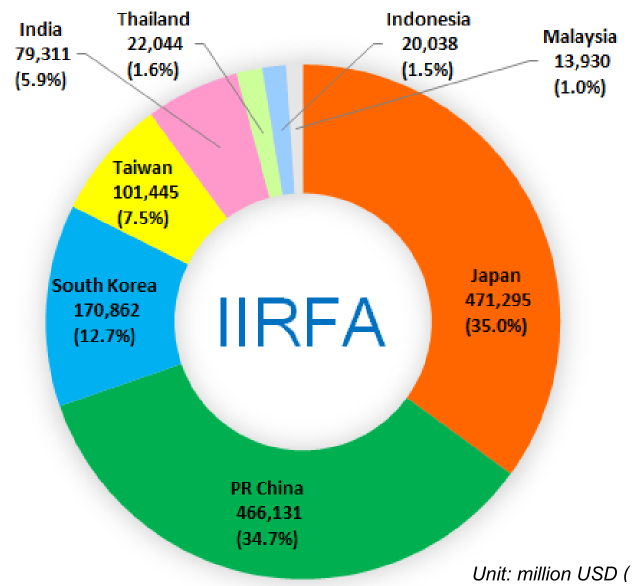
IIRFA Newsletter

Insurance Information and Ratemaking Forum of Asia (IIRFA)

December 2017

Contents:

Table 1: Total Life and Non-Life Insurance Premiums of IIRFA Members in 2016



Unit: million USD (%Market Share)

Country	Premiums (million USD)	Market Share (%)
IIRFA Members	1,345,056	90.1%
Asia	1,493,527	100.0%
IIRFA Members	1,345,056	28.4%
World	4,732,188	100.0%

Country	Asia Ranking	Global Ranking
Japan	1	2
PR China	2	3
South Korea	3	7
Taiwan	4	10
India	5	13
Thailand	7	26
Indonesia	9	28
Malaysia	11	34

Source: Sigma 3/2017, Swiss Re

Remark: Ranking by total life and non-life insurance premium

Table 2: General Insurance Industry in 2016

Country	China	India	Indonesia	Japan	Korea	Malaysia	Taiwan	Thailand
Direct Premiums (million USD)	134,599	19,554	4,312	79,289	73,683	4,406	4,735	6,155
%Annual Growth 2016/2015	10.0%	35.9%	4.5%	-0.6%	5.6%	1.4%	7.2%	3.1%
Net Earned Premiums (million USD)	117,148	13,247	2,624	-	71,974	3,274	3,455	4,524
Loss Ratio	59.9%	90.9%	60.2%	63.4%	83.5%	53.8%	57.9%	54.9%
General Operating Expense Ratio	22.8%	29.0%	33.5%	-	14.9%	24.5%	27.4%	30.2%
Expense Ratio	39.7%	30.6%	33.5%	32.1%	17.5%	33.9%	38.0%	40.3%
Combined Ratio	99.6%	121.5%	93.6%	95.5%	101.0%	87.7%	95.9%	95.2%
Total Number of General Insurance Companies	81	33	81	52	31	30	26	60

Definition

Loss Ratio = Loss Incurred after Deduction / Net Earned Premiums (EP)

Loss Incurred after Deduction = Loss Incurred – Recovery

General Operating Expense (GOE) Ratio = [Underwriting Expense + Operating Expenses] / EP

Expense Ratio = [GOE + Net Commission and Brokerage] / EP

Combined Ratio = Loss Ratio + Expense Ratio

Remarks:

From GIROJ: Loss ratio = [Net claims paid + Loss Adjustment Expenses] / Net Premiums Written

Expense ratio = [Underwriting Expense + Operating Expenses + Agency Commission and Brokerage] / Net Premiums Written

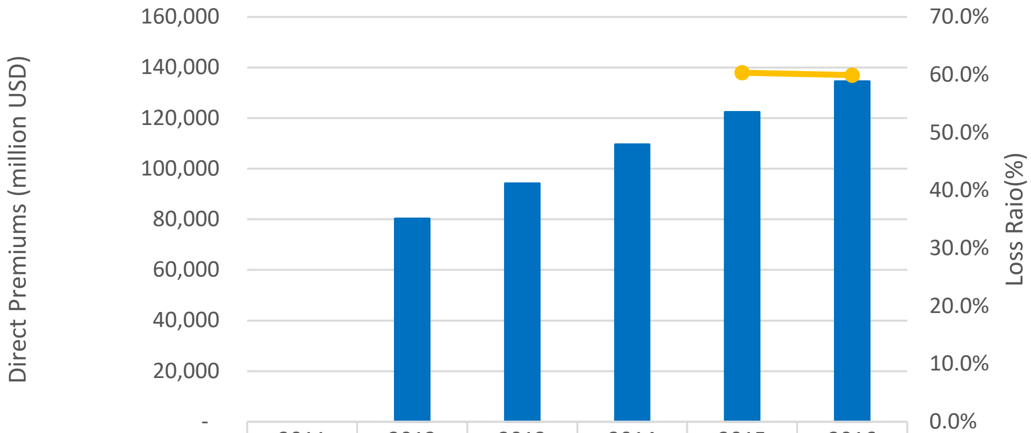
From OJK: GOE ratio = [Other Underwriting Expense + Operating Expenses] / EP

Expense Ratio, Net Commission and Brokerage have been counted in Net Earned Premiums

China-IAC: General Insurance Statistics Update

Insurance Industry Performance

Direct Premiums Growth & Loss Ratio (2011-2016)



	2011	2012	2013	2014	2015	2016
Direct Premiums	-	80,328	94,144	109,588	122,355	134,599
Loss Ratio	-	-	-	-	60.4%	59.9%

Analysis of life and non-life insurance

In 2016, the total insurance industry premium reached RMB 3.1 trillion which increased by 27.50% from the previous year. This has been the highest growth since 2011. The insurance penetration was 4.17% which increased by 0.58% from previous year. The annual general insurance premium was RMB 872.45 billion, increased by 9.12% compared with a year earlier. Health insurance showed the highest growth compared to other products with annual premium of RMB 404.25 billion, increased by 67.71%. Accident insurance also shared strong strength with RMB 79.08 billion, increased by 24.42%.

