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BEST'S ASIA-PACIFIC WEEKLY

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BEST'S ASIA-PACIFIC WEEKLY
A.M. Best Company
Insurance Newsletter
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Aviva Asia Chair: Online Platforms A Bigger Worry Than Insurtech

Chris Wei, executive chairman at Aviva Asia, said insurtech start-ups are capturing attention but lack customers. However, the large online platforms in Asia and elsewhere are more likely to disrupt the established insurance sector. Wei spoke with A.M. BestTV at the Asia CEO Insurance Summit in Singapore.

View the video version of this interview at: *http://www.ambest.com/v.asp?v=wei217*

Following is an edited transcript of the interview.

Q: Let's talk about innovation, digitalization, some of the themes of this conference. How do you think these are transforming the insurance industry here in Asia?
A: I don't think it's moving fast enough in Asia as a region. We have to keep in mind that Asia's a large geographic area with a lot of countries. Every country's in a different state of maturity.

If I look at Singapore and China, for example, you've got very high mobile device usage, a lot of smartphones and people are doing more and more digital transactions. The fastest developments are in China. It's extraordinary what's happening there.

You've got the major platforms there like Tencent and WeChat or Alibaba, Ant Financial, or the Baidus of the world getting into financial services. They're really disrupting traditional banking. They will do the same to our industry.

It's all about starting with that massive purchase funnel and engagement. These guys know exactly how much time customers are spending on their platforms, how many times they come back, why they come back, what they want to do on those platforms. It's about share of time. When you have that luxury of having repeat customers, it's how that's going to translate into potentially a really disruptive purchase funnel.

Q: Do you think we're paying enough attention to what's happening in China? Are we doing our best to try and embrace what they've done there for the industry and the rest of Asia and the rest of the world?
A: It's really difficult if you have a large existing traditional business. I would say that is our situation in most of the world. We need to have a separate team, totally separate in order to focus on what's happening.

"In five years, I would stake a lot of money... to say we will not see the current lists of incumbents as the leaders. We need to not fall behind them."

Chris Wei
Executive Chairman
Aviva Asia

It's not just the focus. It's also bringing in talent that understands the nuances of how to

Inside Highlights:

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do digital business. I'll give a really practical example. We looked at our search engine optimization results and we weren't happy with them. We were wondering why. It's because we brought the experts in and they said, "By the way, your optimization strategy is seven generations behind what Google is doing now." We were still on thousands of pages of content, lots of keywords. We thought if you hit the keyword, then you'd flip to the top.

It's all about engagement now. It's all about the customer experience. If Google doesn't think you deliver a good one they're not going to rank you high. It's not about paid search because that's no different than buying TV time and it's expensive.

As we think about optimizing communication strategies and building products that are going to be applicable on a digital format it requires a fundamental rethink as to how we operate as an insurance company.

Q: Do you think that you've come a long way in terms of customer centricity?
A: We've got a long way to go. We've come a bit of the way. The industry is used to building products that have a lot of contractual protections but it's managed through quite an expensive intermediated channel.

Going forward, if we do believe that consumers will embrace digital and that there will be digital disrupters rethinking that model, then we've got to build products that are really simple, really transparent, deliver good value, don't have your traditional penalties and lockups. That requires a fundamental rethink.

It's difficult to shift a large number. We've got 33,000 employees in the group. For all 33,000 to suddenly embrace and believe that there is another way of doing things when they've done things a certain way for five decades, it's really difficult. It's a slog. If we don't move fast enough though, those that don't have any legacy issues can leap ahead. That's the bit that I am worried about. I can speak for Aviva. We are absolutely committed right from the board and top down that this has got to be a direction we take.

Q: Are you concerned about some of the potential new players who don't have that legacy problem?
A: I do. This is going to sound a bit arrogant. I'm not as worried about new insurtech ideas because they will have the same challenge as any other startup, which is they don't have an existing customer base.

The luxury we have is that we have a large existing customer base. We've got to figure out how to engage them now. It's an interesting conundrum that we both face. Ultimately the ones that we really worry about are the dominant platforms that we all know. It is the Googles. It is the Facebooks and the Instagrams. It is the WeChats of the world. When you have customers naturally wanting to come back every single day for quite a lot of time, that's a huge luxury. They recognize that advantage. They don't take advantage of the customer and eliminate the trust that's been built. We've got to figure how we tap into that in a really open, non-intrusive way.

Q: Tell us a little bit more about the strategies that you've used and how that has transformed the company.
A: For us, interestingly, we have invested a huge amount of effort bringing all of our customer data together. This is an internal Aviva closed-loop platform. This is all of our customers across all of the product sets. We used to have it all fragmented. We used to think about customers in terms of a policy number. That's how insurance companies operate. Now we think of you actually as a customer. We know everything you hold with us. That in itself was a massive effort that took more than 18 months. I won't tell you how much investment but it was a starting point.

If we didn't get that done we couldn't engage you online. We couldn't provide you a centralized composite service model. We wouldn't actually know how to value you as a customer. Now we've got new connection points. A customer that buys this product will also like these other products.

