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Asia continues to be a region of contradictions and opposing dynamics, with markets that are extremely developed, markets that are truly emerging, and natural catastrophes among the most devastating anywhere on earth. Yet the insurance industry seems to be in a perpetual soft market, driven by new capital, new capacity, and fierce competition.

Active Typhoon Season
2013 was an active typhoon season for the region, with Typhoon Haiyan/Yolanda breaking records in November as the strongest typhoon ever to make landfall, with winds exceeding 300 kph. The economic losses are expected to be more than US$10 billion, but the insured losses will total only US$700 million, according to Munich Re.

In September, Typhoon Usagi made landfall just north of Hong Kong in China’s Guangzhou province, largely sparing the densely populated financial hub, but still causing markets to close and leaving substantial damage in its path.

In October, Typhoon Phailin made landfall on India’s east coast, causing significant damage. Although tragically some lives were lost in this catastrophic event, countless others were saved because of the government’s evacuation and disaster preparation measures in advance of the storm.

Despite the economic losses from the typhoon season, insurance penetration rates across the region — especially in countries like the Philippines and India — are well below those of developed markets. This creates a contradictory landscape, where the headlines and video footage of devastation does not match in terms of insurance payouts and contribution to rebuilding.

In addition, the insurance industry’s commitment to helping companies in times of need will be tested, following a claim in the semiconductor industry that is likely to be one of Asia’s largest losses on record. This is a landmark opportunity for the industry to delight or disappoint, and will set a precedent going forward.

Developed Asia Continues to Advance
In Asia’s developed markets, such as Japan, Korea, Singapore, and Hong Kong, the industry continues to advance and evolve in terms of their approach to risk management and insurance. Singapore has further established itself as the principal insurance and reinsurance hub for the region, with more and more players starting operations there to capitalize on Asia’s growth story. Insurers are also making Singapore their regional headquarters not just for Asia, but increasingly for Asia-Pacific.

New entrants into the property insurance arena and interest from the north Asian marketplace toward US property insurance have increased capacity in an already expanding market. The flow of capital and capacity into the Asian markets is set to continue, as governments across the region implement strategies to create a global insurance market based in key hubs such as Singapore. According to the Monetary Authority of Singapore, Asia will likely account for 40% of the global insurance market in 2020.

Employee Health and Benefits Rapidly Changing
Asia is a unique region when it comes to the diverse models for health care and medical insurance. Unlike Europe or Australasia, which predominantly have state-run medical insurance programs, many countries in Asia are beginning to experiment and test different models, from privately or company-run schemes to socialized schemes. Asia is facing a rapidly ageing population, with many countries reaching ageing populations in less than half the time it took for other developed countries. This means country health care systems are becoming overloaded, causing populations to demand greater access and availability from their governments.

Established economies, such as Japan and Korea, continue to look for ways to provide affordable care to their rapidly ageing populations. The role of government in health care and medical insurance will be a major theme for 2014 and beyond, with countries such as Indonesia implementing mandatory programs in a phased manner.

Opportunities Abound
Asia will continue to be the most dynamic region for the insurance industry, with opportunities coming in all shapes and sizes. From tackling natural-catastrophe risk at a government and capital markets level, to educating emerging markets on the value of insuring their assets, Asia presents growth opportunities for industry players across the board.

It also remains an extremely attractive region for insurance buyers. We expect insurance rates to continue to be soft in general, as capital, capacity, and competition continue to be the primary theme for 2014 and beyond.

Price remains king in Asia; however, there is a growing awareness of the long-term sustainability and price benefits of good risk management.

Martin South, CEO, Asia-Pacific
EXECUTIVE SUMMARY

Asia is a buyer’s market for insurance, with rates generally at historic lows due to the continued flow of capital, capacity, and competition into the region. There are, of course, pockets of increases, but this tends to be on a case-by-case basis, or unique to particular countries or classes of insurance within a country due to local market conditions or loss experiences.

Non-Cat Property Remains Cheap
► Abundance of capacity across the region is keeping rates at historic lows.
► In some markets that do not have natural catastrophe exposures, such as Singapore, rates are known to reach 0.007% per million.
► Local insurers continue to offer very attractive rates, in many cases more so than international insurers, creating intense competition in many markets.

Cat-Exposed Property Insurance Stabilizes
► In Japan, rates have come back down to pre-Tohoku earthquake and tsunami levels, as insurers have recouped losses.
► In Thailand, rates have also come back to levels seen before the disastrous floods in 2011, but limits have not risen significantly.
► In other catastrophe-exposed markets, such as Indonesia, which is prone to floods and earthquakes, rates continue to be stable given the lack of large-scale events in 2013.
► The Philippines, which suffered more than 20 typhoons this season, has seen increases in property rates with catastrophe exposures, but this has been limited.
► Governments across Asia are looking for new and innovative ways to manage catastrophe risks, and this will be a theme for 2014.

Financial Lines Remain Competitive
► The influx of new insurers to financial lines, combined with a benign litigation culture in general across the region, is keeping rates extremely competitive for financial lines insurance, such as directors and officers (D&O) and professional liability.
► New types of insurance, such as cyber liability insurance, are also creating interest among buyers and competition among underwriters, keeping rates contained.
► Public offering of securities insurance, or IPO liability insurance, is expected to pick up in popularity as the IPO market slowly returns, especially in Singapore and Hong Kong.
► Singapore and Hong Kong remain the traditional underwriting hubs for financial lines insurance.

Employee Health and Benefits Increases
► Medical inflation — up to 25% in some markets — is causing medical insurance to significantly increase for companies.
► In addition, underwriters are seeing deteriorating claims experiences, as employees use their insurance benefits, driving up claims costs.
► If left untouched, a company’s benefits program could increase in costs up to 40% with the combination of medical inflation and high utilization rates.
► Companies are turning to innovative program designs and wellness interventions in an effort to address the root causes: prevention is better than a cure.
INSURANCE MARKET CONDITIONS BY COUNTRY

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6 Hong Kong
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China

**GENERAL LIABILITY**
**RATES: DECREASE 0% TO 10%**
Rates are expected to decrease, driven by good loss ratios, especially in those areas where no tariff rating is applied.

**FINANCIAL INSTITUTIONS**
**RATES: STABLE -5% TO +5%**
Rates are expected to remain stable or increase slightly in 2014, barring a significant change to the claims ratio.

**PROFESSIONAL LIABILITY**
**RATES: DECREASE 0% TO 10%**
Rates are expected to decrease by roughly 5% when more capacity enters the marketplace.

**MEDICAL MALPRACTICE**
**RATES: STABLE -5% TO +5%**
Rates are expected to remain stable in the near term, as most underwriters are still concerned about moral hazard in this line of business.

**MASSIVE WOES**
**RATES: DECREASE 0% TO 10%**
With ample capacity in this space, insureds can expect a further 5% to 10% decrease in rates upon renewal in the near term, barring unfavorable underwriting results.

**EMPLOYER BENEFITS: HEALTH**
**RATES: STABLE -5% TO +5%**

**EMPLOYER BENEFITS: LIFE**
**RATES: STABLE -5% TO +5%**

**EMPLOYER BENEFITS: ACCIDENT AND HEALTH**
**RATES: DECREASE 0% TO 10%**
Employee health and benefits rates are expected to remain generally stable for the near term, but a decrease in accident and health rates is expected given additional capacity in this area.

**RISK TRENDS**

**Industry Reform**

Since the start of 2013, 19 insurance companies (including life insurance companies) have completed capital increases. The total amount of increases exceeded RMB 26 billion, so market capacity and solvency status have improved significantly. The insurance industry has also enjoyed strong growth, with premiums increasing by 25% per year since 2001.

Xiang Junbo, chairman of the China Insurance Regulatory Commission (CIRC), noted that the reform of the insurance industry will focus on four main aspects: 1) The promotion of industry reform to help develop omnidirectional coverage and multilayer service; 2) The promotion of marketization reform of the industry and the establishment of a market-oriented risk-pricing mechanism, fund-operation mechanism, and market access and exit mechanism; 3) The promotion of commercial mode reform to enhance industry competitiveness and create a marketplace of enhanced products, diversified channels, and quality services; and 4) The promotion of insurance regulatory reform should be promoted, the regulatory effectiveness should be enhanced, and the open and transparent external environment under fully efficient supervision and management should be guided, including the promotion of the construction of the second generation of solvency regulatory system; the governance and internal control regulatory rules of insurance companies should be refined so as to better protect the interests of consumers.

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GENERAL LIABILITY
RATES: DECREASE 10% TO 20%
With the exception of product liability insurance, which has seen modest increases for small and medium enterprise (SME) manufacturers due to claims activity, general liability rates are at historic lows due to capacity and competition.

MOTOR
RATES: STABLE -5% TO +5%
Due to the competition for particular motor portfolios and the varying loss ratios, rates can fluctuate slightly, but in general, the market remains stable.

WORKERS’ COMPENSATION
RATES: INCREASE 0% TO 5%
Given the increase in capacity as new entrants enter the employees’ compensation market, we will likely see a tapering effect on the large increases the market has seen over the past four years.