The new vehicle sales broke highest record due to recently implemented environmental protection policy, causing renewals of vehicles with Chinese emission standard at phase I and II. In 2016, annual new vehicle sales growth rate reached 10.1%. New vehicle sales have achieved a steady growth rate since launching of commercial vehicles detariffication. Motor direct premium approached RMB 683.36 billion, with annual growth rate of 10.25%. For non-motor insurance, family property insurance achieved outstanding underwriting results with annual direct premium of RMB 5.17 billion, increased by 24% from last year, while overall non-motor premium growth was nearly 19%. This implied that the awareness of public safety have been strengthened.

Insurance market outlook in 2017

(1) Development opportunities

Economic development and social progress provide a platform for development of China's insurance industry in 2017. Overall macroeconomic environment improved from last year. In the steady economic growth, employment rate is higher than expected. Moderate inflation is raised. An acceleration of industrial upgrading brings new opportunities for development of insurance industry. New insurance demand will be stimulated by policies in effect. For instance, there was structural reform in the national supply side and also moderate expansion of aggregate demand policy. Per capita income increased steadily. An upgrading of consumption structure and risk prevention awareness has brought new demand for the insurance products. Moreover, high-technology and strategic emerging industry are growing fast, and the basic capability of information technology will be enhanced, which will bring new impetus to the development of the insurance industry.

Secondly, industry aids have gradually emerged. On one hand, market reform and orderly implementing detariffication diversified needs of insurance. On the other hand, several preferential tax policies will stimulate the potential demand for health insurance and pension insurance. The State Council issued the 13th five-year deepening medical reform and health system plan, will be formulated and improved relevant preferential policies such as finance and taxation, increase the amount of tax preferences, and promote the development of various types of health insurance. The

Interim Measures for the management of occupational pension funds issued by the Ministry of human resources and social welfare and the Ministry of finance will soon be pushed into the pension insurance tax extension policy to further boost the demand of pension insurance. In addition, the wide application of new technologies such as Internet, mobile Internet and big data will add more impetus to the innovation of insurance products and service, and the addition of new subjects will inject new vitality into the development of insurance industry.

(2) Key challenges

Several unfavorable factors still need to be dealt actively: firstly, international circumstances have been much complicated and prone to change. Despite the optimism of the IMF's latest forecasting growth for world economy in 2017 which remains unchanged as 3.4%. International situation increased uncertainty because of American and British policy. World economy is facing rising in protectionism, tighten financial conditions. In addition to geopolitical risks, the refugee crisis and terrorism will affect the stability and development of world economy.

Secondly, there is high downward pressure on the domestic economy. Even domestic economy had some positive improvements in 2016. The overall economy maintained steady growth, which low-interest-rate environment persists; some domestic long-term accumulation of structural contradictions are still quite prominent; and demand stimulation has still been insufficient. Thirdly, there are still some risks in the market competition of the industry. With the rapid expansion of the insurance industry, the reform has been deepened and the marketization has been improved. The industry competition is thus intensified, causing risk prevention and control become more difficult. Problems including significant share of non-guaranteed insurance, declining operating efficiency, and decreasing proportion of fixed income funds need to be resolved. Only with reformation and innovation and service quality have been improved, insurance function will be fully utilized, as well as the service capacity of structural reformation in the supply side will be enhanced , in order to achieve the stable and positive development of the global insurance market and better serve economic and social development.

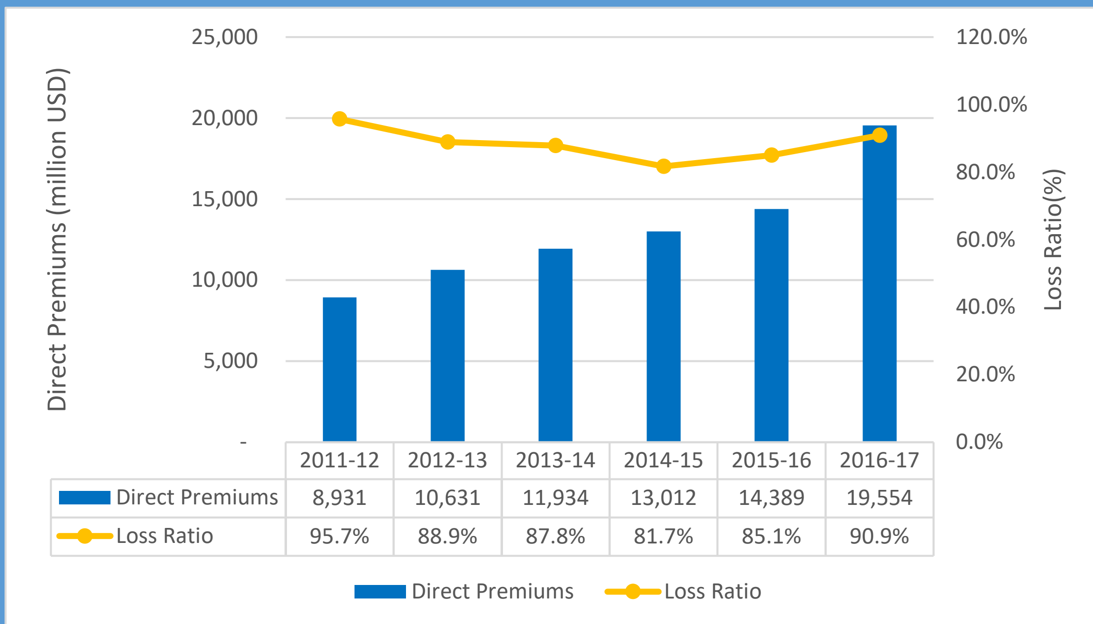
Overall, the annual premium growth will return to a stable and normal stage. The insurance structure has become more optimized, the ability to serve economic and social development has improved significantly, and the influence toward global market has been further expanded.

Direct Premiums by Line of Business 2016

Line of Business	Direct Premiums 2015 (million USD)	Direct Premiums 2016 (million USD)	%YoY
1. Property Insurance	26,086	27,453	5.2%
2. Health Insurance	3,317	4,270	28.8%
3. Accident Insurance	2,905	3,598	23.9%
4. Auto Insurance	90,047	99,277	10.3%
Total	122,355	134,599	10.0%

Insurance Industry Performance

Direct Premiums Growth & Loss Ratio (2011-2016)



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Direct Premiums	8,931	10,631	11,934	13,012	14,389	19,554
Loss Ratio	95.7%	88.9%	87.8%	81.7%	85.1%	90.9%

Remark: Financial year commences in April and ends in March

The Insurance Industry of India comprises of 57 insurance companies out of which 24 are in life insurance and 33 in general insurance business. Out of the 33 general insurance companies, 6 of them exclusively underwrite health, travel and personal accident business. There are two more specialized insurance companies – Export Credit Guarantee Corporation of India for credit insurance and Agriculture Insurance Corporation for Crop Insurance. Apart from these companies, there is the national Reinsurer which is state owned – GIC Re. The regulator has also permitted opening of new branches by overseas reinsurers, following which 9 branches have been opened in India.