Upcoming Insurance Events

- **March 5-8:** American Council of Life Insurers Refocus, Las Vegas. A chief investment officer panel will look at investing challenges and strategies, a doctor will talk on human genomics and medicine in the future, two council executives will look at the Department of Labor fiduciary rule during the multiday conference.
- **March 6-8:** International Risk Management Institute Energy Risk & Insurance Conference, Dallas. The events gathers what organizers call a "who's who" in understanding, mitigating and insuring complex oil and gas risks.
- **March 6-8:** National Association of Professional Surplus Lines Offices Mid-Year Leadership Forum, Fort Lauderdale, Florida. Members attend a town hall meeting and network widely.
- **March 7-10:** Valen Analytics 2017 Valen Summit, Avon, Colorado. Practical implications and ways to modernize key decisions and avoid pitfalls of large scale change are offered at the summit.
- **March 7-8:** Combined Claims Conference, Garden Grove, California. The conference has liability, property and special investigations unit educational tracks, with continuing education for adjusters, attorney, brokers and investigators.
- **March 12-15:** American Council of Life Insurers Financial & Investment Roundtable, Savannah, Georgia. Topics covered will be value generation, economic and political risks in China and strategic and tactical uses of exchange-traded funds in a portfolio.
- **March 12-14:** Captive Insurance Companies Association International Conference, San Diego. The event covers disruptive technology and cyber-risk and the sharing economy.

A complete list of the industry's upcoming conferences and events is at *www.ambest.com/conferences/index.html*

That is also the building blocks of, if you want to do artificial intelligence, if you want to do much more appropriate needs-based targeting so that the customer doesn't feel that you're flogging something at them. That was a huge bit of investment.

The next was upgrading all of our digital architecture and rethinking how we optimize it. If you're on old technology you can't do quick A/B tests. Now that we're on new technology you can do 100 a day. We're doing refinements every single day. It's a different, agile way of thinking.

Again, it's a long journey. You need to not worry about building an investment case and just jump into it and say, "I've got to do this." Otherwise it's a non-starter.

Q: How do you envision the insurance market is going to perform going forward from a tech point of view?

A: That's a tough question. From a tech point of view, the large incumbents are all going to have to work through a lot of legacy infrastructure. A lot of that's getting a bit dated. The good news is there is more and more middleware technology that's being created that helps bridge new with old.

That's allowed us to accelerate. Frankly, we couldn't do what I just described five years ago. It would take too much money. It would be too complicated. It wouldn't be flexible enough. Right through the technology value chain there's new thinking.

That in itself is innovation because it allows large incumbents like ourselves to actually modernize our platforms in a much more frictionless approach. You've got to make that investment. You've got to say, "I've got to do it."

I go back to the point, new companies will pop up. We're seeing a lot of activity amongst the large platform owners that know this is an area that is ripe for disruption. In five years, I would stake a lot of money, a lot of my personal wealth, to say we will not see the current lists of incumbents as the leaders. We need to not fall behind them.

View this and other interviews at *http://www.ambest.tv*

(By Ernesto Calucag, Hong Kong news editor: Ernesto.Calucag@ambest.com)

Indonesian Regulator Raises Insurers' Minimum Capital Requirements

Indonesia's Financial Services Authority (OJK) has increased the mandatory minimum capital requirements for new players in the local insurance industry, according to a note by Jakarta-based law firm Hiswara Bunjamin & Tandung.

Under the OJK Regulation 67/2016, a newly set-up insurance company must comply with higher minimum capital requirements of 150 billion rupiah (US$11.25 million) from the previous 100 billion rupiah for conventional insurers, and 300 billion rupiah from an earlier requirement of 200 billion rupiah for reinsurance companies.

New Shariah insurance and reinsurance companies must also have higher capital amounting to 100 billion rupiah and 175 billion rupiah, respectively from previous capital requirements of 50 billion rupiah and 100 billion rupiah.

An existing insurance company planning to change its ownership through acquisition or addition of new shareholders must also comply with the new minimum paid-up capital requirements, according to the note by Hiswara Bunjamin & Tandung.

"This is an issue to watch-out for in mergers and acquisition due diligence as the proposed M&A

transaction may trigger the requirement to inject fresh capital into the target insurance company, in the case where the target is currently not compliant with the new higher minimum paid-up capital requirement," the law firm said

In 2015, the OJK allowed insurance companies to meet only 50% of the minimum capital requirement as part of a stimulus policy package to help local insurance industry weather the impact of volatile currency and capital market at that time (*Best's News Service, Sept. 29, 2015*).

In addition to higher capital requirements, the OJK clarified the definition of "controlling shareholder" by providing a quantitative threshold similar to that applied in the Indonesian banking sector. Under its definition, a controlling shareholder is any party who directly holds 25% or more of the issued shares of the insurance company (with voting rights); or a party who directly holds less than 25% of the issued capital of the insurance company (with voting rights), but the relevant party can be proven to have exercised control over the insurance company.

The controlling shareholder definition relates to the single presence policy requirement introduced in the Insurance Law 2014 in which a controlling shareholder is now limited to owning just one specific insurance operation in Indonesia. Insurance companies have to comply with this rule by October this year.

In the recent regulation, the OJK outlined allowable corporate actions to comply with the single presence policy requirement. Under the guidelines, the controlling shareholder may either merge or consolidate insurance companies under its control; divest a part or whole of the shareholding in the insurance companies under its control so that it is no longer the "controlling shareholder" of such insurance companies; or undertake other corporate actions approved by the regulator.

"This implementing regulation demonstrates OJK's resolve to further promote the consolidation of the insurance industry in Indonesia. Single presence policy considerations are now, in practice, an essential part of the preliminary structural considerations to be taken into account in the early stages of insurance M&A in Indonesia, as such considerations can significantly affect the assessment of deal-execution risk and how critical implementation steps are executed," the law firm noted.

The OJK requires insurance companies which have not complied with the single presence policy to submit its compliance action plan by June 28, containing at least the compliance method, stages of implementation, and timing of implementation.

(By Ernesto Calucag, Hong Kong news editor: Ernesto.Calucag@ambest.com)

Japan's Life Insurers React to Tougher Environment With Various Measures

Japan's life insurance companies have combated a challenging market environment, as insurers have posted declines in profit and premiums in the third quarter of the 2016 fiscal year ended Dec. 31, 2016, according to their financial statements.