PROPERTY: CAT-EXPOSED
RATES: INCREASE 0% TO 10%

PROPERTY: NON-CAT-EXPOSED
RATES: INCREASE 0% TO 5%
For domestic markets, rates have been decreasing for the past few years, some insurers are adjusting their rates up slightly to cover the expenses, but the overall market is still competitive with ample capacity for domestic exposures. For international property programs, rates are stable with modest increments in natural-catastrophe-exposed areas.

DIRECTORS AND OFFICERS (D&O)
RATES: DECREASE 0% TO 10%
There is sufficient capacity and competition in the marketplace, which is driving down rates in some instances. Companies with good risk profiles can expect some savings and improvements in terms and conditions. However, those with US exposures are subject to more restrictive terms and conditions, and typically might see smaller reductions in the 3% to 5% range, subject to satisfactory financials, corporate governance, business model, and claims experience.

FINANCIAL INSTITUTIONS
RATES: DECREASE 0% TO 5%
This is a relatively stable market with minimal premium reductions for companies with good risk profiles. No meaningful new capacity or insurers have come into the market, so it is not overly competitive. Banks are experiencing flat renewals, and there is increased scrutiny on hedge funds in Hong Kong, which is driving this sub-sector to purchase higher limits. An increasing number of companies are buying locally admitted policies, driving up the total cost of risk.

PROFESSIONAL LIABILITY
RATES: DECREASE 0% TO 10%
This is a relatively stable market with reductions up to 5% being seen for professional liability for professions; however, rate increases are possible if a company’s turnover increases dramatically, as premiums are rated based on turnover. Cyber liability risk represents a new and emerging market due to an increased frequency and severity of high-profile data attacks. Take-up remains low, but showing signs of growth for 2014. For single project professional indemnity, reductions of up to 10% are anticipated due to increase in competition and good claims experience for this segment. More capacity is also expected to be available for single project professional indemnity in 2014.

MEDICAL MALPRACTICE
RATES: STABLE -5% TO +5%
Rates are generally stable, with increases of 5% or higher for companies with poor claims experiences. There are only a few insurers that are able to respond to medical malpractice, which means they can be rather selective, especially for companies with a frequency or quantum of losses.

MARINE CARGO
RATES: DECREASE 0% TO 15%
The marine cargo market remains soft mainly due to an oversupply of capacity within the region. Rate increases at renewals are only possible for those companies that have suffered heavy losses during the previous policy year.

EMPLOYEE BENEFITS: HEALTH
RATES: INCREASE 10% TO 20%

EMPLOYEE BENEFITS: LIFE
RATES: INCREASE 0% TO 10%

EMPLOYEE BENEFITS: ACCIDENT AND HEALTH
RATES: INCREASE 0% TO 10%
The Hong Kong government has proposed a voluntary Health Protection Scheme (HPS) under health care reform. The aim of the HPS is to encourage the public to purchase private medical insurance with the hope it will transfer some of the medical cost burden from the public sector to the private sector. Although details of the HPS have yet to be finalized, top-up medical and individual medical could be the key focus for 2014.

RISK TRENDS
The general insurance market is still very competitive.

Loss Trends
Common-law damages and levels of statutory compensation continue to increase, along with the high level of legal and experts’ costs associated with disputed claims.

Rate Trends
Rising rates are being driven by sharp rise in claims volumes, higher claim amounts, and a substantial increase in the costs associated with meeting those claims, particularly in the casualty line.

Underwriting Trends
The number of insurers offering products to the casualty market will continue to grow, which means the competition is widespread. Underwriters are taking a closer look at a company’s risk management and loss prevention program. When they see a good risk, insurers can be very aggressive in terms of pricing, but for industries with high loss ratios and poor risk management, rates have increased.

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Insurance Market report 2014
India

**GENERAL LIABILITY**

**RATES: DECREASE 10% TO 20%**

The general liability market remains a competitive and profitable portfolio for insurance companies, creating room for possible improvements in coverage and/or a reduction in premium rates at renewal.

**ENVIRONMENTAL**

This coverage is available from only select few insurers and demand is very low.

**DIRECTORS AND OFFICERS (D&O)**

**RATES: DECREASE 0% TO 10%**

D&O still remains a buyer’s market, with continued strong competition amongst insurance companies. Improvements in coverage and premium rate reductions up to 10% can be anticipated as the norm in any renewal. Demand for increased level of coverage with respect to investigation costs is also on the rise.

**FINANCIAL INSTITUTIONS**

**RATES: STABLE -5% TO +5%**

The price for certain risks is expected to increase based on claims history.

**PROFESSIONAL LIABILITY**

**RATES: DECREASE 5% TO 10%**

Overall rates are expected to decrease, but not for accounts with claims. Accounts with claims are seeing increases in deductibles followed by a rate increases.

**MEDICAL MALPRACTICE**

Demand is low and a limited number of insurers offer this product.

**MARINE CARGO**

**RATES: DECREASE 0% TO 5%**

Soft market conditions are likely to continue. The premium growth from April 2013 through December 2013 for Marine Cargo was 5.3%, wherein the private insurance companies have registered an average increase of 18.6%, while public sector insurance companies showed an average decrease of 4.5%. The soft market conditions are likely to continue for marine cargo during the current year and the market is expected to grow by 5% to 7%. Efforts are being made by marine cargo underwriters through the General Insurance Council (underwriters forum) to improve terms and conditions mainly for bulk cargo and project cargo.(underwriters forum) to improve terms and conditions, mainly for bulk cargo and project cargo.

**EMPLOYEE BENEFITS: MEDICAL**

**RATES: INCREASE 15% TO 25%**

**EMPLOYEE BENEFITS: LIFE**

**RATES: STABLE -5% TO +5%**

**EMPLOYEE BENEFITS: ACCIDENT AND HEALTH**

**RATES: STABLE -5% TO +5%**

India is poised to grow significantly in the coming years. The penetration of insurance products is improving slowly and showing a positive trend over the last couple of years. Health insurance penetration is approximately 15%.

The premium increase in recent years is attributed to rising medical inflation, which is approximately 15% to 18%. The major cost drivers are cost variations, room rent charges and associated costs, poorly regulated hospital rates and rising health risks. The cost increase is driving employers to focus on cost containment, introduce voluntary plans, and invest in health risk management programs.

There are number of initiatives that the Insurance Regulatory and Development Authority is working on, including a health insurance bill that will safeguard retail and individual insurance buyers, working groups to standardize forms, exclusions, and underwriting approaches to improve end-user experience and avoid losses to carriers.

**WORKERS’ COMPENSATION**

A limited number of workers’ compensation policies are purchased in the Indian market.

**PROPERTY: CAT-EXPOSED**

**RATES: STABLE -5% TO +5%**

**PROPERTY: NON-CAT-EXPOSED**

**RATES: DECREASE 5% TO 10%**

Property rates are expected to be stable during 2014. In past five years, due to de-tariffing of pricing, there is aggressive competition on FLEXA rates. This, combined with minimum natural-catastrophe rates, has led to decreases of close to 60% for property rates. In the past to improve the quality of the overall risk portfolio, deductibles under property policies have been increased. Rates and deductibles are expected to be stable during 2014. Except for one catastrophe in 2013, overall industry loss experience was better in 2013.
RISK TRENDS

India has dropped from 11th to 15th in the world insurance market ranking based on total premium collected, according to Swiss Re. The life insurance market in India has been affected by growth issues; the non-life insurance market had robust growth of 23% last year but suffers from large underwriting losses.

Penetration and Density and Retention
The insurance density for general insurance in India is less than US$9, while it is US$53 in China. The non-life industry has been growing in excess of 20% over the last two years; however, penetration was as low as 0.7% of the GDP in 2011-2012. The growth was due to the increasing income of India’s middle class, expansion of corporate, and the efforts of regulator to develop the market.

Distribution Channels
More insurers are likely to grow bolder in exploring alternative channels to capture greater market share, catering to the needs and preferences of different segments while cutting frictional costs. More carriers may be challenged to effectively manage multiple platforms and resolve channel conflict while maintaining the customer experience. This trend is likely to grow beyond personal lines, as more commercial insurers consider direct-to-consumer sales initiatives targeting small-business consumers. Recently, the finance ministry issued a notice to all state-governed banks to implement an insurance broking arm. This move, which was opposed by banks, was aimed at increasing the insurance penetration in the country.

Pricing
The number of insurers offering products to the casualty market will continue to grow, which means competition is widespread. Underwriters are taking a closer look at a company’s risk management and loss prevention program. When they see a good risk, insurers can be very aggressive in terms of pricing, but for industries with high loss ratios and poor risk management, rates have increased.

Hike in FDI Limit
The Indian insurance sector needs a US$10-billion to US$12-billion capital infusion over the next five years. The government’s move to increase the level of foreign direct investment (FDI) to 49% can now help bridge this gap. The key beneficiaries of this amendment will be those struggling private insurance companies that have lost money in the past decade due to restrictions on foreign holding and on account of stringent regulations. Insurance is a long-gestation and capital-intensive business, and it takes around eight to 10 years for an insurance company to become profitable. Increased capital by foreign partners can help insurers stay afloat. Currently, 22 out of 24 life insurance companies and 18 out of 27 non-life insurers in India have foreign partners, and many more are in the queue to enter this market.

