Contents

1 EXECUTIVE SUMMARY

2 INSURANCE MARKET CONDITIONS BY COUNTRY

3 China
5 Hong Kong
6 India
7 Indonesia
9 Japan
11 Korea
12 Malaysia
13 Philippines
14 Singapore
15 Taiwan
16 Thailand
17 Vietnam

18 INSURANCE MARKETS BY SPECIALTY AND INDUSTRY

19 Aviation
20 Captives
21 Construction
22 Employee Health and Benefits
24 Marine Cargo
26 Marine Hull
27 Mining
29 Power and Utilities
30 Trade Credit and Political Risk
31 Warranty and Indemnity Insurance
EXECUTIVE SUMMARY

Asia remained a buyer’s market in 2014, with rates remaining stable or decreasing in most lines of insurance throughout the region. In some cases, rate increases on certain classes of insurance tended to stem from specific local trends, market conditions, or loss experiences within a given country.

Non-Catastrophe-Exposed Property Rates Remain Stable
► Capacity and rates for non-catastrophe-exposed property remained stable for most countries in the region, with this trend expected to continue throughout 2015.
► In the Philippines, non-catastrophe-exposed property accounts with good loss experience are frequently renewed subject to expiring terms and conditions. However, underwriters have been imposing stricter underwriting guidelines and acceptance criteria. They have also become more stringent when it comes to setting deductibles, and are reluctant to offer coverage enhancements/extensions. Furthermore, many underwriters have rejected underwriting exposures in high-risk areas.

Catastrophe-Exposed Property Insurance Readily Available
► In most Asian countries, catastrophe-exposed property rates remained stable or decreased, even in Japan, despite the devastating losses from the Tohoku earthquake in 2011. Earthquake capacity is readily available, and the rates continue to come down to the pre-Tohoku earthquake level.
► In the operational power and utilities sector, a focus on natural catastrophe-exposed risks remains a consideration with insurers giving much more attention to the technical quality of the risks, following several high-profile and expensive machinery failures. In addition, client risk management practices in this sector have become a focal point for many markets.
► Due to a new tariff introduced in February 2014 in Indonesia, continued market competition is expected in the general industrial risk sector — up to US$300 million in insured values for non-mining and non-energy risks.

Financial Lines Remain Competitive
► Across the region, the marketplace has remained soft for these types of risk, mostly due to an abundance of capacity and competition among insurers.
► Although rates remained stable in Vietnam, limited capacity drives insurers to buy reinsurance from international markets. Policy conditions can be restrictive depending on an insured’s risk management practices, enterprise risk management, and other governance issues.
► Despite the region’s competitive rates, in India, insurers in the private sector do not write financial institutions. Only the top four public sector insurers have been writing these risks. However, increased loss experience has resulted in a 0% to 10% increase in premiums. In some instances involving good risks and increased competition between insurers and brokers, rates for certain risks have decreased by 10% to 25%.

Employee Health and Benefits (EH&B) Increases
► The market in Asia remains unstable for EH&B risks, as many of the emerging economies, Southeast Asia in particular, grapple with major political and social reforms.
► In Hong Kong, the cost of medical benefits continues to rise. As a result, employers are looking to contain costs through wellness programs. Greater demand for, and advances in, medical technology are contributing to increased medical premiums.
► In Indonesia, private and state-owned companies were required to enroll their employees in the national health care scheme as of 1 January 2015. This will most likely entail additional costs in rate increases from approximately 15% to 30% for those companies that wish to maintain their current private health care scheme.
► Due to high loss ratios in the EH&B market in Korea, rates are expected to increase by approximately 10% in 2015.
► New capacity continued to enter the marketplace, generating additional capacity and product offerings in Thailand.

Aviation
► Following significant losses for both the hull/liability (Malaysian Airlines) and hull/war risks (Tripoli, Libya), 2014 was a difficult one for insuring aviation risks.

Captives
► In the captives sector, China moved from a position of casual interest in captives to taking action in actually setting up captives for a few state-owned enterprises.

Marine Cargo
► China is now the largest single market with 9.3% of the 2013 total cargo premium of US$18.2 billion. On a regional basis, Asia-Pacific now accounts for 29.2% of the global cargo premiums, but still falls second to Europe with 43.8%.

