

20 February, 2014



ASEAN Economic Community Survey

The ASEAN Economic Community (AEC) has set a goal of regional economic integration across its 10 member states of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, with the aim of delivering:

- (a) A single market and production base
- (b) A highly competitive economic region
- (c) A region of equitable economic development
- (d) A region fully integrated into the global economy

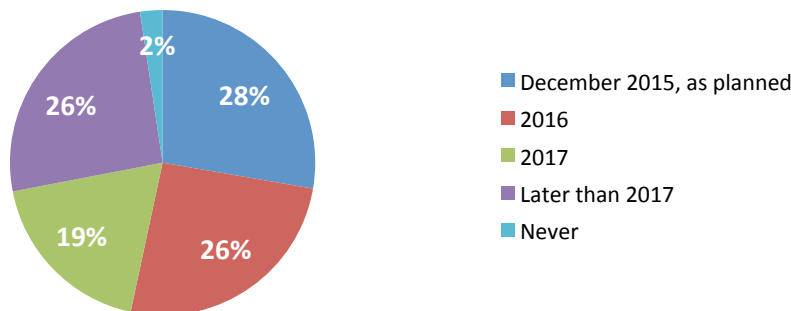
One of the goals for the AEC is to transform ASEAN into a region with free movement of goods, services, investment, skilled labour and capital. It is becoming an increasing topical issue, as the planned launch in December 2015 approaches fast.

Milliman recently carried out an online survey amongst life insurance executives working in the ASEAN markets to gauge their views on certain aspects related to the introduction of the AEC. The survey drew a wide response, with 86 respondents from all of the ASEAN member states except Laos, plus responses from individuals based in other markets with ASEAN responsibilities.

We would like to sincerely thank those who participated and are pleased to present the results of the survey below, along with some commentary on the key findings.

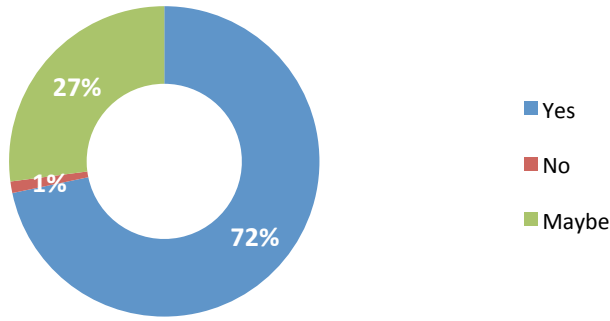
Results

Q1. When do you think the AEC will commence?

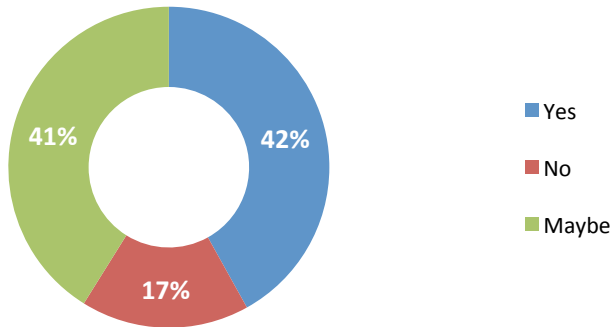


Perhaps unsurprisingly, given the challenges involved, and the previous push-back of the commencement date from the original target of 1 January 2015, many respondents expected the launch to be delayed into 2016, 2017 or beyond. However, 28% of respondents were more optimistic and believed it would be successfully launched in December 2015, in line with the timetable.

Q2. Do you think the AEC is a positive development for countries in ASEAN in general?