During 2016-2017, Life insurance industry secured a total premium of million USD 62,399 registering a growth rate of 13.90% as against 11.84% of the previous year. Renewal premium in Life constituted 58.12% of the total premium and the first year premium 41.88%. General Insurance industry registered a growth rate in direct premium of 35.89% as against 13.81% of the previous year. The motor business continued to be the largest general insurance segment with a share of 39.40% as against 43.89% of the previous fiscal. It reported a growth of 22.25% as against 13.17% of the previous year. Crop Insurance emerged as a significant contributor in the year 2016-17 with a growth 271% over the previous year. Health business showed a growth of 26.20% compared to 21.30% of previous year. Its market share is 27.40% as against 28.49% of previous year. Premium collection from other lines increased by 49%.

Regulatory Measures

In India motor insurance is basically retail business and a major part of it is through auto dealers. In light of the same, the Regulator issued guidelines called 'Guidelines on Motor Insurance Service Provider (MISP)' to recognize the role of the automotive dealer in distributing and servicing of motor insurance policies so as to have regulatory oversight over their activities connected to insurance. The guidelines deal with defining the MISP, Appointment conditions of MISP along with Training & examination, code of conduct, distribution fees payable etc. IIB has been delegated the responsibility of maintaining the MISP database.

Health Insurance Regulations revised by IRDAI during 2016 intend to achieve the following main objectives:

➢ Encourage innovation by permitting insurers to offer pilot products

➢ Encourage wellness and preventive habits of the policyholders

➢ Health Insurers can offer Combi-Plans: which could be a hybrid of Health and any Life Plan to further enable Insurers to leverage on the strengths of each other

➢ Allow insurance companies to offer Loan/Credit Linked Group Health / Personal Accident Insurance products to enable the insured to repay the loan in case the insured falls ill and is not able to repay the loan.

➢ Encourage renewal by simplifying the renewal procedures

➢ To provide a permanent identity card (Smart Cards) to avail cashless facility which is valid as long as the policy is renewed with the company.

A crop insurance scheme for farmers was launched on 13th January 2016. It is called PRADHAN MANTRI FASAL BIMA YOJANA (PMFBY) – meaning the Prime Ministers' Crop Insurance Scheme. It is significant because of two reasons – a) Half the population of India is dependent on the agriculture sector b) India is largely dependent on monsoon and other environmental factors over which the farmers have no control. The scheme aims:

To provide insurance coverage and financial support to the farmers in the event of failure of any of the notified crop as a result of natural calamities, pests & diseases

To stabilise the income of farmers to ensure their continuance in farming

To encourage farmers to adopt innovative and modern agricultural practices

To ensure flow of credit to the agriculture sector

The farmer has to pay only 1.5% -5% of the sum assured. The difference between premium rate and insurance rate payable by farmers is treated as SUBSIDY and borne equally by the Central and State Governments.

The premium from Crop Insurance during the year 2016-17 (1st April 2016 to 31st March 2017) was 3,077 million USD with a growth rate of 271% over the previous year. The claims are directly made to the farmer's bank account, thereby reducing scope for delay.

The regulator, with a view to increase penetration and density of insurance as well as provide easy access to insurance to the public at large, has permitted "Point of Sales Person" to sell insurance products which are

a) simple to understand

b) stated upfront clearly

c) Having fixed/predefined benefits

An insurer or insurance intermediary can engage such Point of Sales Person after providing some basic training and passing a test. According to the Associated Chambers of Commerce and Industry of India (ASSOCHAM), an apex trade association of India,

- The insurance industry in the country is undergoing multiple disruptions in its functioning and the trend will accelerate in the future.
- Recent technology trends such as Artificial Intelligence (AI), machine learning, blockchain and robotic process automation (RPA) have significant potential to streamline insurance operations and enhance customer experience.
- Insurers have begun capitalizing this potential of technology to address rising customer demands and expectations.

Following the issue of IPOs by several public sector general insurers, the retail penetration of these insurers is likely to increase due to heightened competition among the players, who are looking to grab a larger share of the market pie. ICRA, an Indian independent and professional investment information and credit rating agency has pitched a 15-18% growth rate of new business of Life Insurance sector on an Annual premium equivalent (APE) basis for FY18, whereas the general insurance industry is expected to grow at 20% in FY18.

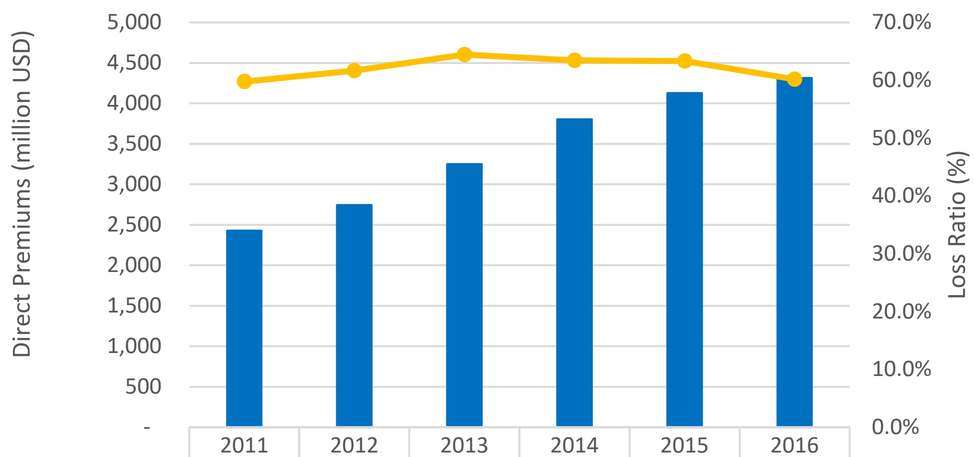
Direct Premiums by Line of Business 2016

Line of Business	Direct Premiums		%YoY
	2015 (million USD)	2016 (million USD)	
1. Motor Insurance	6,316	7,721	22.3%
2. Fire Insurance	4,099	5,173	26.2%
3. Marine Insurance	1,304	1,547	18.7%
4. Miscellaneous	446	448	0.5%
5. Crop	829	3,077	271.3%
6. Others	1,397	1,587	13.7%
Total	14,389	19,554	35.9%