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GENERAL LIABILITY

RATES: DECREASE 0% TO 10%
With the exception of offshore-related risks, the general liability market remains a competitively priced but profitable portfolio for insurance companies, creating room for possible improvements in coverage and/or a reduction in premium rates at renewal. For offshore-related risks, premium rates will remain stable.

MOtor

RATES: INCREASE 30%+
There is a new tariff regulation in place for this line of business which comes into effect from 1 January 2014, although insurance companies are being allowed a transitional period until 28 February 2014 to make adjustments.

The cost impacts of the new tariff to insurance buyers are varied, as there is currently a wide premium rate band between one insurance company to another. Nonetheless, there is the potential that a number of insurance buyers would have to pay increased premiums depending on several factors such as domicile area of operation, category of the vehicle (type, value), and extent of the scope of coverage purchased.

Workers’ Compensation

RATES: STABLE -5% TO +5%
This is a not a mandatory class of insurance in Indonesia, but demand continues to come from the oil, gas, and engineering sectors. The market is expected to remain stable, with slight reductions in premium rates possible on accounts with favorable loss experience.

PROPERTY

RATES: INCREASE 30%+
This is another class of insurance that is subject to the new tariff regulations, which will come into effect starting from 1 February 2014.

Whilst the impact on large industrial risks may be lower, for most occupations, the new tariff will translate into higher insurance premiums, as well as tightening of their insurance program in the form of more restricted coverage and/or a more stringent deductible structure, especially for certain hazardous occupations like mining, petrochemical, plastic, textile, pulp, and paper.

The international reinsurance market for Indonesian property risks is stable; some insurers will continue to have concerns about risk accumulation in catastrophe-prone areas such as Java.

ENVIRONMENTAL

RATES: DECREASE 0% TO 10%
Demand remains mild despite increasing awareness from the industry and pressure from the government on the back of prevailing regulation, Law No. 32 Year 2009 on Environmental Protection and Management. Environmental liability insurance is available from select insurance companies.

DIRECTORS AND OFFICERS (D&O)

RATES: DECREASE 0% TO 10%
A buyer’s market remains with continued strong competition amongst insurance companies. Improvements in coverage and premium rate reductions up to 10% can be anticipated as the norm in any renewal. Demand for increased level of coverage with respect to investigation costs in particular is also on the rise.

FINANCIAL INSTITUTIONS

RATES: STABLE -5% TO +5%
The market has been relatively stable with a benign claims history except for losses related to employee dishonesty. Issues surrounding cyber risk are emerging as a new trend for the financial sector, which for years had focused on traditional cover for money and professional liability.

PROFESSIONAL LIABILITY

RATES: STABLE -5% TO +5%
The market remains stable with some restrictions still for specified professions, such as engineering contractors, medical practitioners, and solicitors. Growth is expected in the take-up of project professional indemnity insurance on the back of a continuing push from the government on infrastructure development.

MEDICAL MALPRACTICE

RATES: STABLE -5% TO +5%
A relatively stable but quiet market remains. Premium volume is small with limited insurance companies offering this type of cover. However, a growing need for health care (hospitalization) is expected to spur demand over the short-to-medium term.

MARINE CARGO

RATES: STABLE -5% TO +5%
Although a slowdown is anticipated, Indonesia’s economy is expected to still grow by 6.7% to 7.2% throughout 2014, with raw materials, semi-finished goods, and finished goods flowing into, out of, and being transported within the country. Inflation is expected to be roughly 4.5% in 2014, while the volume of the marine cargo insurance market is expected to grow by 7% to 10% in 2014.

EMPLOYEE BENEFITS: HEALTH

RATES: INCREASE 10% TO 20%

EMPLOYEE BENEFITS: LIFE

RATES: STABLE -5% TO +5%

EMPLOYEE BENEFITS: ACCIDENT AND HEALTH

RATES: STABLE -5% TO +5%
Increased costs for health care are being driven by annual medical cost inflation, which has been hovering around 15% year on year, in addition to high loss ratios. There are mounting challenges for health providers such as hospitals and general clinical practices in terms of service and financial capabilities. This situation is especially true for government hospitals and private clinics, as most of them will become the primary health care service providers for the new National Healthcare Law (known locally as JKN), which took effect on 1 January 2014 for selected companies and individuals. An estimated 113 million people will be enrolled in 2014 into the scheme insured by BjPS, the newly contributed national health insurer, and eventually it will extend to the entire population of Indonesia by 2019.
RISK TRENDS

Strengthening Regulatory Requirements
Businesses are expected to remain fundamentally strong in what is expected to be a challenging economic year amid financial market volatility, currency exchange depreciation, rising inflation, and higher borrowing costs. The Indonesian insurance market is forecasting growth of 15% in premium volume, driven by developing domestic markets, rising household wealth, and expanding infrastructure projects. Property, commercial, and personal lines, along with accident and health, are seen as potential growth areas.

The new regulatory and supervisory body (Otoritas Jasa Keuangan, or OJK) is also expected to continue tightening its control over the market with various planned policies and initiatives, such as the introduction of property (fire and flood) and motor tariffs, the consolidation of four reinsurance companies into a single national reinsurance entity, and a higher mandatory minimum capital requirement for insurance companies.

The new tariff regulations for motor and property lines of business, which come into effect from 1 January 2014 and 1 February 2014, respectively, will likely result in increased insurance premiums to many insurance buyers.

New National Health Insurance Program (BPJS Kesehatan)
A new mandatory national health care scheme underwritten by BPJS took effect on 1 January 2014 for an initial and select batch of participants comprising individuals employed by state companies. Companies that participate in this program may need an effective strategy to harmonize their internal health care program with BPJS Health to avoid duplication of benefits and significant added cost, and to ensure that their employees receive health care services at the same or better-than-current levels. The new law will enforce general practitioner gatekeeping procedures to access hospital and specialist care, which are not common within private and large state companies at present.

Country Risk Rating
Heightened issues around escalating labor protests for a minimum wage hike, and political uncertainty surrounding legislative and presidential elections will continue to be major factors in shaping Indonesia’s country risk in the eyes of insurance companies. Restrictions on coverage related to perils such as strike, riot, and civil commotion can be expected, especially for industries that are labor intensive.

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“THE NEW TARIFF REGULATION FOR MOTOR AND PROPERTY LINES OF BUSINESS ... WILL LIKELY RESULT IN INCREASED INSURANCE PREMIUMS TO MANY INSURANCE BUYERS.”
Japan

GENERAL LIABILITY
RATES: DECREASE 0% TO 10%
Competition remains fierce due to over supply of capacity in the local market. Rates are almost hitting bottom in terms of the cycle.

MOTOR
RATES: INCREASE 0% TO 10%
Most local insurers changed base rates throughout 2013, with average rate increases of 2% to 3%. Insurers such as Sompo and Nipponkoa, which will merge in 2014, have been aggressive in large fleet bids.

WORKERS’ COMPENSATION
RATES: STABLE -5% TO +5%
The market is expected to remain stable with no specific issue on the horizon.

PROPERTY: CAT-EXPOSED
RATES: STABLE -5% TO +5%

PROPERTY: NON-CAT-EXPOSED
RATES: STABLE -5% TO +5%
The local property market is stable following the devastating losses from the Tohoku earthquake in 2011. Supply of earthquake capacity is now back to the pre-Tohoku earthquake level. Earthquake rates have been stable after a 30% to 50% increase in 2011-2012 renewals. Non-Cat capacity and rates remain stable.

ENVIRONMENTAL
RATES: STABLE -5% TO +5%
Overall, the market remains responsive and willing to write this class of insurance, with rates that are affordable and a product range that is varied. This type of insurance tends to be largely project-based rather than operational, related to one-off M&A investment projects overseas as Japanese firms continue to look to expand beyond their home country. This trend is not expected to change in the next few years. There is also a growing interest for environmental liability insurance within the energy and energy trade sector, driven by the current shale-gas boom in this energy-resource-scarce country.

DIRECTORS AND OFFICERS (D&O)
RATES: DECREASE 0% TO 10%
Pricing remains very competitive. Terms, conditions, and capacity remain stable except for the change of underwriting stance by a few international insurers. This trend is expected to continue for 2014. Global companies are buying higher limits and trying to adopt a centralized approach through global programs.

FINANCIAL INSTITUTIONS
RATES: DECREASE 0% TO 10%
Purchasing trends remain very conservative. Market competition is keeping rates low, creating benefits for insurance buyers.

PROFESSIONAL LIABILITY
RATES: DECREASE 10% TO 20%
Pricing continues to decline due to competition created by the entry of new players. The market recognizes this line of cover as profitable, and purchasing is driven primarily by contractual requirements. This trend is expected to continue in 2014.

MARINE CARGO
RATES: STABLE -5% TO +5%
Japanese insurers continued to provide clients with more stable premium rates than in 2012, despite a large claim paid during 2013. Insurers are requesting more detailed disclosures to provide the coverage of inventory year by year.