Nippon Life Insurance Co., the largest mutual life insurer, saw a 39.7% fall in net income to ¥188 billion (US$1.7 billion) on a consolidated basis for the 2016 third quarter. Its premium and other income fell 10.7% to ¥3.9 trillion, according to its financial statement.

Dai-ichi Life Insurance Co. Ltd. also reported a 3.6% and 9.9% drop in net income and premium and other income to ¥101.8 billion and ¥1.9 trillion, respectively, in the third quarter. Dai-ichi Life Holdings Inc. "has made progress in diversifying its business inside and outside Japan," said the life insurer in a statement. Its growth strategies aim to expand overseas business to enhance profit contribution outside Japan.

"Life insurers certainly face a tough environment, which is creating immense challenges to their major businesses in the domestic market..."

Seewon Oh
Associate Director of Analytics
A.M. Best Asia-Pacific Ltd.

"Life insurers certainly face a tough environment, which is creating immense challenges to their major businesses in the domestic market, as they have experienced shrinking profits caused by the suppressed conditions in the financial markets and stagnated insurance demand," said Seewon Oh, associate director of analytics at A.M. Best Asia-Pacific Ltd.

In coping with these challenges Oh said, "major life insurers have made large investments into overseas life insurance businesses to support growth." Also, most companies continue to improve their cost structure for better margins. For insurance sales, they shifted to a new product mix, which is less sensitive to interest rate movement.

In the past year, some life insurers have lowered their assumed interest rates and suspended the sale of single premium products in order to mitigate the adverse impact of low and declining interest rates. "Various counter measures are likely to continue in the low rate environment in order to avoid widening negative interest spread," noted Oh.

For instance, Meiji Yasuda Life Insurance Co. has lowered assumed interest rates, partially suspended the sales of single premium products and controlled group pension underwriting in a bid to control risk and maintain financial soundness. The life mutual insurer's premium and other income decreased 17% to ¥2.1 trillion on a consolidated basis in the third quarter, according to its financial statement. Net income dropped 28.3% to ¥124 billion.

Recently, Nippon Life raised monthly premium rates between 3.6% to 27.3% for its policies, including whole life, annuity, education endowment, long-term care, critical illness, nursing care and cancer insurance.

The new rates will take effect in April, said Nippon Life in a statement. Guaranteed interest rates were revised downward by between 0.3% to 0.75% for life policies, including education endowment, annuity, whole life, medical, nursing care, critical illness and cancer insurance (*Best's News Service, Feb. 7, 2017*).

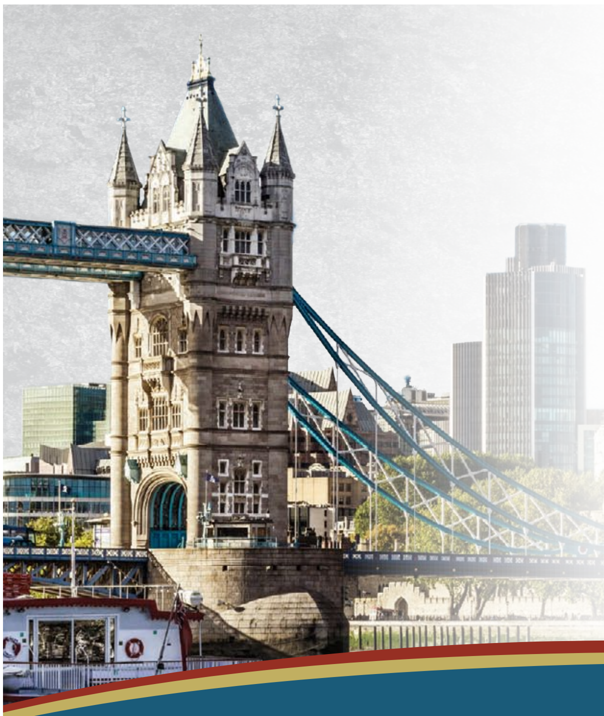
In its financial presentation last year, Aflac Japan said it reduced its first-sector savings products sales and discontinued sales in select channels while taking additional pricing actions. The company has focused its efforts on third-sector cancer and medical products, which are less interest rate sensitive than first-sector products.

Earlier, the Financial Services Agency made suggestions to lower the benchmark rates recommended to insurers for calculating their promised returns to customers. Japan's life insurance sector saw a 15.5% drop in net income to ¥672 billion in the first half of the 2016 fiscal year ended September 2016, according to the FSA's report on 18 life insurers, including Japan Post Insurance Co. Ltd.

The long asset duration that insurers hold implies reinvestment at a lower rate will take some time to impact earnings and capitalization, said Oh. However, the continued low rate environment will have a negative impact on earnings, and consequently capitalization, over the long term.

In resorting to this challenge, life companies have steadily reallocated their assets investment from government bonds to foreign bonds and securities. Japan Post Insurance Co. Ltd. said its investment in risk assets including foreign securities and domestic stocks rose to ¥7.97 billion, representing 9.9% of total assets in the third quarter of 2016 fiscal year.

(By Iris Lai, Hong Kong bureau manager: Iris.Lai@ambest.com)



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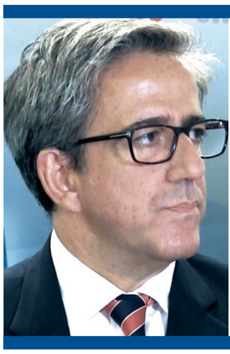
A.M. Best A-P Managing Director: Regulation Will Spur Asia Captive Growth

Jose Ribeiro, managing director, Asia-Pacific, A.M. Best said the number of Asian insurance captives will grow, including Chinese companies and possibly by Japanese sponsors who redomicile their captives from other parts of the world. Ribeiro spoke with A.M.BestTV at the Asia Captive Summit in Singapore.