Political Risk and Trade Credit
► While there has been a lot of interest in Myanmar and the IndoChina markets, insurers continue to be cautious, and more of a wait-and-see approach is expected for 2015.
<table>
<thead>
<tr>
<th>Page</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>China</td>
</tr>
<tr>
<td>5</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>6</td>
<td>India</td>
</tr>
<tr>
<td>7</td>
<td>Indonesia</td>
</tr>
<tr>
<td>9</td>
<td>Japan</td>
</tr>
<tr>
<td>11</td>
<td>Korea</td>
</tr>
<tr>
<td>12</td>
<td>Malaysia</td>
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<tr>
<td>13</td>
<td>Philippines</td>
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<td>Taiwan</td>
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<td>Thailand</td>
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<tr>
<td>17</td>
<td>Vietnam</td>
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GENERAL LIABILITY
RATES: DECREASE 0% TO 10%
Rate reductions in the range of 0% to 10% are expected for general liability renewal business with good loss experience. However, for some special sectors with high risks, insurers will not lower the premium rate easily. The same trend is expected to prevail in 2015.

MOTOR
RATES: STABLE -5% TO +5%
Generally speaking, auto insurance rates were stable in the fourth quarter of 2014, although de-tariffing is adopted in several cities, including Shenzhen. On the whole, 2015 motor insurance rates are expected to decrease due to de-tariffing, which will be adopted by most cities across the country.

WORKERS’ COMPENSATION
RATES: STABLE -5% TO +5%
The renewal business of some large risks with good loss ratios is expected to get 5% rate reductions, but in general, rates for employers liability remain stable. Looking ahead, there should be more of the same going forward, with rates remaining stable or increasing slightly, unless claims ratios change.

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

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: DECREASE 0% TO 10%

ENVIRONMENTAL
RATES: STABLE -5% TO +5%

DIRECTORS AND OFFICERS (D&O)
LIABILITY
RATES: DECREASE 0% TO 10%
The market remains very soft for non-US D&O risks and there is abundant market capacity. For US D&O risks, we are seeing more available excess markets, but very limited primary markets.

FINANCIAL INSTITUTIONS
RATES: STABLE -5% TO +5%
Premium rates remained stable in the fourth quarter of 2014. With the entrance of more clients into the market, rates are expected to decrease by about 5%.

PROFESSIONAL LIABILITY
RATES: STABLE -5% TO +5%

MEDICAL MALPRACTICE
RATES: STABLE -5% TO +5%
Malpractice rates are either flat or slightly reduced at 3% to 5%. Marsh is receiving numerous enquiries regarding malpractice largely due to the government opening up its policy on this, as well as patients’ increased awareness of their rights. However, getting hold of the full claims statistics is still a challenge and the cover requirements are below international standards, which pegs the premium at a lower range of between RMB50,000 to RMB80,000 for an aggregate limit RMB2 million.

MARINE
RATES: STABLE -5% TO +5%
Buoyed by adequate capacity, and fewer big claims, cargo rates continue to decline. However, this excludes businesses with poor loss experience. Renewal business for clients with good loss experience and long-term insurance policies may see rate reductions of between 5% and 10% in 2015. Rates are still on the decline as a whole in 2015.

AVIATION
RATES: DECREASE 0% TO 10%
We continue to see strong competition in the aviation line, with rate decreases of approximately 5% to 10% for renewal business with good loss experience in the fourth quarter. 2015 will be stable as the primary rate has already reached the bottom.

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

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

EMPLOYEE BENEFITS:
ACCIDENT AND HEALTH
RATES: DECREASE 0% TO 10%
The rates for health and life insurance remain steady, while the rates for accident insurance are declining. Rates for high-end medical increased slightly and rates for middle-end medical remained steady. Looking forward, employee health and benefits rates are expected to remain generally stable.

EMPLOYEE BENEFITS:
ACCIDENT AND HEALTH
RATES: DECREASE 0% TO 10%
The rates for health and life insurance remain steady, while the rates for accident insurance are declining. Rates for high-end medical increased slightly and rates for middle-end medical remained steady. Looking forward, employee health and benefits rates are expected to remain generally stable.
RISK TRENDS

Property and Casualty (P&C)
The P&C insurance market continued to experience rapid growth in 2014. The government introduced policies to promote the insurance industry, especially in the areas related to agriculture insurance, catastrophe insurance system, and insurance investment control. This is coupled with the continuing reform of the solvency regulatory system (Solvency II), which aims to ensure healthy growth for the China insurance industry. The liberalization of motor insurance pricing in 2015 will be another key element that will impact the market as motor insurance represents more than 75% of gross premium income in China’s non-life insurance sector. Based on international market experience, pricing liberalization will undoubtedly intensify competition.