EMPLOYEE BENEFITS: HEALTH
RATES: STABLE -5% TO +5%

EMPLOYEE BENEFITS: LIFE
RATE: STABLE -5% TO +5%

EMPLOYEE BENEFITS: ACCIDENT AND HEALTH
RATES: STABLE -5% TO +5%
All life and accident, death, and dismemberment (AD&D) insurance in Japan is tariff-rated. This means that all life and AD&D insurers offer the same level of benefit at the exact same premium. Group long-term disability insurance and hospitalization insurance rates can be negotiated with insurers, however, and rates are expected to be stable in 2014.

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RISK TRENDS

Market Landscape
The top ranked non-life insurers, Sompo Japan and Nipponkoa, will merge into a single company, Sompo Japan Nipponkoa Insurance, in September 2014. Another merger between AIU and Fuji is planned in the latter half of 2015, making the integrated AIU group rank fourth in the market on a net written premium basis. As a result of these mergers, insurance buyers will have fewer choices for insurers. International insurers are expected to play a more important role in the market where more than 90% of market share is held by the three Japanese mega insurer groups.

Earthquake Exposure
Overall rates for all lines of insurance, including earthquake, have remained relatively stable. Loss recoveries from the devastating 2011 Tohoku earthquake and Thailand floods have almost been completed. Earthquake capacity is available in both local and international markets, with rates stabilizing after a 30% to 50% increase in 2011-2012. A single-digit premium reduction for earthquake was seen in some renewals in 2013. This trend of increasing capacity and stable rates is expected to continue throughout 2014.

Renewable Energy
Since the introduction of the Feed-in Tariff program in 2012 that requires electricity companies to purchase renewable energy for contractual terms and at fixed prices, new investment has flowed into the field of renewable electricity generation facilities, including solar panels. As a result, insurance demand for CAR/EAR and operational property in solar panel projects has grown rapidly, and this trend is expected to continue throughout 2014.
Korea

GENERAL LIABILITY
RATES: STABLE -5% TO +5%
The general liability market has been stable in Korea, driven by flat demand. This trend will likely continue in 2014.

MOTOR
RATES: INCREASE 0% TO 10%
Rates for motor insurance will increase marginally due to high loss ratios in the sector and increasing repair costs. This trend is anticipated to continue into 2014.

WORKERS’ COMPENSATION
RATES: STABLE -5% TO +5%
Workers’ compensation is a government program in which commercial insurers are not allowed to participate. Employers liability is expected to remain flat in 2014.

PROPERTY: CAT-EXPOSED
RATES: STABLE -5% TO +5%

PROPERTY: NON-CAT-EXPOSED
RATES: DECREASE 0% TO 10%
The property insurance market is still relatively soft, with plenty of capacity. Rates will continue to decrease for non-CAT-exposed risks. However, recent large CAT losses will keep rates stable for risks with CAT exposures, as insurers become increasingly cautious.

DIRECTORS AND OFFICERS (D&O)
RATES: DECREASE 0% TO 10%
An absence of losses and plenty of capacity in the Korean market continues to drive rates down. This trend is expected to continue in 2014.

FINANCIAL INSTITUTIONS
RATES: DECREASE 0% TO 10%
Despite repeated losses by financial institutions, rates remain soft due to an abundance of capacity. However, frequent changes of leading insurers may exhaust the market and cause rates to begin firming up.

PROFESSIONAL LIABILITY
RATES: STABLE -5% TO +5%
Limited demand for professional liability insurance is expected to keep rates flat into 2014.

MARINE CARGO
RATES: DECREASE 0% TO 10%
Insurance buyers can expect slight decreases in rates due to favorable loss experiences and capacity in the market.

EMPLOYEE BENEFITS: HEALTH
RATES: STABLE -5% TO +5%

EMPLOYEE BENEFITS: LIFE
RATES: DECREASE 0% TO 10%

RISK TRENDS
Korea is the third-largest insurance market in Asia, and enjoys a reputation for being mature, sophisticated, and stable. Recent legislative changes, primarily driven by the Financial Supervisory Service, are aimed at making local insurers retain more business, increase capital, and increase capacity. These changes are having a positive effect on the industry. We may see mergers and acquisitions activity, which would change the landscape of the local insurance market.

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“RECENT LEGISLATIVE CHANGES, PRIMARILY DRIVEN BY THE FINANCIAL SUPERVISORY SERVICE ... ARE HAVING A POSITIVE EFFECT ON THE INDUSTRY.”
Malaysia

GENERAL LIABILITY RATES: STABLE -5% TO +5%
The general liability market has been stable for the past few years, with little movement in either direction. The same trend is anticipated for 2014.

MOTOR RATES: INCREASE 0% TO 10%
Motor in Malaysia is still under tariff. Gradual increases have been introduced since 2012. The second gradual increment was implemented in the first quarter of 2013, and it is likely that there may be another gradual increase in 2014. The sector is expected to be completely liberalized by 2016.

WORKERS’ COMPENSATION RATES: STABLE -5% TO +5%
Over the years, employers liability and workers’ compensation have been very stable, as underwriters fighting for market share of the tariff premiums have been excessively competitive in these non-tariff classes in order to write the business on a portfolio basis.

PROPERTY: CAT-EXPOSED RATES: NO MARKET

PROPERTY: NON-CAT-EXPOSED RATES: STABLE -5% TO +5%
Malaysia is generally as a non-CAT-exposed country. Non-industrial risks in Malaysia are still tariff rated, and there has been no change in the fire tariffs. The market is eagerly awaiting the proposed de-tarification in 2016. With regard to industrial risks, property rates have been stable. In some exceptional cases, rate reductions around 5% have been seen. Risks that have faced losses or risks that are less favored are either renewed as per expiring or with some minor increases.

ENVIRONMENTAL RATES: STABLE -5% TO +5%
There are a limited number of buyers of environmental insurance. Rates are expected to remain stable for 2014.

DIRECTORS AND OFFICERS (D&O) RATES: DECREASE 0% TO 10%
The market is flush with capacity and a few new entrants have emerged to create greater competition. This dynamic is especially true in the small and medium enterprise (SME) segment of the market. However, on larger placements or risks involving large multinational clients, compliance is the key issue. Clients tend to emphasize local admitted policy capability over price. Greater competition in the SME space is anticipated in 2014, as are larger corporate risks focusing on quality of cover and placement, as opposed to pricing.

FINANCIAL INSTITUTIONS RATES: STABLE -5% TO +5%
2013 was a relatively benign year for financial institutions. Although there were a few small losses (less than US$2 million), there was no reported activity in excess of US$10 million. There is, however, a growing concern over cyber risks. Generally, renewals are expected to remain stable for 2014.

MEDICAL MALPRACTICE RATES: DECREASE 10% TO 20%
The medical malpractice market was relatively flat in Malaysia despite the fact that capacity was reduced and loss ratios have been poor. This may change in 2014 as some rate corrections are anticipated, with premiums increasing up to 25% in some cases.

PROFESSIONAL LIABILITY RATES: STABLE -5% TO +5%
The professional liability market has been stable and is expected to remain so for the 2014 renewals.

MARINE CARGO RATES: DECREASE 10% TO 20%
The marine cargo business has seen keen competition over the last few years. The entrance of new market players through Labuan has intensified the price war — the market has seen price reductions of up to 20%, even on renewals with 200%-plus loss ratios on a particularly large cargo placement. On smaller accounts, prices tend to be stable, with some marginal decreases seen.

AVIATION RATES: STABLE -5% TO +5%
There were two medium-sized aviation losses reported in 2013, but rates remain stable.
RISK TRENDS

Effects of New Legislation
Several new laws were introduced in 2012-2013. The Competition Act 2010 came into effect on 1 January 2012. As both the fire and motor industries are driven by tariff in Malaysia, the General Insurance Association of Malaysia set up a task force to determine if the tariff will run afoul the Competition Act. As it stands, the Competition Act excludes price fixing, which complies with an existing legislative requirement. The current tariff is allowed by the Central Bank under Section 144 of the Insurance Act. De-tariffication is slated to happen by 2016.

In addition, various pieces of legislation governing the insurance and financial services industries have been collapsed into the newly enacted Financial Services Act (FSA) for conventional financial services (insurance included) and the Islamic Financial Services Act (IFSA) for the financial services, which are in accordance with Sharia principles.

Both the FSA and the IFSA contain numerous provisions on consumer protection that confer power on the Central Bank to specify standards on business conduct to a financial service provider, ensuring that a financial service provider is fair, responsible, and professional when dealing with financial consumers. Section 124 of the FSA and Section 136 of the IFSA prohibit a financial service provider from engaging in any business conduct set out in Schedule 7 of the FSA and the IFSA. Examples of prohibited business conduct include misleading and deceptive conduct, exerting undue pressure in relation to the provision of any financial service, and demanding payments from a financial consumer for unsolicited financial services.

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“VARIOUS PIECES OF LEGISLATION GOVERNING THE INSURANCE AND FINANCIAL SERVICES INDUSTRIES HAVE BEEN COLLAPSED INTO THE NEWLY ENACTED FINANCIAL SERVICES ACT …”
Philippines

**GENERAL LIABILITY**
**RATES: DECREASE 0% TO 10%**
There have been no major changes in the local market; the Philippine insurance market may be characterized as not being a highly litigious industry.