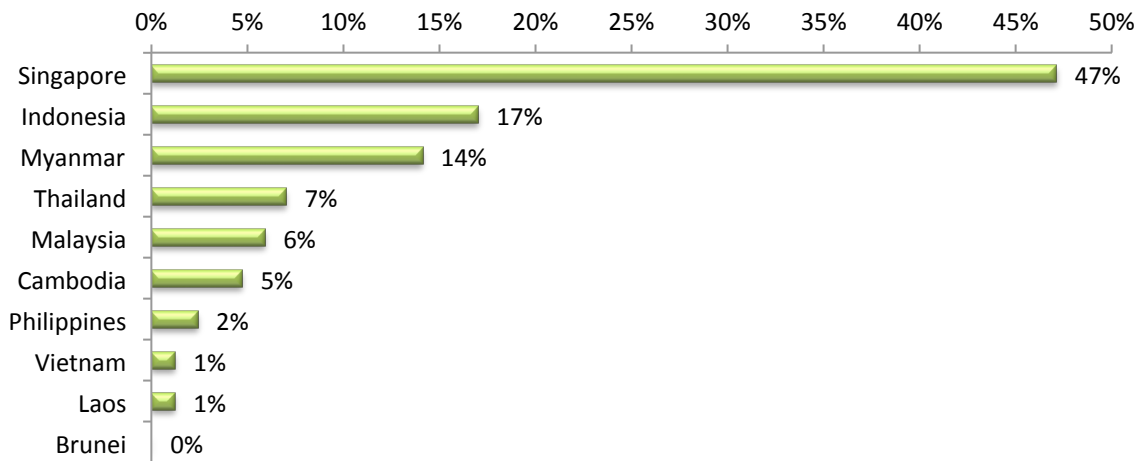


Q3. Do you think AEC will be beneficial for the life insurance industry in the market in which you operate?



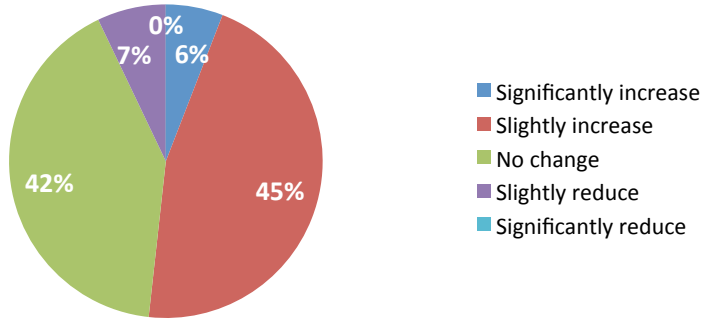
Despite concerns over launch timing, the vast majority of respondents thought that the AEC would be beneficial for ASEAN in general, although 27% remained unsure. Interestingly, people seemed to be less convinced of the advantages for the life insurance industry, with just over 40% saying it would be beneficial in the market in which they operate and a similar proportion unsure. The results indicate a degree of scepticism and uncertainty amongst many ASEAN life insurance executives on the tangible benefits to them of the AEC.

Q4. Which country do you think will benefit most from AEC?



The survey findings reinforced the view held by many commentators that Singapore stands to gain the most from closer economic collaboration with its ASEAN neighbours by virtue of the relative sophistication of its market. A relatively high proportion (17%) thought Indonesia, as the largest ASEAN economy and a growing force on the world stage, would be the most positively affected member state. Interestingly, a significant proportion (14%) felt that Myanmar would benefit the most, similar to Thailand, Vietnam, Cambodia and Laos combined.

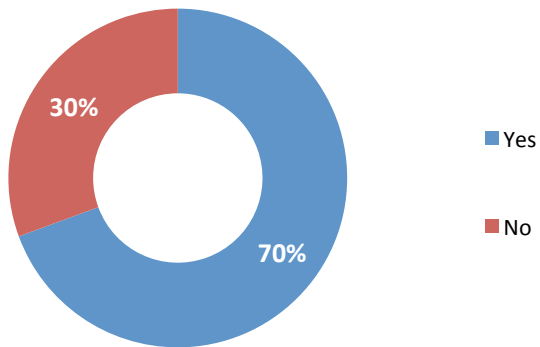
Q5. How do you think that AEC will change the level of solvency capital requirements in your market?