View the video version of this interview at: *http://www.ambest.com/v.asp?v=ribeiro217*

Following is an edited transcript of the interview.

Q: Let's start by talking about the current captive insurance market scene here in Asia. Tell us what's happening.
A: It's a developing market. If you look at the number of captives globally, there are about 7,000 captives globally, of which 45% are domiciled in the U.S., 40% in the U.S. offshore, including Bermuda, 12.7% in Europe and only 2.3% in Asia.



"Clearly a lot of the growth will come from China. The regulator in China has a clear strategy to create and develop captive domiciles in the country."

Jose Ribeiro
Managing Director, Asia-Pacific
A.M. Best

When you look at the potential of the economy and you compare it with the percentage of captives domiciled in Asia, clearly you can see there's a huge opportunity for growth. Of those roughly 150 captives, 70 are based in Singapore, around 40 in Labuan, 20 in Micronesia and six between Hong Kong and China. The rest are scattered. That gives you an idea of the growth potential, particularly from China, which currently only has five captives all together.

Q: Any expectations about how that 2% number might rise?
A: Yes. Clearly a lot of the growth will come from China. The regulator in China has a clear strategy to create and develop captive domiciles in the country. They have also incentivized Chinese parents to create captives that I believe will be domiciled mainly in China but some of them could be in Hong Kong as well.

Q: That's the expectation but is Asia ready for more captives?
A: Absolutely. The Japanese have led the way for years now. Japanese parents own around 100 captives but mainly those captives are based in places like Hawaii and Bermuda. As the Asian domiciles become more sophisticated, from a regulatory perspective, more and more Japanese captives will consider redomiciling to Asia.

One of the domiciles that is becoming more appealing to Japanese captives is Micronesia, which in the last 10 years has come from nowhere to around 20 captives now.

Q: Why is that such a popular location?
A: Because in Micronesia they've created a regime that basically allows Japanese captives to deal in Japanese and have the management meetings and board meetings in Japan. Also, they can even have bank accounts with Japanese banks in Japan. That makes the whole process much easier for them.

Having a captive on the other side of the world is not only a huge challenge considering distance and time differences but also in terms of the logistics involved in running a captive. It's probably not the best solution for them as they revisit their options..

Q: Going forward, what opportunities and challenges do you think we'll be seeing?
A: I think the biggest challenge is not really an Asian challenge. I think the biggest challenge is this initiative that is now being led by the OECD. It is called BEPS.

The idea and the concept behind it is that most countries are concerned with captives being used as tax avoidance mechanisms as opposed to working as an integral part of their risk management strategies.

More and more, companies will have to justify why they have created a captive, why is their captive domicile in the place it is domiciled and demonstrate that it is really playing a role that is important to the business, as opposed to just a way to optimize the tax bill of the corporation. I would say that this initiative is probably the single biggest challenge that the captive industry is currently facing.

Q: How difficult will it be to overcome that?
A: It will be difficult because the tax authorities are very much focused on making sure that captive arrangements do not have a material impact on the tax bill. They're happy if these arrangements are justified as a solid business decision, not fundamentally as a tax decision.

It's going to be a struggle but I think risk managers and the risk management associations like FERMA in Europe and others are having an open dialogue with the people running the BEPS initiative. I think progress is being made but again too soon to say.

(By Ernesto Calucag, Hong Kong news editor: Ernesto.Calucag@ambest.com)

Thailand's Life Insurance Premiums Rise 6% in 2016

Thailand's life insurance market grew 6% in 2016, with total premiums reaching 568.26 billion baht (US$16.3 billion), according to the latest data from the Thai Life Assurance Association.

New business premiums comprising first year and single premiums accounted for 28% of the total premiums with 161.6 billion baht, down 6% from the previous year. Renewals comprise the rest with premiums amounting to 406.7 billion baht, up 11% from 366.1 billion baht in 2015.

Thailand's three biggest life insurers have a combined 51% market share.

Hong Kong-based AIA is still the biggest player, with total premiums of 121.2 billion baht or 21.3% market share. Muang Thai Life is the second-biggest, with total premiums of 97 billion baht or 17.1% market share. Thai Life is the third-biggest with premiums of 80.5 billion baht in 2016, equivalent to 14.2% market share.

The Thai life market has 24 players as of year-end 2016.

Early this year, Thailand's Ministry of Finance issued two separate rulings that will relax the foreign shareholding and board limits for local life and nonlife insurers. In a note by Bangkok-based law firm Tilleke & Gibbins International Ltd., the rulings stated a licensed insurer may apply to the Thai Finance Minister for permission to have more than 49% and up to 100% foreign shareholding, and for foreign directors to comprise more than half of the directors on the company's board (*Best's News Service, Jan. 23, 2017*).

Thailand Life Market
Select 2016 results.
(Baht Billion; US$1 = baht)

			% change
New Business:	161.6	▼	6
Renewals:	406.7	▲	11
Total Premiums:	568.3	▲	6

Source: The Thai Life Assurance Association

"This appears to be a significant movement for the Thai insurance industry, especially on the life insurance side. For the past several years, there has been some direction toward liberalization on the nonlife insurance side — possibly due to the various catastrophic events within Thailand over recent years," Athistha Chitranukroh, a counsel in Tilleke & Gibbins' corporate and commercial group, said in a statement.

(By Ernesto Calucag, Hong Kong news editor: Ernesto.Calucag@ambest.com)

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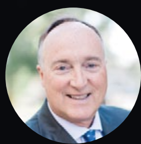

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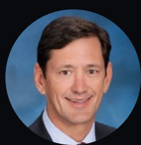

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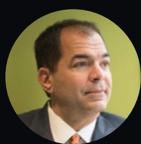

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MS Amlin Acquires Hong Kong Yacht Underwriter

Specialty insurer MS Amlin said it entered into an agreement to acquire Phoenix Underwriters, a Hong Kong-based managing general agent that specializes in yachts and commercial craft.