Remark: 2016* is financial year 2016-17 (1st April 2016 to 31st March 2017)

Insurance Industry Performance

Direct Premiums Growth & Loss Ratio (2011-2016)



	2011	2012	2013	2014	2015	2016
Direct Premiums	2,427	2,746	3,251	3,805	4,127	4,312
Loss Ratio	59.8%	61.7%	64.4%	63.4%	63.3%	60.2%

Direct Premiums   Loss Ratio

Remark: Loss incurred is net of Reinsurance Recoveries and increase/decrease in Claim Reserve

Since 2011, direct premiums growth of non-life insurance industry is fairly progressive. Direct premiums have increased with an average growth of 12.3% over the last six years. The growth of direct premium has been accompanied by the growth of loss incurred. In 2016, the loss ratio is 60.2%. Although this number is quite huge, it has decreased from the previous year ratio (63.3%). The direct premiums of non-life insurance industry is dominated by property insurance for 1,226.55 million USD or about 28.4% of total direct premiums, followed by motor vehicle insurance for 1,184.41 million USD or about 27.5% of total direct premiums.

Property which captured around 28.4% of insurance total portfolio showed quite fast expansion of 5% in 2016. This remarkable increases came from the number of construction built. On the other hands, motor vehicle which captured around 27.5% of insurance total portfolio showed degression of -4% in the same period.

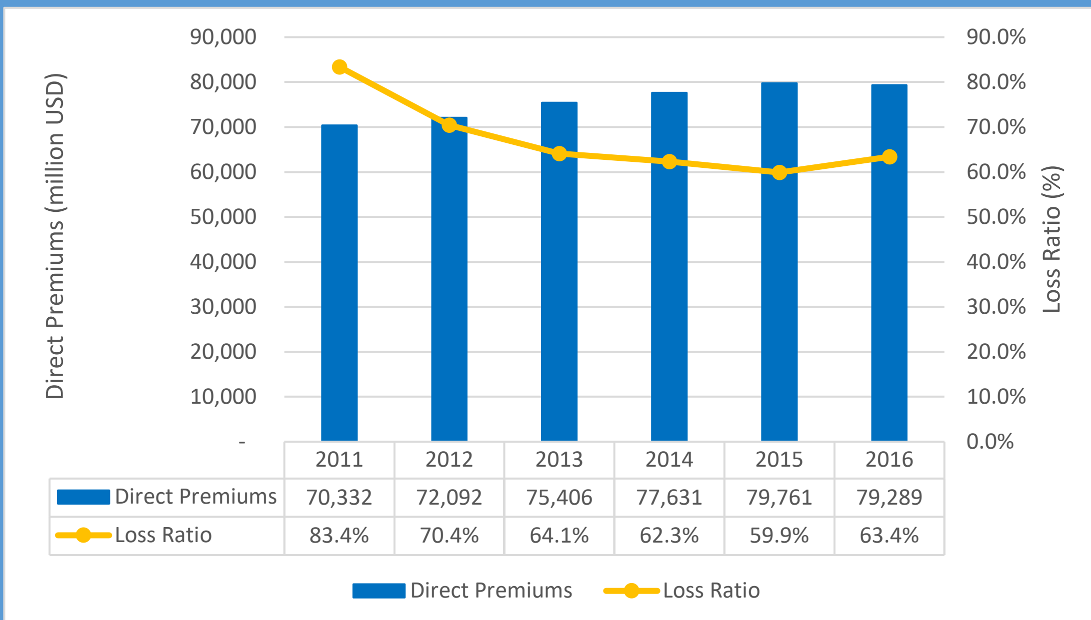
Marine cargo and energy off shore have negative growth in 2016 due to mining conditions in Indonesia that was still unstable. In each business line, there was a decrease of direct premiums of -20% for marine cargo and -18% for energy off shore from the previous year.

Direct Premiums by Line of Business 2016

Line of Business	Direct Premiums		%YoY
	2015 (million USD)	2016 (million USD)	
1. Property	1,172	1,227	4.7%
2. Motor Vehicle	1,237	1,184	-4.3%
3. Marine Cargo	239	192	-19.8%
4. Marine Hull	119	112	-6.5%
5. Aviation	91	57	-36.9%
6. Satellite	1	3	235.4%
7. Energy On Shore	16	19	14.5%
8. Energy Off Shore	78	63	-18.5%
9. Engineering	144	148	2.5%
10. Liability	86	107	24.0%
11. Personal Accident & Health and Life Insurance	400	346	-13.3%
12. Credit	323	364	12.6%
13. Suretyship	74	88	20.4%
14. Others	147	402	173.8%
Total	4,127	4,312	4.5%

Insurance Industry Performance

Direct Premiums Growth & Loss Ratio (2011-2016)



	2011	2012	2013	2014	2015	2016
Direct Premiums	70,332	72,092	75,406	77,631	79,761	79,289
Loss Ratio	83.4%	70.4%	64.1%	62.3%	59.9%	63.4%

Remark: Loss ratio = (Net claims paid + Loss adjustment expenses) / Net premiums written

Source: General Insurance Association of Japan

The total of direct premiums, including the savings portion thereof, written in fiscal 2016 was approximately USD 80 billion—a decrease of 0.6% compared to the previous year. In contrast, the total amount of direct claims paid during fiscal 2016 increased by 7.7% from the previous year, resulting in an increase of loss ratio. Note that the loss ratio of fiscal 2011 was significantly high due to the Great East Japan Earthquake—the largest earthquake recorded in Japan.