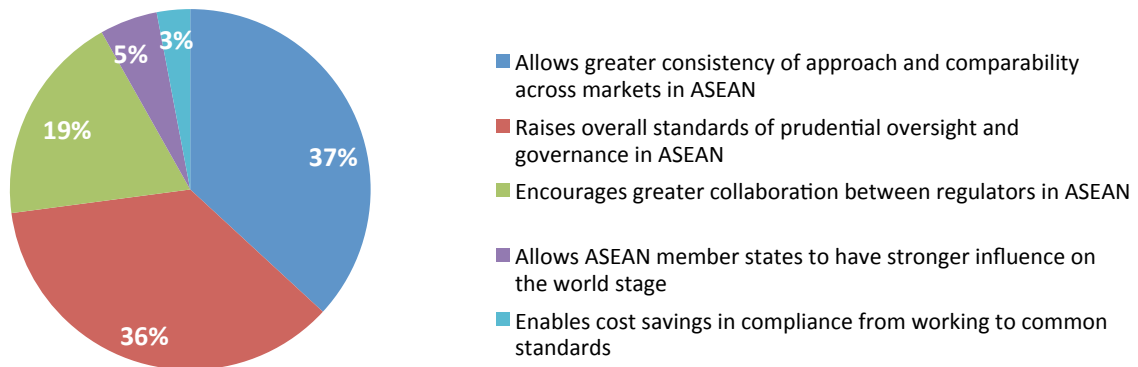
The survey findings suggested a strong consensus of opinion that the AEC would lead to slightly higher or similar levels of required solvency capital. However, only a small proportion (6%) felt that the increase would be significant.

Whilst many of the ASEAN markets have introduced risk-based capital frameworks over recent years, large differences exist in the nature of the requirements and the relative capital intensiveness of comparable products across different member states. It will be interesting to see whether the AEC implementation will lead to greater convergence in solvency requirements across member states and/or changes in product design and product strategies.

Q6. Do you see benefit in common insurance regulation across ASEAN?

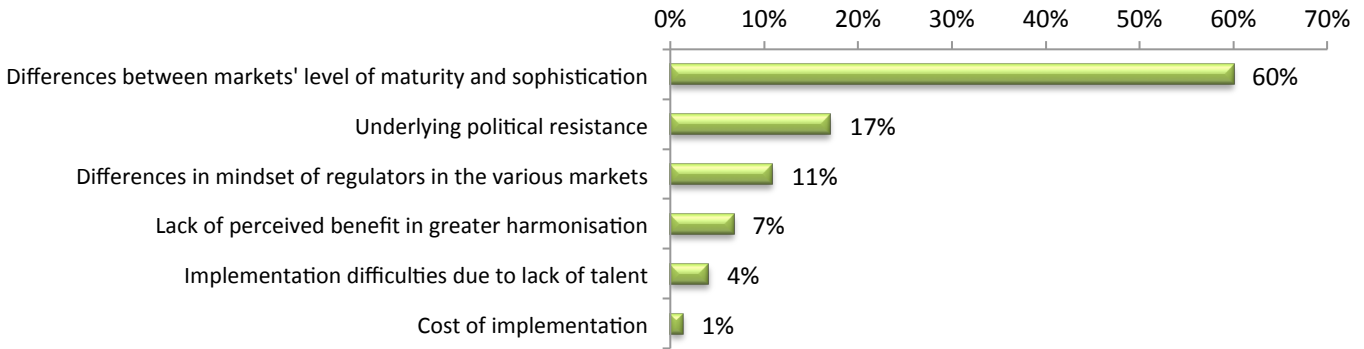


Q7. If yes, what do you see as the main attraction?



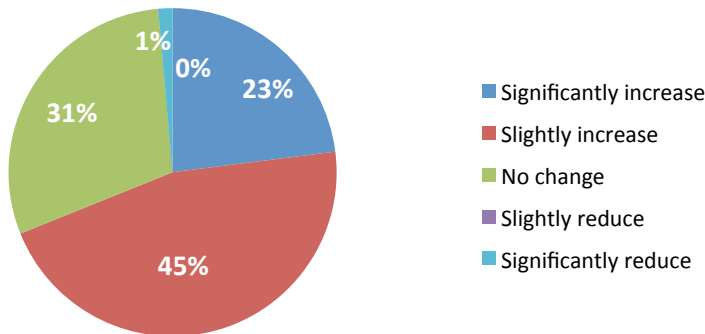
Based on the survey, the general feeling was that common insurance regulation had advantages, in particular in providing more comparability and consistency across markets and increased oversight and governance. Many respondents also saw benefits from closer ties between regulators across ASEAN, a trend that has been gathering pace in recent years. A significant proportion of respondents (30%), however, were not convinced that common regulation was advantageous at all.

Q8. What do you see as the single most significant obstacle in moving to common insurance regulation?