**MOTOR**
**RATES: INCREASE 0% TO 10%**
Motor car is very much a loss-driven line of insurance. The local rates are relatively high, which may be a reflection of the local driving habits and road conditions. The motor car insurance industry is expected to have very large losses due to Typhoon Haiyan, which may prompt some underwriters to increase rates for Act of God cover.

**WORKERS’ COMPENSATION**
**RATES: NO MARKET**
Workers’ compensation is a statutory cover handled exclusively by government agencies. Private sector insurers and/or intermediaries are not allowed to play a role in either the placement or administration of these coverages.

**PROPERTY: CAT-EXPOSED**
**RATES: INCREASE 0% TO 10%**
In view of the anticipated insured losses due to Typhoon Haiyan, the most destructive typhoon experienced by the Philippines in decades, it is expected that the international reinsurance market will impose market correction measures, including rate increases, more restrictive terms, loss limits, and more stringent acceptance criteria for CAT-exposed risks.

**PROPERTY: NON-CAT-EXPOSED**
**RATES: INCREASE 0% TO 10%**

**ENVIRONMENTAL**
**RATES: NO MARKET**
The basic cover available locally is for sudden and accidental pollution. For environmental impairment liability, insurers depend completely on the international specialized markets.

**DIRECTORS AND OFFICERS (D&O)**
**RATES: STABLE -5% TO +5%**
C.V. Starr has commenced operations in the Philippines and has recently recruited an underwriter dedicated to financial lines. This will provide additional capacity and competition for lines such as D&O.

**FINANCIAL INSTITUTIONS**
**RATES: STABLE -5% TO +5%**
C.V. Starr has commenced operations in the Philippines and has recently recruited an underwriter dedicated to financial lines. This will provide additional capacity and competition for lines such as financial institutions.

**PROFESSIONAL LIABILITY**
**RATES: STABLE -5% TO +5%**
C.V. Starr has commenced operations in the Philippines and has recently recruited an underwriter dedicated to financial lines. This will provide additional capacity and competition for lines such as professional liability.

**MEDICAL MALPRACTICE**
**RATES: STABLE -5% TO +5%**
C.V. Starr has commenced operations in the Philippines and has recently recruited an underwriter dedicated to financial lines. This will provide additional capacity and competition for lines such as medical malpractice.

**EMPLOYEE HEALTH AND BENEFITS**
**RATES: N/A**
There is a greater focus on employee health and wellness, as cost of health benefits continue to rise. This is driven by increasing claims utilization due to lifestyle diseases like hypertension and diabetes, which normally are associated with older people, but are already being diagnosed in younger people. This will increase demand for health management solutions, as the need to directly address root causes for unhealthy workforce populations continues to rise.

**MARINE CARGO**
**RATES: STABLE -5% TO +5%**
No major changes anticipated; each insured will still be evaluated on its own merits, risk profile, and loss history.

**RISK TRENDS**

**Property Pricing**
Typhoon Haiyan hit the country with an intensity three-and-a-half times greater than that of Hurricane Katrina in the US. Although the insurance penetration in the affected area is relatively low, early estimates of loss reserves are high enough to affect the natural-catastrophe perils property pricing, terms, and conditions.

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Insurance Market report 2014

General Liability Rates: Decrease 10% to 20%
Soft market conditions persisted in the fourth quarter of 2013, and companies can expect to see reductions in the absence of any major losses. Purely on market-driven pricing, reductions are common.

Motor Rates: Increase 0% to 10%
The high-end and luxury automobile segment is likely to be affected by large total losses, while the average automobile segment is expected to be stable.

Workers' Compensation Rates: Increase 0% to 10%
Higher statutory benefits and losses in high-risk segments, such as construction, will influence carriers’ pricing and offering of this insurance.

Property: Cat-Exposed Rates: Stable -5% to +5%

Property: Non-Cat-Exposed Rates: Stable -5% to +5%
Abundant capacity continues to fuel soft market conditions, absent of any large loss events. Terrorism and flood cover are topical discussion points with insurance buyers.

Directors and Officers (D&O) Rates: Decrease 0% to 10%
New capacity and a renewed underwriting appetite are expected to drive prices down further unless there is a major loss event.

Financial Institutions Rates: Stable -5% to +5%
There is select underwriting appetite for large financial institutions such as banks. The asset management industry is expected to continue to enjoy soft market conditions.

Professional Liability Rates: Stable -5% to +5%
There is no major impetus for premium pricing to trend either way. Pricing is dependent on the scope of services and type of buyer.

Medical Malpractice Rates: Decrease 0% to 10%
Costs of health care continue to rise, resulting in higher compensation for claims. There is a cautious underwriting appetite for well-managed risks with tolerable loss records.

Employee Benefits: Health Rates: Increase 0% to 10%

Employee Benefits: Life Rates: Stable -5% to +5%

Employee Benefits: Accident and Health Rates: Stable -5% to +5%
Increasing capacity could mean competitive rates for buyers in 2014.

Risk Trends

New Legislation
Singapore corporations and institutions will have to deal with new legislation concerning data privacy laws and technology risk management in 2014. The Personal Data Protection Act will come into operation and enforced in phrases. The first phase, which included the “do not call” register, came into effect on 1 January 2014. The main data protection laws will come into force on 2 July 2014, which requires financial institutions in Singapore to put in place a technology risk management framework to manage cyber risks.

Reassessing Low Risks
Property insureds will likely review their existing insurance for previously assumed low risks (for example, flood and riots) in the context of events in 2013.

Workers’ Compensation
Workers’ compensation insurance is expected to harden further, especially for the construction industry, due to continued losses. Overall, general insurance market sentiments will likely continue to be soft, in the absence of any major loss event.

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**GENERAL LIABILITY**

**RATES: DECREASE 0% TO 10%**

Casualty insurance rates were stable in 2013 with good loss ratios across the market. We expect a similar situation in 2014.

**MOTOR**

**RATES: STABLE -5% TO +5%**

Premium rates are expected to remain stable in 2014. As the premium of motor insurance is about 50% of the total property and casualty premium, insurers continue to explore additional coverage to compete with others. More and more corporations are signing contracts with auto leasing companies to replace their company cars for cost consideration.

**WORKERS’ COMPENSATION**

**RATES: DECREASE 0% TO 10%**

We expect a stable premium in 2014 due to a good loss ratio in 2013.

**PROPERTY: CAT-EXPOSED**

**RATES: STABLE -5% TO +5%**

Most of the property damage policies were renewed before July 1, 2013, to avoid the possible increased premium by a modified CAT and non-CAT tariff. In 2014, clients with a total insured value of less than US$1 billion and/or top location total insured value less than US$500 million may see higher premiums due to the modified non-CAT tariff, which impels insurers to provide quotes based on the basic rate announced by the Insurance Institute, underwriting experience, loss record, loss prevention, and individual risk ranking. Clients with a total insured value higher than US$1 billion and/or with a top location total insured value of more than US$500 million may also have higher premiums due to Taiwan insurers charging higher CAT premiums while writing primary.

**PROPERTY: NON-CAT-EXPOSED**

**RATES: STABLE -5% TO +5%**


**ENVIRONMENTAL**

**RATES: STABLE -5% TO +5%**

This line is not a compulsory policy in Taiwan, which has resulted in less demand and slow development.

**DIRECTORS AND OFFICERS (D&O)**

**RATES: DECREASE 0% TO 10%**

Even as major insurers faced D&O claims, strong competition kept premium rates stable, with even some slight decreases seen. Similar trends are expected in 2014.

**FINANCIAL INSTITUTIONS**

**RATES: DECREASE 0% TO 10%**

Similar to trends in D&O, competition remains strong and will continue in 2014 if there are no major losses.

**PROFESSIONAL LIABILITY**

**RATES: DECREASE 0% TO 10%**

Assuming no material loss in 2014, the market is expected to remain stable with perhaps even a slight decrease in premium, similar to 2013.

**MARINE CARGO**

**RATES: DECREASE 0% TO 10%**

Strong competition among insurers led to a reduction in rates in 2013. Insureds can expect stable markets in 2014 if they have a favourable loss record.

**AVIATION**

**RATES: STABLE -5% TO +5%**

A soft market is expected in 2014, if there are no major losses.

**EMPLOYEE BENEFITS: HEALTH**

**RATES: DECREASE 0% TO 10%**

**EMPLOYEE BENEFITS: LIFE**

**RATE: STABLE -5% TO +5%**

**EMPLOYEE BENEFITS: ACCIDENT AND HEALTH**

**RATES: STABLE -5% TO +5%**

There are fewer group insurers in Taiwan with inflexible products, and most international insurers have withdrawn from the Taiwan insurance market. Taiwan group insurance products are inflexible due to stringent regulatory requirements.

**RISK TRENDS**

2013 was a good year for non-life insurance markets due to the lack of significant catastrophic losses or fire losses. Insurers are expected to generate more growth in casualty insurance by developing new programs in 2014, such as liability insurance against cyber attacks, as the overall casualty premium is less than 10% of non-life insurance gross written premium.

