terrorism insurance market continues to develop innovative products to address the changing nature of terrorism.
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About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 40,000 employees in more than 140 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.