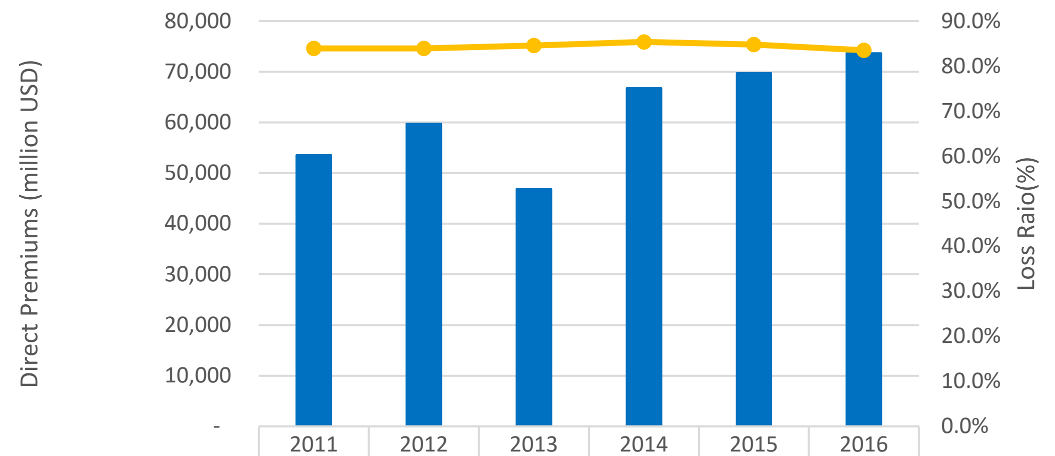
Direct Premiums by Line of Business 2016

Line of Business	Direct Premiums		%YoY
	2015 (million USD)	2016 (million USD)	
1. Fire	14,003	12,427	-11.3%
2. Marine	1,922	1,678	-12.7%
3. Inland Transit	576	564	-2.0%
4. Voluntary Automobile	35,122	35,665	1.5%
5. Personal Accident	8,796	8,681	-1.3%
6. Miscellaneous	10,357	11,101	7.2%
7. Compulsory Automobile Liability	8,984	9,172	2.1%
Total	79,761	79,289	-0.6%

Source: General Insurance Association of Japan

Insurance Industry Performance

Direct Premiums Growth & Loss Ratio (2011-2016)



	2011	2012	2013	2014	2015	2016
Direct Premiums	53,548	59,775	46,834	66,776	69,747	73,683
Loss Ratio	83.9%	83.9%	84.6%	85.4%	84.8%	83.5%

Remark: Fiscal year period of insurance industry has been changed from April-March to January-December since FY2013. As a result, FY2013 contains only 3 quarter business results (April to December 2013).

In 2016, the Republic of Korea was the seventh–largest non-life market around the globe with direct written premium reaching 73,683 million USD. As portrayed in the diagram, the annual growth rate of direct premium was at 5.6% in 2016, a steady growing pace over the past five year span, and the loss ratio remained moderate.

- Premiums on automobile insurance increased by 11.3% due to increase in premium rate and expansion of collision comprehensive coverage.

- Other P&C insurance premiums increased by 3.0% owing to growth in guarantee insurance and casualty insurance despite the decrease in fire insurance and marine insurance.

- Long-term non-life insurance premiums grew only by 2.6% due to low interest rates and economic growth rates.

- Despite the decline in demand of individual annuity, direct premium on retirement pension sharply grew by 24.7%, a 23.7% increase from last year. This is due to retirement pension sales strategy of an insurer with group affiliates.

Note: The concept of long-term policies is one of the unusual features of the Korean non-life market, which it shares with Japan. Typically, long-term means a policy period of 3 or more years. Along with the policy period, another key difference between a general non-life product and a long-term non-life product is whether its premiums are calculated by applying interest rate. As you can assume, it is the long-term non-life products that apply interest rate in the premium calculation.

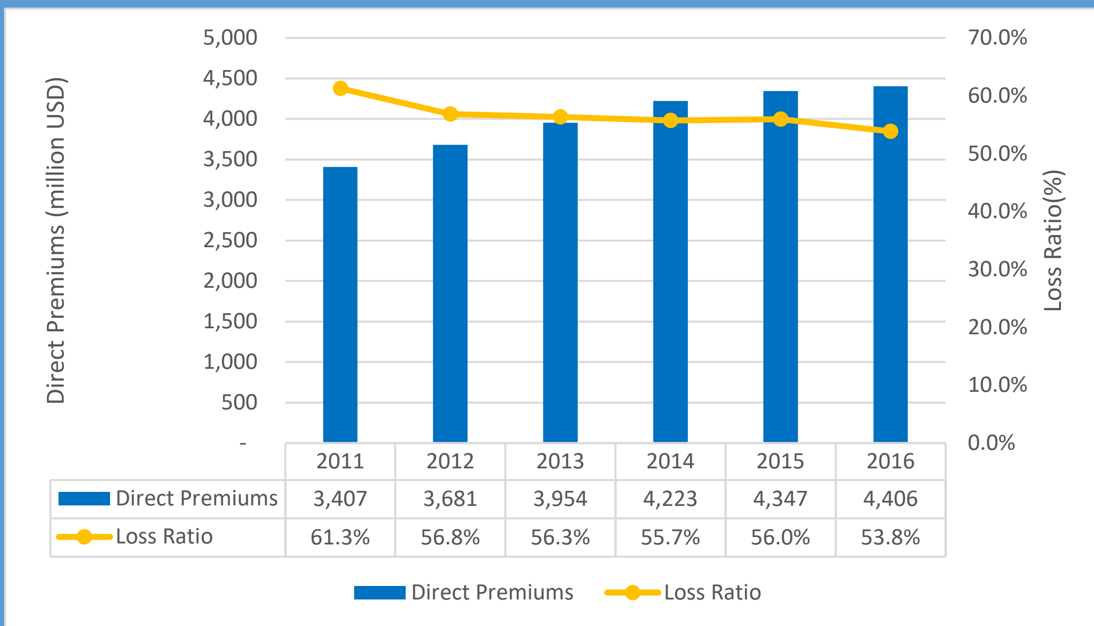
Direct Premiums by Line of Business 2016

Line of Business	Direct Premiums		%YoY
	2015 (million USD)	2016 (million USD)	
1. Fire	265	263	-1.0%
2. Marine	618	530	-14.3%
3. Motor	12,851	14,305	11.3%
4. Guarantee	1,379	1,387	0.6%
5. Casualty	4,493	4,768	6.1%
6. Overseas Direct	463	467	0.9%
7. Long-term	40,618	41,658	2.6%
8. Annuity	3,509	3,382	-3.6%
9. Retirement Pension	5,551	6,923	24.7%
Total	69,747	73,683	5.6%

Remark: P&C insurance line of business includes Fire, Marine, Motor, Casualty and Overseas Direct

Insurance Industry Performance

Direct Premiums Growth & Loss Ratio (2011-2016)



Direct premium growth in Malaysia's general insurance industry maintained its declining trend – further tapering to 1.4% in 2016 – as subdued consumer sentiment, a benign external environment and financial market volatilities continued to weigh on the sector during the year. Total gross direct premiums (GDP) stood at USD 4.4 billion in 2016, a modest increase of USD 60 million from 2015.