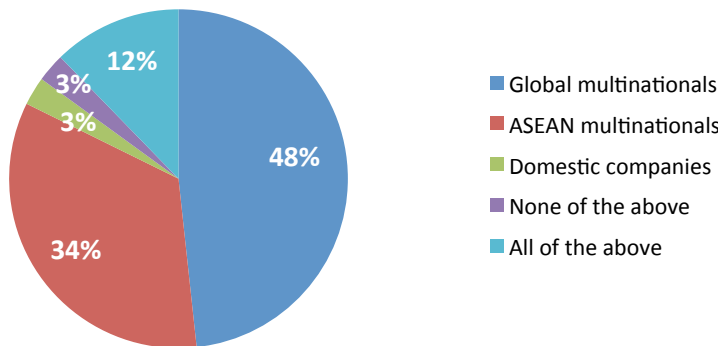


Respondents felt that the main barrier to introducing common insurance regulation in ASEAN was the disparity in the maturity and sophistication of markets. Many respondents also envisaged political constraints coming into play, with one saying: *“It will be political, involving reciprocity on what are perceived to be mutually beneficial terms (i.e., probably not much cooperation within insurance).”* Implementation cost and talent issues were felt to be far less significant obstacles.

Q9. How will the AEC impact competition in your market?



Q10. Who do you think will benefit the most in the life insurance sector from the AEC?



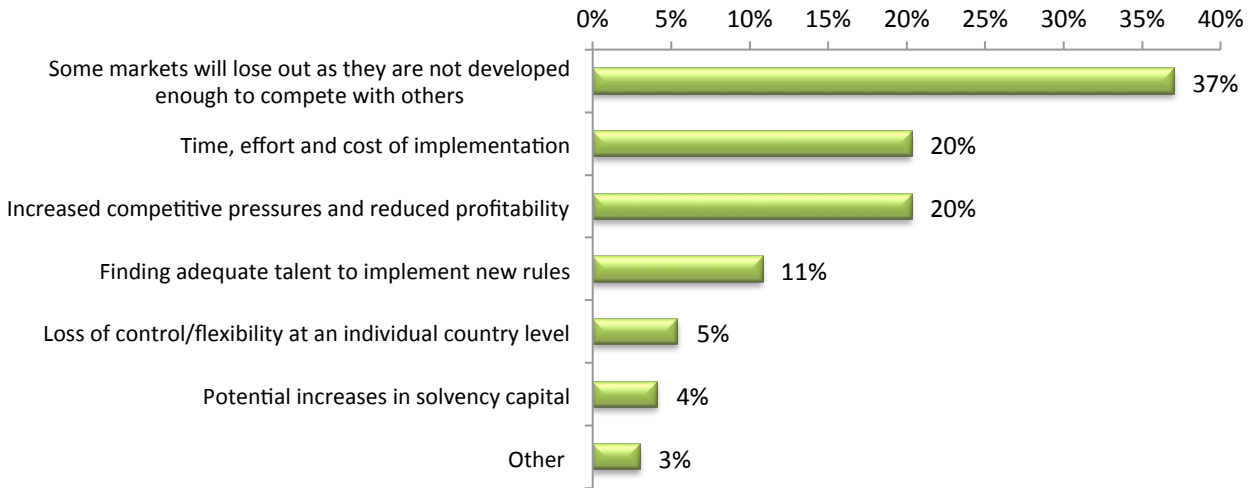
Nearly 70% of respondents thought that competition would intensify as a result. Only one respondent felt that it would reduce. The survey findings suggest that the AEC will be more positive for multinationals, especially global multinationals, compared with domestic companies.

Q11. What do you see as the biggest benefit in the life insurance industry in your market from the implementation of AEC?



Respondents felt that the opportunity to sell products cross-border within ASEAN could be a major benefit of the AEC. The chance for greater innovation and more connected thinking to tackle common challenges and take advantage of common opportunities were also seen as benefits. Some people, possibly those working for multinationals, felt that the main benefit could be the increased portability of staff.