Property Insurance
Since the beginning of 2014, first-tier insurers have exercised more stringent control over the risks insured, and held a cautious attitude towards textile, plastics, PCBs, wind power, and the storage of inflammable and explosive products. As the rates of those high-risk industries go up, some insurers may decline or only accept a share. In some cases, the insurer may set up sublimits for the listed risks. On the flipside, industries that are not in the high-risk category and businesses with sound loss records may be given a reduction of 5% to 10%. We expect the same trend in 2015, and if motor business becomes affected by deregulation (the local insurance regulator CIRC has been preparing for pricing liberalization for more than two years now and would most likely proceed in July 2015), property rates are likely to rise in tandem to cover the consequent deficit.

Product Liability
Generally, rates for product liability decreased approximately 5% in 2014, but for large accounts with good loss history, the competition will be fierce in 2015, and a rate reduction of 10% to 20% could be achieved. However, rates are expected to increase for certain industries, such as home electrical appliance manufacturing, due to an increase in claims frequency.

D&O Liability
We are seeing more privatization-related claims brought against Cayman Islands incorporated US listing companies. Additionally, the Securities and Exchange Commission’s (SEC) new settlement approach and its whistle-blower program may potentially increase the risks of directors and officers.

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EC Claims management has been a growing issue for some clients, especially those from the retail, catering, logistics, and construction sectors. Unattended claims or improper claims management will result in prolonged claims periods and higher claims costs. The impact is even more significant when dealing with potential common law cases. Ultimately, this is expected to have a significant effect on EC premiums.

Health Care Expenditure
Total health care costs have been increasing in Hong Kong, with a spike in the amount of private health care expenditure. A growing aging population, higher disposable incomes, advancements in medical technology, and an increase in the use of health care are some of the factors contributing to the rise in costs. Employers are facing rising costs and looking at cost containment measures through wellness programs or employee contributions.

Political Violence
With recent political and terrorism events in emerging markets and other countries, clients face the potential for political violence, which can jeopardize the safety and security of their people, assets, and supply chains.

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**GENERAL LIABILITY**
**RATES: STABLE -5% TO +5%**
Premium rates have been stable after a decrease in general liability premiums over the last three to four quarters. Limits and retentions have been flat. A select group of insurers is trying to target the product liability space for automobile and pharmaceutical risks.

**MOTOR**
**RATES: STABLE -5% TO +5%**
Motor insurance has two components: own damage property premium and mandatory third party liability policy (TPL). While the former is decided by market forces, the second component is influenced by tariff. No change in the limits and deductibles is expected.

**WORKERS’ COMPENSATION**
**RATES: DECREASE 0% TO 10%**

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

**PROPERTY: NON-CATASTROPHE-EXPOSED**
**RATES: INCREASE 20% TO 30%**
Regulators have expressed concerns on prevailing low pricing for property and employee health group insurance. The Insurance Regulatory and Development Authority (IRDA) has prescribed additional governance framework for insurers to encourage pricing of risks on the basis of the burning cost of the industry and/or particular risk. The insurers may still choose to price a particular risk at a cost that is below the burning cost. However, in that case, insurers have to report such cases to their boards. So far, for placements done on January 1, 2015, we have seen flat renewals for most accounts. We feel this is going to bring about a steep correction in non-catastrophe-exposed risk premium in the medium to long term. For poor risks, premiums may increase beyond 20% depending upon an insured’s risk experience.

**ENVIRONMENTAL**
**RATES: STABLE -5% TO +5%**
There is not much of a market for environmental insurance. Due to a lack of demand and supply, this line of insurance has been flat for a long time.

**DIRECTORS AND OFFICERS (D&O) LIABILITY**
**RATES: STABLE -5% TO +5%**
The downward pricing trend has flattened due to increased activity in management liability claims. Furthermore, as there are positive signs within the economy, with increased turnover, stable rates are expected.

**FINANCIAL INSTITUTIONS**
**RATES: INCREASE 0% TO 10%**
Despite the region’s competitive rates, in India, insurers in the private sector do not write financial institutions. Only the top four public sector insurers have been writing these risks. However, increased loss experience has resulted in a 0% to 10% increase in premiums. In some instances involving good risks and increased competition between insurers and brokers, rates for certain risks have decreased by 10% to 25%.