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GENERAL LIABILITY
RATES: STABLE -5% TO +5%
Casualty markets are expected to remain stable in 2014.

MOTOR
RATES: INCREASE 0% TO 10%
Motor insurance premiums are expected to increase in 2014, reflecting the increase in motor vehicles repair costs.

WORKERS’ COMPENSATION
RATES: NO MARKET
Workers’ compensation is mandatory and managed through a government scheme.

PROPERTY: CAT-EXPOSED
RATES: DECREASE 0% TO 10%

PROPERTY: NON-CAT-EXPOSED
RATES: DECREASE 10% TO 20%
Flood coverage on property insurance policies continues to be restricted. Rates reductions between 10% to 30% are expected, dependent on loss ratio and risk profile.

DIRECTORS AND OFFICERS (D&O)
RATES: STABLE -5% TO +5%
Insurers are offering enhanced D&O coverage, with the expectation that prices will stabilize.

FINANCIAL INSTITUTIONS
RATES: INCREASE 10% TO 20%
Rates for financial institutions reflect risk profiles. Risks displaying adverse developments have incurred significant rate increases.

PROFESSIONAL LIABILITY
RATES: INCREASE 0% TO 10%
Demand for professional indemnity continues to increase, particularly for single-project professional indemnity insurance. Capacity remains very limited, although it is likely more capacity will become available as more underwriters offer products.

MARINE CARGO
RATES: STABLE -5% TO +5%
Marine cargo premiums have remained stable.

EMPLOYEE BENEFITS: HEALTH
RATES: INCREASE 20% TO 30%
Competition remains strong, with price discounting evident, particularly on group medical insurance. Underinsurance is common, given that many benefits are tied to the market median. Annual inflation on medical costs is reflected in increasing claims ratios. To ensure sustainable pricing, rates have increased 20% to 30%.

EMPLOYEE BENEFITS: LIFE
RATES: STABLE -5% TO +5%

EMPLOYEE BENEFITS: ACCIDENT AND HEALTH
RATES: INCREASE 20% TO 30%

RISK TRENDS
Political stability will be a major theme in Thailand during 2014, with protests in Bangkok in January causing disruption to businesses and tourism. International investors may take a cautious approach depending on the outcomes of the most recent actions in the capital city.

Property
For the property market, restrictions remain for flood cover, but rates reductions are expected between 10% and 30%, depending on loss ratios and risk profiles. Reinsurance market treaty renewals are currently being negotiated and rates are expected to remain stable, with some discounting where insurers have managed their underwriting book. Clients can expect improved rates where they have taken strong measures to mitigate flood exposure.

Casualty
The casualty market should remain fairly stable. Infrastructure investment is set to drive insurance growth. Government investment in infrastructure is expected to increase substantially during 2014 and beyond, creating opportunities for all major business sectors, subject to political stability. Thailand plans to play a major role in the ASEAN Economic Community.

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**GENERAL LIABILITY**
**RATES: DECREASE 0% TO 10%**
The concept of liability is still not widely understood in Vietnam, with most exporters not buying or budgeting for product liability. This market will slowly grow as awareness and understanding of product liability increases.

**MOTOR**
**RATES: STABLE -5% TO +5%**
Market loss ratios are reasonable in the 60% range. There is little or no third party liability exposure, given the legal system and low wages.

**PROPERTY: CAT-EXPOSED**
**RATES: STABLE -5% TO +5%**

**PROPERTY: NON-CAT-EXPOSED**
**RATES: DECREASE 0% TO 10%**
In Vietnam, rates are dependent on the category of the risk, which is outlined below:

- Category 1: Office buildings, hotels, hospitals.
- Category 2: Cinemas, stadiums, trade fairs, exhibitions, steel-processing factories.
- Category 3: Production or processing foam boards, rubber vulcanization factories.
- Category 4: Wooden, textile, shoe factories, plastic factories.

Rates for Category 1 and 2 reduced 10% to 20%, whereas rates for Category 3 and 4 increased 10% to 30%, based on loss records.

The loss ratio of Category 3 and 4 is quite high (more than 100%) and has increased continuously the past five years. The market has applied minimum conditions for Category 4 in year 2014. The market trend is still steadily increasing.

Although the market is not profitable, loss ratios are increasing and there is no sign of any market correction.

**DIRECTORS AND OFFICERS (D&O)**
**RATES: DECREASE 5% TO 10%**
The market is very small, and very few companies — even those listed on the stock exchange — purchase D&O insurance. As more companies grow outside of Vietnam, this situation will change.

**FINANCIAL INSTITUTIONS**
**RATES: DECREASE 5% - 10%**
There were some big losses in the market, but given the lack of insurance purchasing by local financial institutions, the effects from these losses are not widely felt.

**PROFESSIONAL LIABILITY**
**RATES: STABLE -5% TO +5%**
Market education on exposures is needed, and compulsory programs are being put in place for some professions such as doctors.

**MARINE CARGO**
**RATES: DECREASE 10% TO 20%**
This is a very competitive market, but rates are not sustainable.

**EMPLOYEE BENEFITS: HEALTH**
**RATES: INCREASE 10% TO 20%**

**EMPLOYEE BENEFITS: LIFE**
**RATES: STABLE -5% TO +5%**

**EMPLOYEE BENEFITS: ACCIDENT AND HEALTH**
**RATES: STABLE -5% TO +5%**
Market loss ratios for health are approximately 120%. There is a correction under way, and the life and accident and health market is growing in the double digits. The government is expected to enact pension reform, as current state funding will become financially unviable within the next 10 years. The private sector will provide pension programs with limited employee contributions.

**AVIATION**
**RATES: DECREASE 0% TO 10%**
The market is very small and most accounts are placed by way of reinsurance into London.

**RISK TRENDS**

**Coverage Lines**
The Vietnam market remains immature and property rates are not sustainable. Overall, the market has loss ratios of more than 100% in employee health and benefits, and pricing corrections are taking place.

**Economic Effects**
The economy, whilst growing at approximately 5.5%, remains sluggish with a large number of banks holding non-performing loans in the real estate sector, resulting in limited funding for new projects, including much needed infrastructure. Overall market pricing remains soft and competitive, and market awareness in lines such as financial lines, trade credit, environmental, and political risk remains challenging — market education requires time.

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Insurance for many industry sectors or lines of business adopts a regional pricing approach or shows similar trends across multiple markets. The following are summaries for lines of business or industry sectors that are applicable across Asia.

21 Aviation
22 Captives
23 Employee Health and Benefits
25 Marine Cargo
26 Marine Hull
27 Mining
28 Power and Utilities
29 Technology and Telecommunications
30 Trade Credit and Political Risk
31 Warranty and Indemnity Insurance
Aviation

INSURANCE MARKET CONDITIONS

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>RATE CHANGE Q4 2013</th>
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<td>AIRLINES</td>
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<tr>
<td>GENERAL AVIATION</td>
<td>DECREASE MORE THAN 20%</td>
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Market Commentary
The commercial airline market remains soft with an average of 15% to 20% rate reductions available for airlines with positive fleet growth and clean loss records. There is an abundance of surplus capacity in the market, which is driving premium levels downward, despite a higher frequency of losses in 2013 compared to 2012. The portfolio is still on track to make a profit in 2013.

For those airlines renewing their insurance programs following a major loss, core rates are being increased to reflect the severity of the loss. Underwriters are much more concerned about attritional losses and looking to penalize those accounts where a higher frequency of attritional claims (below US$10 million) has occurred.

The aerospace sector is also experiencing soft conditions, but not to the same extent as commercial airlines. Core rate reductions are available and many major companies are maintaining a strategy to buy coverage for a longer period than the traditional 12-month policy.

The general aviation sector is also seeing rate and premium reductions as brokers seek to leverage their portfolio of risks into the market to drive lower rates for each individual client.

Risk Trends

RISING COST OF REPAIR
There has been an increased level of attrition as a result of the rising cost of repair to new generation aircraft (often utilizing composite materials) such as the B787 and the A380.

GROUNDING RISKS
Grounding risks, following a product failure that can result with multiple aircraft being grounded usually accompanied by regulatory action, have increased. The grounding of the B787 “Dreamliner” captured headlines in 2013 with issues stemming from its lithium-ion batteries.

FATIGUE RISK MANAGEMENT SYSTEMS
There is also the introduction and promotion of Fatigue Risk Management Systems (FRMS) as an alternative to prescriptive flight and duty limitations to address crew fatigue, which is often cited as a factor in aircraft accidents.

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Captives

Market Commentary
In Asia, the captive domicile market is dominated by Singapore, which currently has approximately 60 captive insurers. Many factors contribute to Singapore’s attractiveness as a captives hub, including a triple-A rated economy with strong growth potential, regional insurance hub, strategic location, excellent infrastructure, political and economic stability, captive-specific legislation with clear definitions of in-house and non-in-house risks, and the availability of an offshore insurance business incentive scheme and tax-exemption scheme for captive insurers.