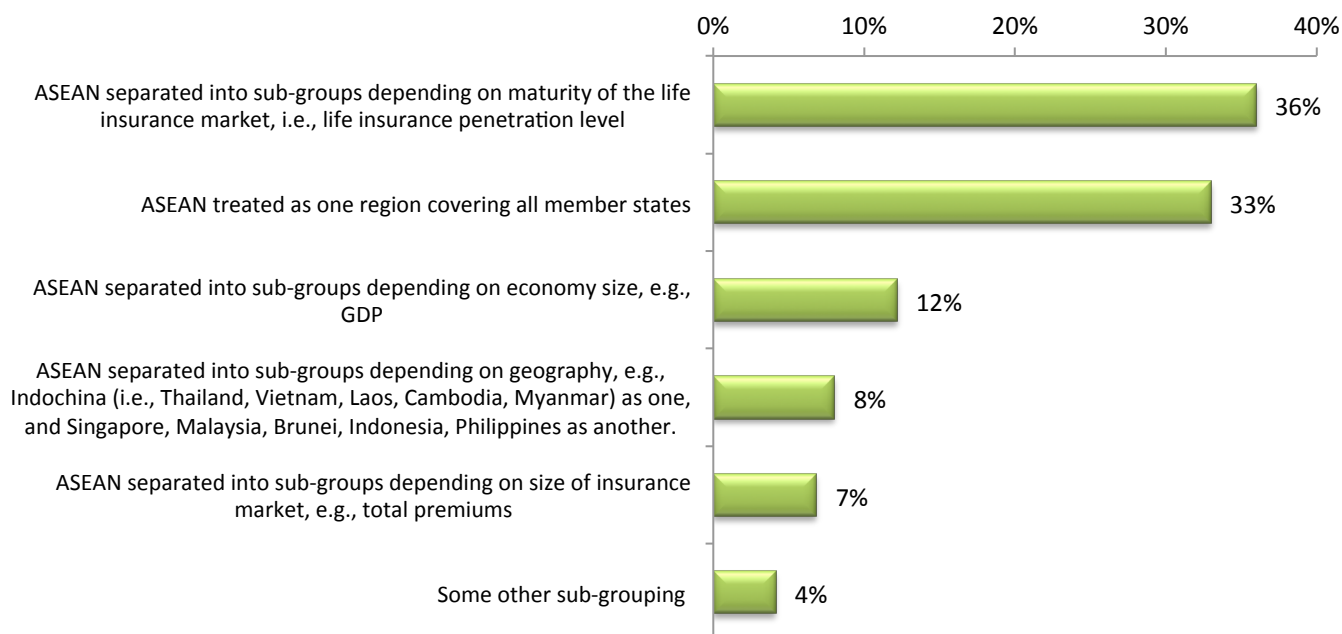
Q12. What is your biggest concern over the implementation of AEC to the insurance industry in your market?



Many respondents (37%) expressed concern that the AEC would disadvantage the less developed markets within ASEAN. 20% of respondents were worried about the increased competitive pressures, and a similar proportion about the practical logistics and cost of implementation.

One of the “Other” respondents commented:
“Countries will go through the pretense of opening up their markets but in practice will put in place significant hurdles”.

Q13. At what level do you think cooperation under the AEC framework is most sensible for the life insurance industry?



The survey findings indicate a divide. A significant proportion of respondents (33%) preferred the AEC to be rolled out across ASEAN region in its entirety. However, many others believed that some sub-division of member states was more sensible. The most popular sub-grouping suggested was one based on the relative stage of maturity of the life insurance market. Some respondents within "Other" felt that a common framework could apply across all member states for certain core items, but with freedom of discretion for others depending on market maturity.

Conclusions

The AEC survey findings suggest a general consensus that closer economic integration amongst ASEAN member states is likely to be beneficial. However, scepticism and uncertainty remain over the practicalities of implementation, and there is a degree of concern on how to allow for differences in the state of maturity of the constituent markets and reduce competitive disadvantage.

The findings suggest there may be clear winners, with Singapore, Indonesia, Myanmar and multinationals all featuring prominently.

We may see increasing polarisation in ASEAN as a result, with some multinational groups operating across different markets able to take advantage of their existing platforms and regional connections to leverage synergies, whereas domestic players may find it more difficult to take advantage of closer economic integration.

The survey findings also imply that issues such as the relative strength of local required solvency capital regimes may become more important.

It also, perhaps, gives cause for optimism for the life insurance industry. Implementing pan-ASEAN solutions in areas such as ageing populations/retirement planning, closing the protection gap, managing asset-liability duration mismatch and making use of digital technology may be more feasible within a framework of closer sub-regional collaboration. It will be interesting to see whether the AEC will lead to shifts in the competitive landscape and create opportunities for some players to implement "game-changing" strategies.

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