The insurer said the acquisition forms “a key part” of its strategy to grow its marine business and provides what it calls “a comprehensive range of marine insurance products across the Asia-Pacific region.” Phoenix Underwriters was established in 2001 by Colin Sims and has four employees as a stand-alone agency that handles underwriting, claims, accounting and administrative functions, said MS Amlin in a statement.

“The acquisition continues our international strategy of adding marine products to our core portfolio and providing our clients with a broader marine insurance offering,” said Simon Clarke, chief executive officer of MS Amlin Asia Pacific, in a statement.

The Phoenix team will integrate into the MS Amlin Hong Kong office during 2017, according to MS Amlin.

Japan-based MS&AD recently posted a 22.8% rise in net income to ¥209.6 billion (US$1.86 billion) on a consolidated basis in the third quarter of its 2016 fiscal year (ended Dec. 31, 2016) on improved underwriting profit.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)

Japan Post Insurance Increases Risk Asset Investments Amid Low Rates

Japan Post Insurance Co. Ltd. said its investment in risk assets, including foreign securities and domestic stocks, rose to ¥7.97 trillion, representing 9.9% of total assets in the first nine months of 2016 fiscal year ended Dec. 31, 2016.

The life insurer’s total assets dropped 1.5% to ¥80.3 trillion. Net income and ordinary income dropped 6.5% and 10.9% to ¥68 billion and ¥6.5 trillion, respectively, it said in a statement. The full-year forecast for net income stands at ¥86 billion, up 1.3% from a year ago. Bonds investment was ¥58.3 trillion, accounting for 72.6% of total assets as end of December 2016, down from 73.4% as end of March 2016. Interest rates for the 10-year Japan Government Bonds declined to 0.04% in the third quarter from 0.27% a year ago, said Japan Post Insurance.

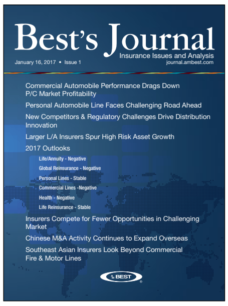
The shift of asset portfolio led to the biggest growth of foreign bonds investment to ¥6.1 trillion as end of December from ¥3.97 trillion as end of March, representing 7.6% of total asset. Investment yield stood at 1.73% in terms of average assumed rates of return in the third quarter, down from 1.77% a year ago, according to Japan Post Insurance.

Last year, Japan Post Insurance launched an asset-management unit for the development of alternative investments for the company. The division looks into the development of new and alternative assets for diversification of investment and improvement of investment yield. Japan Post Insurance said this new structure aims to support alternative asset investments on top of the traditional portfolios (*Best’s News Service, Oct. 18, 2016*).

New individual life policies reported a 5.5% rise in annualized premiums to ¥383.7 billion. New medical insurance policies increased 5.4% to ¥39.7 billion in annualized premiums.

(By Iris Lai, Hong Kong bureau manager: Iris.Lai@ambest.com)

Best's Journal



Briefing: Reserve Strengthening to Follow U.K. Personal Injury Discount Rate Change
The earnings of U.K. insurers are expected to be hit by reserve strengthening following the U.K. government's announcement of a dramatic cut to the discount rate used to calculate lump-sum personal injury compensation. March 1, 2017

Briefing: U.S. Treasury Terrorism Data Call Nearing For Captive Insurers
The U.S. Department of the Treasury will be issuing its first terrorism data call, requiring all insurers to submit their terrorism data by no later than May 15, 2017. February 28, 2017

Briefing: Improved Operating Results for Japanese Non-Life Insurers Support Increased Level of Financial Leverage
Japanese non-life insurance groups have reported moderate increases in their financial leverage, while interest rate coverage remains stable owing to improvements in their operating results. Feb. 27, 2017

Briefing: A.M. Best Comments on New York State's New and Revised Regulations On Cybersecurity
On February 16, 2017, the New York State Department of Financial Services finalized and released new cybersecurity requirements that will take effect March 1. Feb. 22, 2017

Briefing: Political Instability and Financial Volatility Remain Key Headwinds For Italian Insurers
Italy's volatile financial and political environment will pose challenges for the domestic insurance sector in 2017. Feb. 22, 2017

China's Regulator Restricts Evergrande Life From Stock Investment for One Year

The China Insurance Regulatory Commission has banned Evergrande Life Assurance Co. Ltd. from stock trading for one year due to the life insurer's violations of asset-management regulations, according to a statement from the regulator.

The regulator has lowered the limit for Evergrande Life's equity investment to 20% of its total assets. The CIRC said two executives of the life company were barred from the insurance industry for five and three years, respectively.

The life insurer violated investment rules, and its short-term stock trading last year had a "vicious social impact," according to the regulator. The CIRC conducted a site investigation on Evergrande Life last December. The regulator found the life insurer's breach of asset management and internal control requirements, said the CIRC.

Last year, the CIRC suspended Evergrande Life from investing in the country's stock markets. Evergrande Life had actively participated in short-term stock speculation investment activities, according to the regulator. The CIRC said the company did not comply with the insurance investment rules, which require a clear asset-liability management plan and transparent operation.

The regulator has strengthened supervision of insurance investments and risk management, with new measures on corporate governance, information disclosure, asset-liability management and stock investment. The CIRC said the insurance industry should invest for the long-term, valuable and stable asset management, along with reform on insurance investment.