Risk Trends

GROWTH POTENTIAL
The market has seen increased interest from corporations in Singapore, Taiwan, Korea, the Philippines, Indonesia, and China. These companies want to know more about captives as an alternative risk financing arrangement (as opposed to traditional insurance or a balance sheet funding type of arrangement). Some captive formation growth is expected in 2014 from corporations based in these regions, but it may not be as fast or widespread as that of companies based in the Americas and Europe. Captive interest from Chinese corporations has been well reported; however, given the conditions in place for Chinese companies by the regulator, there is a small pool of prospects at the moment.

As with captives globally, employee health and benefits is becoming a more common discussion topic in Asia and this may well have the benefit of driving captive growth in certain markets as it appears to be able to generate reasonable results under a captive pooling structure.

Although most of Asia is a developing market for captives, growth is clearly occurring and it would appear that there may be a snowball effect in the next few years. Japan is a mature location, but even there growth is seen. For a potential future image of Asia, the widespread ownership and use of captives in Australia is probably a good model — although a fairly mature market, there is still some growth potential for captive utilization in certain industries such as financial institutions. There also appears to be a broadening of appetite in the upper middle market clients to a potential captive solution.

Driving forces for captive growth in Asia continue to be similar to those seen globally:

► Desire to control group risk and consolidate management practices across the business group.
► Flexibility in program design and funding for uninsurable, difficult-to-place risks, or risks that are deemed to be overpriced by the market.
► Access to other markets such as reinsurance and local pool arrangement.
► Quarantine premiums within the captive, especially from those programs that have very good claims history.

Whilst these aren’t particularly new issues, a continued development is being seen within the region on a broader understanding and desire to implement more risk management-based changes.

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Employee Health and Benefits

Market Commentary
The story of rising health care costs and medical inflation continues across Asia, with medical inflation at historically high rates. In markets such as Thailand and Vietnam, medical inflation rates are above 20%.

In addition, the claims experience and medical insurance utilization rates are at all-time highs. More and more employees are using their medical insurance benefits, as claims experiences continue to push up losses for insurers, which is flowing back to companies in the form of higher benefits costs at renewal time.

At the same time, the war for talent increasingly is becoming a battle around employee health and benefits programs, as employers are hoping to attract and retain talent by offering competitive health and benefits packages.

These opposing market forces have been at play across Asia for the past several years now, instigating companies to take a creative approach to structuring employee health and benefits programs.

Rates have increased in areas where medical inflation has been particularly acute and claims experiences have been poor. The attached table reflects the increases that we see for medical inflation and projected premium increases for 2013-2014.

Risk Trends
GOVERNMENT INTERVENTION AND PARTICIPATION
Governments across Asia continue to look at health care and medical insurance, as they try to balance the social demands from their population with the business realities of the economy.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>PROJECTED GENERAL INFLATION 2013 (%)</th>
<th>EXPECTED CHANGE IN MEDICAL RATES 2013 (%)</th>
<th>PROJECTED GENERAL INFLATION 2014 (%)</th>
<th>EXPECTED CHANGE IN MEDICAL RATES 2014 (%)</th>
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<td>INDONESIA</td>
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<td>10.0</td>
<td>7.5</td>
<td>10.0</td>
</tr>
<tr>
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<td>12.5</td>
<td>2.6</td>
<td>12.5</td>
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<tr>
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<td>15.0</td>
<td>3.5</td>
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<tr>
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<td>2.7</td>
<td>6.0</td>
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<td>6.0</td>
<td>2.3</td>
<td>6.0</td>
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<td>TAIWAN</td>
<td>1.2</td>
<td>5.0</td>
<td>2.0</td>
<td>5.0</td>
</tr>
<tr>
<td>THAILAND</td>
<td>2.2</td>
<td>12.5**</td>
<td>2.1</td>
<td>12.5**</td>
</tr>
</tbody>
</table>

*Rate change applicable for high-end insurance, which does not coordinate with social insurance. For supplemental medical insurance, trend is slightly lower.
**For private health care in Bangkok, medical rates may increase more substantially.
Starting on 1 January 2014, Indonesia will implement the new health care law (known as BPJS Kesehatan), which will affect a selected batch of participants, consisting of individuals and state-owned companies. For companies that participate in this program, they may need to put an effective strategy to harmonize their internal health care scheme with BPJS Health to avoid duplication of benefit, significantly added costs, and ensuring that their employees receive health care service at the same or better-than-current levels. The new law will enforce general practitioner gatekeeping procedures to access hospital and specialist care, which are not common within private and large state companies.

Other governments are looking at ways to improve their healthcare and medical insurance system, such as Thailand, Malaysia, and India. Government participation will be a key theme for several years to come.

“GOVERNMENTS ACROSS ASIA CONTINUE TO LOOK AT HEALTH CARE AND MEDICAL INSURANCE, AS THEY TRY TO BALANCE THE SOCIAL DEMANDS FROM THEIR POPULATION WITH THE BUSINESS REALITIES OF THE ECONOMY.”

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CONTINUED FOCUS ON WELLNESS
The focus on wellness and prevention by large multinational corporations (MNCs) continues to gain traction within small and medium enterprises (SMEs) that are looking for ways to reduce medical claims at their source.
Marine Cargo

INSURANCE MARKET CONDITIONS

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>RATE CHANGE Q4 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARINE CARGO</td>
<td>DECREASE 10% TO 20%</td>
</tr>
</tbody>
</table>

**Market Commentary**

The cargo insurance market remains very competitive, as capacity continues to flow into the Asian markets. The cargo insurance market is also very susceptible to global trade flow, which in recent years has kept prices low despite a robust intra-Asia environment.

**Risk Trends**

Despite some catastrophic events in 2013, such as the Central European floods in June, the European hail storms between June and August (US$4 billion in losses), and Typhoon Haiyan, the cargo markets remain largely unaffected. Even the sinking of a container carrier in July, which was a US$400-million cargo loss, did not affect the overall markets.

In addition, there is an increase in Chinese and Korean markets eyeing international business and offering active participation on programs.


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Marine Hull

INSURANCE MARKET CONDITIONS

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>RATE CHANGE Q4 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROTECTION AND INDEMNITY (P&amp;I)</td>
<td>INCREASE 5% TO 10%</td>
</tr>
<tr>
<td>HULL</td>
<td>DECREASE 5% TO 10%</td>
</tr>
</tbody>
</table>

Market Commentary

The global economic outlook appears to be more promising than it was at this time last year, but the recovery is moving haltingly and is taking time to filter through to the shipping market. The vast majority of ship owners are still enduring considerable financial strain as a result of inflationary pressures on their fixed operating costs and depressed freight rates.

Risk Trends

PROTECTION AND INDEMNITY (P&I) MARKET

Against this background, shipowners will once again be looking to their P&I clubs to help them manage their costs. While recent data suggests that the overall claims picture might be improving, the legacy of the much reported churn in P&I premiums means that another difficult renewal season is on the horizon.

Following group-wide average increases of 4.3% in 2012, and 8.9% in 2013, shipowners will have hoped for some alleviation against any further attempts from the P&I clubs to compound the rise in their P&I premiums.

The majority of shipowners simply do not understand why their premiums should be subject to further increases, while the clubs continue to grow their free reserves. During the financial year to 20 February 2013, the clubs were able to increase their free reserves by 1.32% — albeit free reserves when expressed as a percentage of call income slipped marginally.

Even at such a modest level, this news will not be welcomed by any shipowners who paid an increase at the last renewal while any profit they might have enjoyed was being squeezed by their partner insurers.

Some wide variations are expected between the clubs when it comes to announcing the 2014 general increase. At the time of writing this report, the market has seen one club increase rates as much as 12.5% and some as low as 2.5%, with the average around 8%. But it may be misleading to focus too much on this number because it is unlikely to be an accurate benchmark for each individual club’s approach to the renewal.

HULL MARKET

The marine hull insurance market is still a buyer’s market, and with the abundance of capacity, insurance for hull and machinery remains competitive. That said, there are still premium increases for poor claims records and underwriters are prepared to walk away if they feel the price is not right. All markets are generally aggressive when competing for new business.

Factors affecting the benign conditions include:

► Globally, no underwriting year has been profitable for underwriters for 15 years.
► Negligible investment returns.
► Cost of reinsurance.
► Increased cost of reinsurance.
► Market overcapacity.
► Competition for market share continuing downward pressure on rating levels.

Underwriters are expected to be under significant management pressure to adhere to rating models and ensure they are underwriting for profit, but this likely will not change anything given the overcapacity in the market. All things being equal, further reductions of up to 10% can be expected in the coming year.

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**Mining**

**INSURANCE MARKET CONDITIONS**

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>RATE CHANGE Q4 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALL LINES FOR MINING</td>
<td>STABLE -5% TO +5%</td>
</tr>
</tbody>
</table>

**Market Commentary**

All the large recognized global mining markets are represented in the key Singapore and Hong Kong insurance hubs, and it is extremely important that the right access points are considered, as locally accessed companies will be more in tune with Asian pricing and terms than their European or North American based counterparts.

The appetite does change and the choice of markets is limited accordingly where there are underground exposures versus open-pit surface operations.

We are seeing more support from those markets domiciled in their home countries where there is increasing overseas interest, particularly in China and Japan.