The loss ratio on an incurred basis after the inclusion of IBNR (Incurred But Not Reported) and PRAD (Provision of Risk Margin for Adverse Deviation) improved to 53.8% in 2016 from 56.0% in 2015.

Fitch Ratings expects the annual real GDP growth in Malaysia to average around 4.3% in 2017-2018, supported by commodity prices. Household spending is likely to be sustained the budget's 26% increase in transfers to lower-income households. Real GDP rose by 4.2% in 2016, bringing five-year average real GDP growth to 5.1%, well above the 'A' median of 2.9%.

The authorities are targeting a further reduction in the federal government deficit to -3.0% of GDP in 2017 from -3.1% in 2016. This is based on a revenue increase of 3.4% (the GST is expected to generate RM40 billion in 2017, up 3.9% on the 2016 estimate), and an increase in development and operating expenditure of 2.2% and 3.7%, respectively. Fitch considers the 2017 federal government deficit target to be achievable. The authorities' GDP growth and oil price assumptions for 2017 are conservative (at 4.0%-4.5% and USD45/bbl, respectively). At end-2016, federal government debt had fallen to 52.7% of GDP from 54.5% at the end of 2015. The agency expects federal government debt to rise moderately in 2017-2018, although we expect it to remain below the authorities' self-imposed debt ceiling of 55% of GDP. Outstanding federal government guaranteed debt in 3Q16 was 15.5% of full-year 2016 GDP.

In 4Q16, following the US presidential election, a sell-off by non-residents of government securities put downward pressure on the ringgit and foreign exchange reserves. In that quarter, non-resident holdings of ringgit-denominated federal government debt fell by RM20 billion, to RM95 billion by end-December 2016. However, since then, reserves have remained broadly stable, at around USD95 billion, equivalent to nearly 1.1x short-term external debt and about eight months of imports.

According to the latest foreign exchange reserves data, reserves were USD 94.9 billion at March 15, 2017. Also, Malaysia remains a net external creditor and continues to run current account surpluses. The agency expects the current account surplus to narrow over the forecast period and remain around 2% of GDP in 2017-2018. In addition, the sovereign itself remains a substantial net creditor in foreign currency.

Household debt to GDP reduced to 88.4% at end-2016, from 89.1% of GDP in 2015. However, household credit growth moderated in 2016, slowing to 5.4%, from 7.3% at end-2015.

Malaysia's insurance industry landscape continues to evolve amid new regulations and frameworks to enhance consumer protection and promote product innovation. Despite the challenging global economic outlook, stable domestic consumption and government infrastructure spending will continue to support premium growth, especially in commercial lines. Consequently, developing and retaining a sufficient pool of talent and insurance professionals to take on the new challenges and opportunities are crucial to the success and robustness of the industry in the long term.

The second phase of motor tariff deregulation will spur further rationalisation in the motor segment. Motor insurance remains plagued by weak underwriting results, despite gradual increases in tariff rates by BNM over the past four years. The aggregate loss ratio for both conventional and takaful sectors remained above 65% at end-2016. As the second phase kicks in during 2017 and tariff rates for motor comprehensive and motor third-party fire and theft are fully deregulated, some margin compression is likely in the short term as competition intensifies among market players. Nonetheless, we expect the market to remain relatively stable, supported by the additional pricing and governance requirements that BNM has put in place to protect consumers as part of the transition.

The reduction in fire tariffs in the next few years should also allow rates to be more commensurate with the underlying risk profile of the insured. The fire class has sustained strong underwriting performance in recent years; therefore, the tariff reduction could affect underwriting profitability and the motor de-tariffication could further increase operating costs as insurers seek to improve their internal underwriting and risk management practices. On balance, we see the gradual approach adopted by BNM towards the tariff reduction, and the risk-charges imposed by the RBC framework, as strong buffers against any extreme volatility in premium rates.

Fitch expects the entry of Lloyd's into Malaysia's onshore market in 2017 to be positive for the industry landscape. In particular, its expertise in marine, energy, construction, engineering and other specialised risks will help reduce volatility in underwriting profits of ceding companies. Local reinsurers could also have opportunities to explore collaborative efforts with market participants, engage in knowledge transfers and sharing of expertise, thereby increasing the reinsurance penetration in the domestic market, and reduce existing protection gaps. Insurers also face pressure to embrace digitisation, especially with strong support from BNM. Higher mobile and internet penetration rates among consumers, and the raft of measures introduced in the LIFE framework serve as strong impetus for insurers to tap into new distribution channels to expand their existing portfolios. From 2017, insurers are required to offer pure protection products through a direct channel without commission, with more product classes to follow in 2018. Fitch expects minimal cannibalisation against existing distribution channels, primarily due to the industry's low insurance penetration rates. Furthermore, insurers are likely to benefit from greater cost-efficiencies in delivery methods.

Fitch expects the Malaysian insurance sector to remain on its stable long-term growth trajectory, underpinned by the low insurance penetration rate, strong domestic consumption and government's commitment to industry development. In the short term, gross premium growth should remain modest, as Malaysia's economy remains sluggish amidst weak global trade conditions and significant foreign exchange volatility. On balance, stable income and employment conditions will continue to support private spending. The gradual liberalisation of the industry, especially in major lines like motor and fire, will sustain market development and ensure that consumer needs are well met, gradually moving them closer to BNM's objective of achieving insurance coverage for 75% of its population by 2020. Some divergence within business lines may occur – growth in property insurance should remain subdued given the weak economic environment, while specialised lines such as transport and marine, which are closely tied to the external economy, may be boosted by trade expansion within the ASEAN region.