Recently, the regulator introduced the first corporate governance site assessment of both local and foreign insurers. There will be a comprehensive evaluation of insurers' corporate governance and shareholder backgrounds, said the CIRC. The regulator is also taking vigorous measures to curb insurers' speculative investments, hostile takeovers and other risky activities through stricter regulatory control.

(By Iris Lai, Hong Kong bureau manager: Iris.Lai@ambest.com)

China's Regulator Penalizes Foresea Life, Bars Chairman From Insurance Industry

The China Insurance Regulatory Commission has punished Foresea Life Insurance Co. Ltd. for violations of corporate governance and asset-management rules, according to a statement from the regulator.

The regulator has also barred Foresea Life's chairman Zhenhua Yao from the industry for 10 years. The CIRC said it has imposed various punishments on Foresea Life, including a fee penalty and revocation of the executive's qualification.

The CIRC conducted a site investigation of Foresea Life and discovered the insurer's breach of rules related to asset-management and submission of false materials. With rapid insurance business growth, the CIRC said there have been issues concerning insurers' aggressive stock trading and takeover activities. The regulator said it will impose penalties on insurers for any violation of investment rules.

Last December, the CIRC suspended Foresea Life from selling universal life insurance products. The regulator said it was keeping a keen eye on insurers offering these popular, high-return and high-risk products to fund stock investments. The CIRC had inspected nine insurers, including Foresea Life and Evergrande Life Assurance Co. Ltd., which have a high proportion of universal life insurance products — particularly short- and medium-term policies.

In the past year, Foresea Life had participated in stock trading for share acquisitions in listed companies. In July, Foresea Life and its major shareholder Shenzhen Jushenghua, a subsidiary of Baoneng Group, raised their stakes in property developer China Vanke Co. Ltd. to 25%, according to a statement from the Hong Kong- and Shenzhen-listed China Vanke.

In November, Foresea Life purchased Gree Electric Appliances' shares between Nov. 17 and 28, increasing its shareholding from 0.99% to 4.13% at the end of this third quarter, according to a statement from the major air conditioner producer in China.

(By Iris Lai, Hong Kong bureau manager: Iris.Lai@ambest.com)

QBE's Profit Rebounds on Corrections Made in Underwriting, Pricing

QBE Insurance Group Ltd. posted a 5% jump in full-year 2016 net profit as the insurer lifted premiums in home markets of Australia and New Zealand and better managed claims.

Net profit was US$844 million. Underwriting profit rose 6% to US$668 million.

QBE Group Chief Executive Officer John Neal attributed the group's strong performance to some "corrective actions" put across underwriting and pricing in Australia and New Zealand, along with better management of claims.

As a result, attritional claims ratio in Australian and New Zealand businesses improved considerably in the second half, falling to 58.6% from 62% in the first half. During the first half last year, QBE noted a deterioration in attritional claims ratio due to several years of price reductions, coupled with claims inflation and deterioration in the performance of the compulsory third-party portfolio in New South Wales.

Premium rates in its home markets also improved toward the latter half of 2016, finishing up 1.7% for the year after an average premium rate reduction of 0.1% in the first half.

QBE also reported a better performance in North America, its biggest market which accounts for more than one-third of total group gross written premiums. Combined operating ratio improved to 97.7 from 99.8.

Gross written premium, however, decreased 5% to US$14.1 billion, reflecting the stronger U.S. dollar and the sale of the group's North American mortgage and lender services unit in 2015. QBE said the global premium pricing landscape remains very competitive as the group posted a 0.1% premium rate reduction last year.

QBE Insurance Group Ltd.
Select 2016 results.
(US$ Million)

			% change
Gross Premiums Written:	14,088	↓	5
Underwriting Profit:	668	↑	6
Net Profit:	844	↑	5

Source: QBE

Going forward, the insurer expects gross written premium to remain relatively stable in 2017, in light of the still competitive premium pricing landscape and recent exchange rate volatility. In addition, QBE targets a combined operating ratio of around 93 by 2018.

"We anticipate that the market backdrop will remain challenging in 2017, although indications of modest improvement are now emerging. The rate of decline in global pricing is easing and, while there is variation between markets, we anticipate that pricing in markets other than Australia will be broadly flat in 2017," Neal said in a statement.

"We are also encouraged by the improved U.S. macroeconomic outlook following the presidential election, while investment income should benefit from higher bond yields in all major markets," he added.

(By Ernesto Calucag, Hong Kong news editor: Ernesto.Calucag@ambest.com)

Endurance Posts Lower Fourth-Quarter Profit on Catastrophe Losses

Endurance Specialty Holdings Ltd. posted lower fourth-quarter net income on catastrophe losses related to Hurricane Matthew and a New Zealand earthquake as the group looked to its pending acquisition by Japan's Sompo Holdings Inc. Net income for the quarter fell to $20.1 million from $91.4 million a year earlier. Gross premiums written rose 34.4% to $692.9 million.

For the insurance segment, fourth-quarter GPW rose nearly 40% on non-agriculture lines of business, which include casualty and other specialty, professional lines and property, marine/energy and aviation lines, driven by new business generated from added underwriting teams, as well as the renewal of business written in the company's Lloyd's syndicate, Endurance said.

Agriculture insurance GPW fell on reduced commodity prices and "modest" policy count reductions resulting from re-underwriting of the crop/hail portfolio, the group said.

In reinsurance, GPW rose 43.3% as premiums in the catastrophe line rose on higher reinstatement premiums on current quarter events and the "successful" renewals of the combined Endurance and Montpelier portfolios, partly offset by targeted nonrenewals and line size reductions "in response to the current competitive market," said Endurance.

Premiums in the specialty line rose on lower negative premium adjustments and the expansion of new and renewal business for the aviation and trade credit and surety groups, partly offset by nonrenewals in other lines and the timing of renewals on 2015 contracts that renew in 2017.