In terms of placement preparation, the quality of information is still very important, especially survey reports being written by recognized mining experts, together with the client’s reaction to any recommendations and its view on risk management and business continuity planning.

Generally, most local mining and mining-related companies in the region have been increasingly aware of the value of insurance as a risk-transfer vehicle over recent years, but the approach remains highly price conscious.

**CONSTRUCTION**

Due to the depressed commodity prices in the industry, major capital expenditure in the region has slowed and, therefore, fewer new projects have come to market. Capacity in the region remains unchanged and appetite exists, particularly for the infrastructure around open-pit mines.

**OPERATIONAL**

Capacity in the Asia region is largely unchanged and there has been nothing really notable in terms of insurers’ approach to terms, policy coverage, commodity caps, pricing etc.

**Risk Trends**

**OPEN-PIT COVERAGE**

Following the massive landslip loss in Utah in April, the market is paying more attention to wording and coverage for open-pit coverage. Insurers still need detailed underwriting information and will only give coverage to specified items in the pit where there is an insured quantifiable value.

In respect to property damage cover, specifically for pit walls, it is very difficult to obtain particularly following the large loss referred to previously. It is sometimes available but usually only reserved for the large mega-miners with large purchasing power and unlikely to be obtained for small or mid-tier mining companies. Pit walls are normally a property exclusion, and to obtain this cover, it is necessary to demonstrate that values have been included for pit walls and that detailed geotechnical information and risk management and monitoring practices are in place. If cover is obtainable, it will most certainly be subject to a sublimit.

**COMMUNITY RELATIONS**

In Asia, emphasis on local community relations is also very important to help mitigate any political risk. There have been events in Indonesia around loss of license and confiscation of land and assets, and therefore, risk mitigation around these issues is paramount.

**ENVIRONMENTAL LEGISLATION**

Finally, we have seen an increase of environmental legislation across Asia. In February, China began piloting compulsory environmental pollution liability insurance aligned to tightening legislation in this area. Existing legislation in Indonesia and the Philippines is being further refined by their respective governments as environmental groups and other pressure groups exert greater influence.

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Power and Utilities

INSURANCE MARKET CONDITIONS

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>RATE CHANGE Q4 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>POWER AND UTILITIES CONSTRUCTION</td>
<td>DECREASE 0% TO 10%</td>
</tr>
<tr>
<td>POWER AND UTILITIES OPERATIONAL</td>
<td>STABLE -5% TO +5%</td>
</tr>
</tbody>
</table>

POWER AND UTILITIES CONSTRUCTION

Market Commentary
Driven by essential local demand to support much needed economic growth, power construction is starting to emerge from the global recession intact. An oversupply of insurance capacity remains, which has yielded flat to falling rating levels, especially for projects devoid of significant natural catastrophe perils. In Asia, the continued demand for power generation and the robust pipeline of power construction projects are helping to drive insurance demand. Overall, rates will remain low as capacity continues to outstrip demand.

Finally, with large scale movement of underwriters to new companies and infrastructure projects taking longer to come to market, rates will be further squeezed as targets and budgets are fulfilled.

Risk Trends
From a macro perspective, it is difficult to predict how the political uncertainty of elections and civil unrest in certain ASEAN countries will be reflected in the attitude of foreign investment in infrastructure.

However, whilst capacity is abundant, increased pressure, for instance, for natural hazard sublimits or other specifically required limits has been seen, and a growing small group of carriers for a short time pushed for increased rates and deductibles across all power construction classes. But the abundance of capacity has kept, and will continue to keep, rates competitive going forward.

POWER AND UTILITIES OPERATIONAL

Market Commentary
Despite a number of large operational power losses around the world and here in Asia, capacity remains plentiful keeping rates stable. Insurers are taking a technical approach to underwriting with a sharp focus on business interruption and contingent business interruption, but we are not seeing across-the-board rate increases.

Risk Trends
Similar to the power construction industry, there is a focus on risks that have natural catastrophe exposures, especially following Asia’s incredibly active typhoon season during 2013.

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**Market Commentary**

The technology and telecommunications industry in Asia continues to go through a series of different cycles, with the outlook turning more positive as the global economy picks up, especially in the US, UK, and Europe. The industry continues to have a sharp focus on risk management and insurance spend, given its slim margins and sensitivity to demand trends.

Despite a heavy typhoon season, the technology industry was generally not affected by major natural catastrophes given the location of its operations. The technology-focused markets of China, Taiwan, Japan, Korea, and Thailand, rates for catastrophe insurance have reduced slightly given the benign conditions and the return of capital and capacity.

Recent losses in the semiconductor industry have caused insurers to shy away from this sector and focus on subcontractor arrangements in some markets. But as always, insurers look carefully at risk management procedures, rewarding those with robust programs in place.

**Risk Trends**

Technology companies and the insurers that underwrite their business are still focusing on business interruption, contingent interruption, and supply chain risk issues. The lessons from the Japanese earthquake and tsunami are still very much top of mind, as companies take a more holistic approach to their risk exposures and insurers take a more technical approach to underwriting.

There is also a keen focus on people-related risks, such as employee benefits programs, to help manage the labor shortage and retention issues affecting the industry. Finally, cyber and data privacy risks are hot-button issues, as governments across the region continue to implement new regulations and cyber attacks increase in frequency and severity.

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“THE LESSONS FROM THE JAPANESE EARTHQUAKE AND TSUNAMI ARE STILL VERY MUCH TOP OF MIND, AS COMPANIES TAKE A MORE HOLISTIC APPROACH TO THEIR RISK EXPOSURES AND INSURERS TAKE A MORE TECHNICAL APPROACH TO UNDERWRITING.”
Trade Credit and Political Risk

Market Commentary
In 2014, insurers are expected to put in more resources in Asia, and improve their ability to underwrite risks in the emerging markets like Myanmar, Laos, and Cambodia. In addition to the multilaterals and global trade credit insurers, there are more than 20 insurers now based in Asia, with underwriting capacity in excess of US$1 billion per transaction. Insurers are also stepping up their bond underwriting capability in anticipation of more project and infrastructure development in the region.

As Asian manufacturers and trading houses in the energy and commodity sectors expand their businesses geographically, they will be looking for more regional and global solutions as they use credit and political risk insurances to both mitigate risk and facilitate financing.

Banks will also be seeking to access the insurance market, for capital or limit relief, and we expect an increase in syndication-type transactions on both corporate loans and project finance.

Risk Trends
Buyer limit approval remains a key factor and challenge for the short-term trade credit business, and insurers are having more underwriters on the ground to strengthen their information database; additionally, there will be more reliance on trading experience where buyer information is less available.

On the political risk structured credit front, the ability to cover sub-sovereign entities, and to have longer policy tenures will be important factors to support infrastructure development particularly in the emerging economies. And, related to this, the unwillingness of countries to provide ministry of finance guarantees on various projects would impact underwriters’ risk appetite.

Political Uncertainty
India and Indonesia will be having elections in 2014, and these could have an impact on the timing of project implementation in both countries.

Market Competition
The relative abundance of insurance capital and healthy loss record should see rates continue to be generally soft; and in addition to price and scope of coverage, insurers will seek to differentiate themselves by having more flexible wordings (including removal of certain policy exclusions), and other features like “non-cancellable” buyer limits and longer notification period for limit reductions, shorter claims waiting periods.

We expect more insurers to be modifying their wording to be Basel III compliant to assist banks in obtaining capital relief.

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Warranty and Indemnity Insurance

Market Commentary
Awareness of the need for warranty and indemnity insurance (W&I) continues to grow in Asia, as buyers and sellers of companies look to de-risk their transactions. W&I insurance (also known as “reps and warranties” insurance) is an insurance solution that provides recourse against breaches of the warranties and indemnities being given by the seller in the sale and purchase agreement.

W&I insurance is now available domestically in China, Korea, and Malaysia, in addition to the traditional hubs of Hong Kong, Singapore, and Japan. Once considered expensive and involving an intrusive underwriting process, W&I has evolved into a sophisticated, speedy, and accessible insurance product. Insurance capacity for this product is increasing in Asia as demand picks up and insurers become more comfortable with the risk profile of transactions in the region.

In Asia, up to six underwriters are prepared to write W&I insurance (depending on the jurisdiction), with other markets carefully monitoring the situation. In the current market, premiums are generally priced between 1% and 2% of the limit of insurance purchased, and the premium is paid up-front and once-off for the duration of the policy.

Risk Trends
W&I has become particularly popular with private equity funds looking to minimize their liabilities following a divestment and return the sale proceeds to investors. This would include strategic corporations investing cross-border, into jurisdictions where W&I is commonplace (for example, Australia), into jurisdictions where there are distressed opportunities (for example, Europe), and where they are purchasing from private equity funds/vendors that require a “clean exit.” As in previous years, a large portion of demand for W&I is being driven by M&A lawyers who are looking to de-risk transactions for their clients.

The market for W&I across Asia is expected to continue to grow.

“W&I INSURANCE IS NOW AVAILABLE DOMESTICALLY IN CHINA, KOREA, AND MALAYSIA, IN ADDITION TO THE TRADITIONAL HUBS OF HONG KONG, SINGAPORE, AND JAPAN.”

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