Capitalisation remains industry strength, supported by a Risk-Based Capital (RBC) framework which was implemented in 2009. The consolidated RBC ratio has consistently remained above 200%

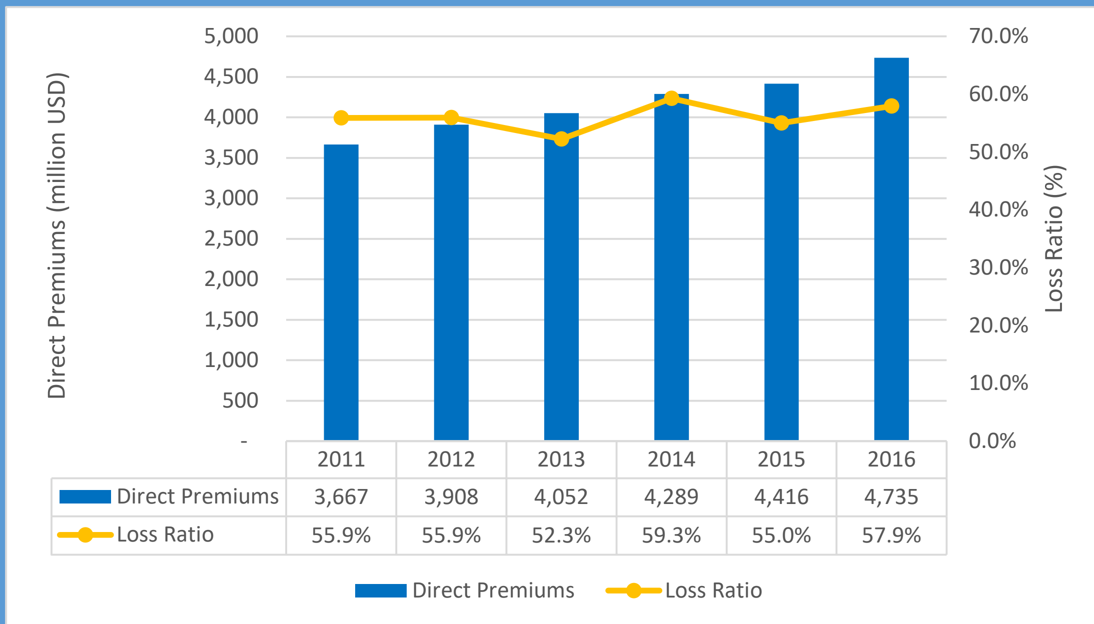
since its introduction, well above the regulatory minimum of 130%. At end-2016, general insurers delivered an RBC ratio of 265%. This is supported by ongoing surplus growth, comprehensive reinsurance and catastrophe loss protection, as well as sound underwriting practices. As a result, Fitch does not expect the sector to be at risk of significant capital strain. In addition, the ICAAP framework ensures insurers adopt a proactive approach towards managing their capital adequacy, according to their own risk profiles and business strategies.

Direct Premiums by Line of Business 2016

Line of Business	Direct Premiums 2015 (million USD)	Direct Premiums 2016 (million USD)	%YoY
1. Total Motor	2,122	2,148	1.3%
1.1 Motor Act	271	282	4.4%
1.2 Motor Others	1,851	1,866	0.8%
2. Fire	763	805	5.5%
3. Marine Aviation and Transit	374	345	-7.9%
3.1 Aviation	51	48	-5.4%
3.2 Cargo	104	108	3.1%
3.3 Marine Hull	65	52	-20.7%
3.4 Offshore Oil-related	154	137	-10.8%
4. Personal Accident	338	341	0.7%
5. Medical and Health	217	231	6.5%
6. Miscellaneous	532	536	0.7%
6.1 Bonds	14	17	22.0%
6.2 Contractor's All Risks & Engineering	152	156	2.0%
6.3 Liabilities	126	128	1.4%
6.4 Workmen's Compensation & Employers' Liability	54	51	-6.3%
6.5 Others	185	185	-0.3%
Total	4,347	4,406	1.4%

Insurance Industry Performance

Direct Premiums Growth & Loss Ratio (2011-2016)



	2011	2012	2013	2014	2015	2016
Direct Premiums	3,667	3,908	4,052	4,289	4,416	4,735
Loss Ratio	55.9%	55.9%	52.3%	59.3%	55.0%	57.9%

In 2016, the non-life insurance sector captured a total of NTD 146 billion in gross written premium, up by NTD 9.8 billion or 7.2 % year over year. The growing trend has continued since 2010 after the market recovered from subprime financial crisis in 2008. This remarkable growth is mainly contributed by the premium income growth from motor insurance. The continuous growth of motor insurance written premium since 2010 are mostly contributed by import tax incentives Taiwanese government offer as a means to boost motor market as well as eliminating older vehicles that are less environmentally friendly, as well as the new TPMS (Tire-pressure monitoring system) regulation that strength the safety feature of newly manufactured vehicle which further drives up demand.

As for the performance of the other lines of insurance, it should be noted that even though liability insurance and accident insurance has relatively smaller market share(NTD 11.59 billion and

NTD 15.4 billion respectively), it captured a remarkable CAGR of 5.4% and 6.6% respectively since 2004.

In 2016, Taiwan underwent many natural disasters, including the 0206 Mino Earthquake and 2 category 5 typhoon, namely Meranti and Nepartak, which led the claim payouts to soar and break its 13 year record. Fortunately, the non-life insurance industry has a sound reinsurance mechanism in place that effectively manages retained risk, thus, the industry was able to maintain a good operating profit. The non-life insurance market reported an overall loss ratio of 57.9% and net income of NTD 10.7 billion. However, it is expected that reinsurance premium rate will rise as claims surged in 2016, adding rate pressure to the upcoming contract renewal negotiation. The potential expense increase may impact the overall profitability of the industry in the coming year.

Looking into 2017, it is predicted that the overall written premium will continue to rise although the range of growth may be put on the test. The operating profit of non-life insurance industry will be steady. However, the volatility experienced recently in the stock market and foreign exchange market will bring uncertainty to the industry’s investment profitability and could impact the overall profit. The industry is likely to encounter new opportunities and challenges as the development of new technology, wearable devices, and automated devices continues to emerge. It is expected that in 2017 the non-life insurance industry will vigorously develop innovative products, of which some products such as the usage-based insurance and wearable devices related insurance products will be highly valued.