Endurance said the property reinsurance line saw higher GPW due the absence of large negative premium adjustments that were recorded in the fourth quarter of 2015.

Endurance Specialty Holdings Ltd.
Select fourth-quarter results
(US$ Million)

			% change
Gross Premiums Written:	692.9	↑	34.4
Net Income:	20.1	↓	78.0

Source: Endurance Specialty

The combined ratio for the quarter rose to 93.7 from 76.2 a year earlier as the group reported a net negative financial impact from catastrophe losses of $59.6 million.

Catastrophe losses were mainly due to Matthew and the New Zealand earthquake in both the insurance and reinsurance segments. The insurance segment also saw higher attritional losses in the property, marine/energy and aviation lines, partly offset by a lower accident year loss ratio in the agriculture line due to favorable crop conditions.

In January, Endurance shareholders approved the proposed merger of Endurance with and into Volcano International Ltd., an indirect, wholly owned subsidiary of Sompo Holdings Inc. (*Best's News Service, Jan. 27, 2017*). Endurance said at the time it expects to complete the merger later in the first quarter of 2017.

Sompo seeks to acquire Endurance in a $6.3 billion deal intended to expand Sompo's global reach. Endurance Chief Executive Officer John Charman and his executive team are to lead what will become Sompo's international division, Endurance said at the time.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)

Malaysia's Nonlife Insurance Market Growth Slows in 2016

Malaysia's nonlife market growth tapered in 2016 to 1.1%, with gross written premium income of 17.67 billion ringgit (US$3.97 billion), half the 2.2% growth rate achieved in the previous year.

The market was affected by weak consumer sentiments and sluggish external trade amid growing uncertainties in the global environment, the General Insurance Association of Malaysia (PIAM) said in a statement.

Premiums from motor insurance, which account for about 46% of the total premiums, grew marginally by 0.8% to 8.17 billion ringgit. PIAM attributed the marginal growth rate to the downturn in local automotive market last year. New vehicle sales plunged 13% to 580,000 units, going below 600,000 cars for the first time since 2009, the industry group said.

Fire insurance, the second-largest class with a market share of 18.5%, grew 5.0% with total premiums of 3.27 billion ringgit last year.

In July last year, Bank Negara Malaysia, the country's insurance regulator, implemented the first phase of motor and fire tariff liberalization. Under the new environment, both insurance and takaful companies were given flexibility to offer motor and fire products with new features or differentiated scope of cover, at market-based prices (*Best's News Service, Aug. 30, 2016*).

Starting this year, premium rates for both comprehensive and third-party motor and fire and theft insurance will be detariffed, but this will be done gradually up until 2019 when the market is fully deregulated.

PIAM Chairman Antony Lee in a statement said that the phased tariff liberalization will transform the local insurance landscape and will impact individuals, households and business owners nationwide.

"PIAM will work closely with Bank Negara Malaysia to ensure an orderly transition to a liberalized environment. A National Consumer Education Campaign will be rolled out soon to raise awareness on the phased liberalization with focus on its objectives, benefits and expected outcomes," he said.

Lee added that it would be important for consumers to be aware of their insurance needs and risk profiles. "They should shop around for the products that would best serve their needs. Consumer engagement and empowerment will be the key differentiating factors in an open and highly competitive marketplace," he said.

Malaysia Nonlife
Select 2016 gross written premiums results
(Ringgit Billion: US$1 = 4.44 ringgit)

			% change
Motor:	8.17	↑	0.8
Fire:	3.27	↑	5.0
Medical/Health:	1.03	↑	6.6
Miscellaneous:	2.53	↑	1.7
Marine/Aviation:	1.56	↓	7.8
Total:	17.67	↑	1.1

Source: The General Insurance Association of Malaysia

For other business lines, medical and health insurance had a turnaround year with premiums of 1.03 billion ringgit, a growth of 6.6% from a decline of 4% in 2015. Miscellaneous class, comprising bonds, liabilities, engineering and workmen's compensation, registered a 1.7% growth with gross written premiums reaching 2.35 billion ringgit.

Marine aviation and transit insurance, on the other hand, declined by 7.8% with gross written premiums of 1.56 billion ringgit due largely to the reduction in marine hull insurance and the contraction in the oil and gas sector.

Moving forward, PIAM expects the operating environment for 2017 to be as challenging as the previous year given the ongoing uncertainties in the external environment and a less than buoyant economy. "A low growth rate is likely to prevail for the year ahead," the industry group said.

(By Ernesto Calucag, Hong Kong news editor: Ernesto.Calucag@ambest.com)

AIA's Net Profit Rises 50.6% in 2016

AIA Group Ltd. reported a 50.6% surge in net profit attributable to shareholders to US$4.2 billion on a consolidated basis for the 2016 year ended Nov. 30, 2016, according to the Hong Kong-listed life insurer's financial statement.

Premium and fee income increased 10% to US$21.8 billion in 2016, while investment return surged 66.6% to US$7.6 billion, according to AIA. Its total assets rose to US$185 billion as end of November 2016, from US$169.8 billion.

New business value grew 28% to US$2.8 billion and annualized new premiums rose 31% to US$5.1 billion in 2016. This achievement is "the direct result of the strong fundamental growth drivers in the Asia-Pacific region, our highly diversified and resilient business model," said Mark Tucker, group chief executive and president of AIA.

Operating profit after tax on international financial reporting standards rose 15% to US$3.98 billion, supported by diversified and resilient earnings. Tucker said "we have achieved record new business profits, significant earnings growth, strong surplus generation and a step up in shareholder dividends." Embedded value operating profit increased 19% to US$5.9 billion.

The Hong Kong market generated the biggest operation profit of US$1.3 billion, accounting for 34% of the total. Thailand, China and Singapore contributed to 19%, 12% and 11% of operating profit after tax, respectively. Looking ahead, AIA said "Asian macroeconomic fundamentals remain resilient and continue to deliver strong growth supported by domestic drivers of demand." Emerging Asia remains one of the most well-positioned regions in the global economy.

China achieved operating profit growth of 29% to US$469 million in 2016, mainly driven by the benefits of increasing scale from profitable new business and quality earnings. China also posted the fastest new insurance growth of 54% to US$536 million in new business value, according to AIA.

AIA Group Ltd.
Select 2016 results
(US$ Billion0)

		% change
Premium and Fee Income:	21.8	▲ 10.0
Investment Return:	7.6	▲ 66.6
New Business Value:	2.8	▲ 28.0
Annualized New Premiums:	5.1	▲ 31.0
Net Profit:	4.2	▲ 50.6

Source: AIA Group Ltd.

Hong Kong delivered 42% growth in new business value to US$1.2 billion, contributing to the majority 40% of total new business value. Hong Kong business "benefited from increased volumes of business from mainland Chinese customers" and the company focuses on sales across various customer segments, said AIA. The company continues "to monitor closely any developments relating to customers visiting from mainland China to ensure that we maintain robust compliance with ongoing measures."

Last year, China UnionPay curbed the use of its debit and credit cards by mainland Chinese visitors to purchase insurance products, apart from pure protection policies, in Hong Kong, according to UnionPay International. This was a move to control capital outflows through overseas insurance purchases. The State Administration of Foreign Exchange capped China-issued UnionPay debit and credit card payments at US$5,000 per transaction to restrict Chinese residents' insurance product purchase overseas.

(By Iris Lai, Hong Kong bureau manager: Iris.Lai@ambest.com)

PICC's Vice Chairman Under Investigation for Alleged Violations

China's biggest nonlife insurer, PICC Property and Casualty Co. Ltd.'s vice chairman Yincheng Wang is being investigated for "suspected serious disciplinary violations," said PICC Property & Casualty in a statement posted on the Hong Kong Stock Exchange.

Wang, also a non-executive director of PICC Property & Casualty, is now under investigation for serious violations of discipline, according to a statement from the Central Commission for Discipline of the Communist Party of China and Ministry of Supervision of the People's Republic of China.

PICC Property & Casualty said "the company continues to conduct operation in the usual and ordinary course of its business." PICC Property & Casualty reported a 26.2% drop in net profit to 10.6 billion yuan (US$1.6 billion) in the first half ended June 30, 2016, according to its financial statement. Gross written premium increased 10.7% to 161.9 billion yuan.

Wang joined PICC in 1982 and was previously deputy general manager for the planning and finance department of the nonlife insurer. He is a senior accountant and was an executive director of the nonlife insurer from 2003 to 2013, said PICC in its annual report.

This investigation came with a recent supervisory step-up on corporate governance, shareholder structure and investment activity of insurance companies. Risk management is a priority task for the regulator, with the focus on corporate governance, asset management and insurance products, said the China Insurance Regulatory Commission in a press conference this week in Beijing. The CIRC said it is taking vigorous measures to curb insurers' speculative investments, hostile takeovers and other risky activities through stricter regulatory control.

Also, the regulator introduced the first corporate governance site assessment on both local and foreign insurers. There will be a comprehensive evaluation of insurers' corporate governance and shareholder backgrounds, said the CIRC. Coincidentally, the regulator has investigated Kunlun Health Insurance Co. Ltd.'s shareholders' backgrounds, structure and ultimate controlling shareholder.

(By Iris Lai, Hong Kong bureau manager: Iris.Lai@ambest.com)

Australia Nonlife Insurance Net Profit Grows 21% in 2016

The Australian nonlife insurance industry recorded a 21% growth in net profit for the 12 months to December 2016, as claims went down significantly during the period, according to the Australian Prudential Regulation Authority.

Total industry net profit amounted to A$2.9 billion (US$2.2 billion), up from A$2.4 billion in 2015. The regulator noted this was mainly due to reduced gross incurred claims of A$31.1 billion from A$31.9 billion as claims from natural catastrophes were lower during the period.

The lower claims also resulted in 36% growth in underwriting profit to A$3.0 billion from A$2.2 billion. Investment income was A$600 million higher at A$2.8 billion. As of December 2016, the industry had total assets of A$121.1 billion from A$119.3 billion in 2015.

APRA has compiled the update based on figures provided by 109 industry players, comprised of 99 insurers and 10 reinsurers.

(By Ernesto Calucag, Hong Kong news editor: Ernesto.Calucag@ambest.com)

Gallagher Acquires Agency in Australia

Arthur J. Gallagher & Co. has recently made an acquisition that expands the global broker's presence in Australia.

Ace IRM Insurance Broking Group provides general commercial and personal lines services for clients throughout Australia, Gallagher said in a statement.

"Their solid presence in a key growth area south of Brisbane will enable us to further establish our position as a market leader in Queensland and will enhance our acquisition efforts," said Chairman, President and Chief Executive Officer J. Patrick Gallagher.

Ace IRM executives Greg Flower and Ann Flower and other employees continue to operate from their Beenleigh offices under the direction of Sarah Lyons, head of commercial broking operations for Gallagher in Australia.

During a recent earnings call, Gallagher said construction is probably the largest of 32 company specialty markets in the United States. He said the area "crushed it" in 2016 and foresees positive results going forward, as President Donald Trump has promised increased infrastructure spending.

Arthur J. Gallagher was the third-largest global broker in 2015 with $5.39 billion in revenue, according to *Best's Review's* annual ranking.

(By Renée Kiriluk-Hill, associate editor, BestWeek: Renee.Kiriluk-Hill@ambest.com)

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