Direct Premiums by Line of Business 2016

Line of Business	Direct Premiums		%YoY
	2015 (million USD)	2016 (million USD)	
1. Motor Insurance	2,379	2,598	9.2%
2. Fire Insurance	707	747	5.6%
3. Marine Insurance	235	222	-5.3%
4. Miscellaneous	1,094	1,168	6.7%
4.1 Engineer	112	113	1.0%
4.2 Liability	329	376	14.4%
4.3 Personal Accident	480	500	4.1%
4.4 Health	53	60	12.3%
4.5 Others	120	118	-1.3%
Total	4,416	4,735	7.2%

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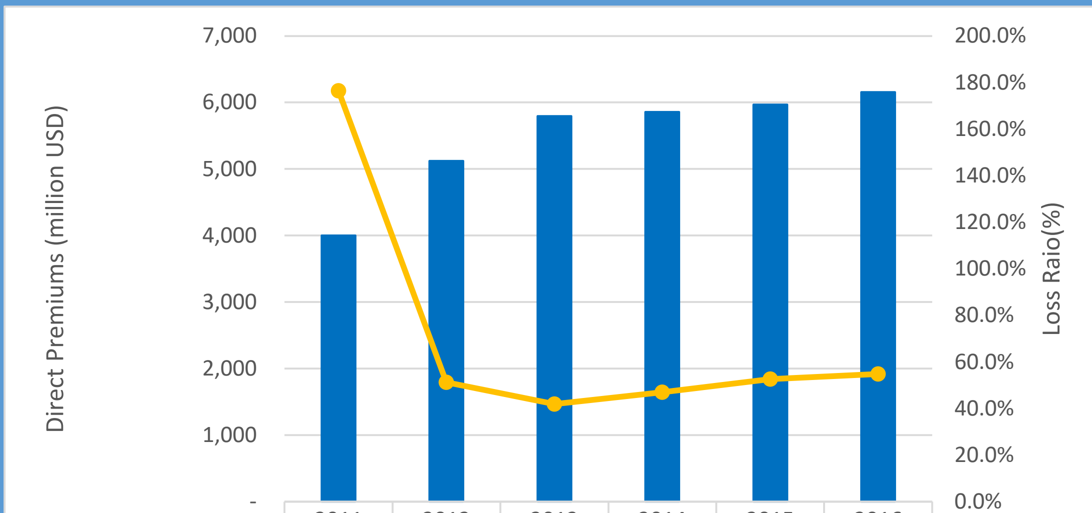

	2011	2012	2013	2014	2015	2016
Direct Premiums	4,001	5,122	5,795	5,859	5,970	6,155
Loss Ratio	176.4%	51.2%	42.0%	47.0%	52.7%	54.9%

From Insurance Premium Rating Bureau (IPRB)'s projection, total direct premiums in non-life insurance sector are expected to grow by 3.5%-4.0% in 2017, up from 1.2% last year. While Thailand's economy is expected to grow at 3.9% and the headline inflation is averaged at 0.7% according to the National Economic and Social Development Board (NESDB), the non-life insurance industry is expected to grow about the same rate compared to overall GDP growth. Thailand non-life sector's growth held steady at below 2% since 2014. Motor insurance which captured around 57% of insurance total portfolio showed a slow expansion of 1.57% in 2016. There were various measures that Office of Insurance Commission (OIC) has taken this year towards gradual detariffication including motor premium reduction of 5%-10% for car owners who install CCTV cameras in their vehicles, and a revision in Fire and Industrial All Risks (IARs) tariff.

Thailand mega flood in 2011, the largest insured loss worldwide from flood event, impacted significantly on the Thai property insurers. As shown in the table, the overall loss ratio in 2011 was 176.4%. However, the loss ratios dropped to 51.2% in 2012 and followed by significant dropped to 42.0% and 47.0% in 2013 and 2014 respectively due to the mega flood claims recovery. Loss ratio increased to 52.7% in 2015 and gradually increased to 54.9% in 2016 due to the market competition of motor and IARs premium pricing.

Non-life Insurance in Thailand can be subdivided into four lines of business; Motor, Fire, Marine and Miscellaneous. In 2016, motor voluntary and compulsory insurances dominated the market, representing 58% of total direct premiums. Miscellaneous insurance was the second largest segment, representing 35% of total premiums. Of which, Industrial All Risk (IARs) and personal accident insurance combined represented 24% of total premiums.

The Thai insurance market is highly competitive. As of December 2016, there were 60 market players sharing the non-life insurance market. Of which the 12 large companies with more than Baht 5 billion premiums contributed 66%, 23 medium size companies with premiums ranging between Baht one to five billion contributed 30% while the 25 small size players with premiums below Baht one billion contributing only 5% market shares. The number of small companies had been declining. Their market shares shrank dramatically from 14.7% in 2008 to 5% in 2016. Few large and medium size companies have been expanding their cross-border operations into ASEAN Economic Community (AEC) markets during the past 3-4 years with the strong support from the OIC.

Going forward, the outlook of the non-life insurance industry remains strong. There are still a great potential and abundant opportunity for Thai insurers to grow in both domestic and international markets under ASEAN Economic Community (AEC) Framework. Ageing society coupled with sharp increase in medical trend in private hospitals in Thailand will drive demand for health insurance. Population ageing is substantiated by the growing proportion of the elderly citizens (aged 60 and above), from 15% to 25% of total population in 2030. The trend of increasing deaths caused by noncommunicable diseases – such as cardiovascular diseases, cancer, diabetes, and pneumonia – have been observed in Thailand and other ASEAN countries. An awareness of this trend will emphasize the demand for health insurance.

The rise of the digital economy is continuing to transform Thailand. Digital Insurance and InsurTech for distribution channels and claims services as well as e-Policy and e-Claims platforms are expected to help reduce the insurance operating costs and increase market competitiveness. An awareness in cyber threats is also an opportunity for Thai insurers. As of June 2017, there were 7 insurers who have been approved by Office of Insurance Commission to sell cyber insurance products.

Soft pricing conditions and tight profit margins have been challenged for the past few years, especially in non-life insurance sector. OIC's strategy emphasized on gradually detariffication in insurance products, including marine and cargo insurance, industrial all-risk insurance and other types of non-life insurance to be followed. Specifically, OIC has planned to implement insurance product deregulation. These regulatory changes will further consolidate the industry.

OIC has announced the formation of comprehensive industry database called "Insurance Bureau System" in collaboration with Thai General Insurance Association and IPRB. The move is part of its broader efforts to help position ourselves for the digital economy of the future. Also, it will include key activities in pooling natural catastrophe loss data to construct model to better quantify risks which are major threats to the industry.

Direct Premiums by Line of Business 2016

Line of Business	Direct Premiums		%YoY
	2015 (million USD)	2016 (million USD)	
1. Motor Insurance	3,432	3,486	1.6%
2. Fire Insurance	299	292	-2.4%
3. Marine Insurance	152	153	0.2%
4. Miscellaneous	2,086	2,224	6.6%
4.1 Industrial All Risks	733	699	-4.7%
4.2 Public Liability	57	69	19.6%
4.3 Personal Accident	718	841	17.2%
4.4 Health	216	221	2.5%
4.5 Others	362	395	8.9%
Total	5,970	6,155	3.1%