**PROFESSIONAL LIABILITY**
**RATES: STABLE -5% TO +5%**
Premium rates are expected to remain flat. But as companies’ turnover is increasing, modest increases in premiums are expected.

**MEDICAL MALPRACTICE**
**RATES: INCREASE 10% TO 20%**

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

**EMPLOYEE BENEFITS: HEALTH**
**RATES: INCREASE 20% TO 30%**

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

**EMPLOYEE BENEFITS: ACCIDENT AND HEALTH**
**RATES: STABLE -5% TO +5%**

**RISK TRENDS**

**Pricing Based on Burning Cost**
The Insurance Regulatory and Development Authority (IRDA) in India has asked insurers to correct pricing on property, fire, and health care policies and base these on the burning cost of the industry. The IRDA holds the view that the free market regime, coupled with intense competition and external factors, has led to deficient assessment of insurable risks and/or such insurable risks are not being priced at adequate levels.

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GENERAL LIABILITY
RATES: STABLE -5% TO +5%
Spurred by a rapidly growing economy, sustained development of infrastructure, and a conducive business environment, this line of coverage is expected to grow modestly. Since the insurance market has benefited from good loss experience to date and the availability of capacity from large domestic and international insurance companies, very good and well managed risks could expect slight premium reductions and/or negotiate coverage improvements or increased limits.

MOTOR
RATES: STABLE -5% TO +5%
Motor tariffs in place since February 2014 will continue to regulate pricing in this line of business, including auto third party liability (TPL) up to Rp 100 million, resulting in additional cost to insurance buyers that, prior to tariff, were able to obtain the coverage (up to Rp 100 million) at a minimal cost. Demand for auto TPL limits greater than Rp 100 million is anticipated to remain modest with support coming predominantly from JV/multinational insurance companies.

WORKERS' COMPENSATION
RATES: STABLE -5% TO +5%
This relatively stable class of insurance is expected to pick up amidst a growing economy in 2015. Insurance companies are expected to compete for business from key driving sectors such as infrastructure, mining, and oil and gas, hence providing insurance buyers with ample room to negotiate for better coverage and/or higher limits and/or more competitive premiums.

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

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: STABLE -5% TO +5%
Due to the new tariff introduced in February 2014, continued market competition for business is expected in the general industrial risk sector (up to US$300 million in insured value, non-mining, non-energy). Although their premium is fixed by the tariff, insureds from this sector should be able to negotiate for improvements in non-tariff regulated coverage.

ENVIRONMENTAL
RATES: STABLE -5% TO +5%
Despite Law No. 32/2009 on environmental protection and management, demand for this line of coverage remains relatively low, creating arguably a more favourable position for insurance buyers in negotiating for coverage with insurers. For general industrial risks (non-oil and gas, non-mining), insurers can be flexible in providing a competitive package bundled with general liability programs of the same insured. Cover is still currently limited to selected JV/international insurers.

DIRECTORS AND OFFICERS (D&O)
LIABILITY
RATES: DECREASE 0% TO 10%
Lower rates resulted in premium reductions throughout 2014. In the small-to-midsize business segment there were average reductions of 5%; for larger corporate and international risks, the reductions averaged 5%. As insurers in this market continue to post good profit results, they will continue to compete for greater market share by reducing premiums.

FINANCIAL INSTITUTIONS
RATES: STABLE -5% TO +5%
The financial institutions (FI) market remains fairly stable with minimal premium increases due to increasing fraud losses within the FI space. Cyber exposures are on the rise and insurers are expanding their books of business by seeking greater market penetration in the FI sector.

PROFESSIONAL LIABILITY
RATES: STABLE -5% TO +5%
The market for professional liability risks continues to be highly competitive across most industry areas, characterized by a roll-over premium resulting in a slight 5% reduction.

MEDICAL MALPRACTICE
RATES: STABLE -5% TO +5%
Insurers’ appetite for medical malpractice generally remains low. The premium pool is relatively small with limited market support.

MARINE

RATES: DECREASE 0% TO 10%
With economic growth expected to accelerate in 2015 amidst political stability brought about by the successful presidential and parliamentary election in 2014, the markets can expect a brighter outlook with exports driving the volume of cargo business. In a market currently experiencing an oversupply of capacity, there is more pressure for insurers to be competitive following the introduction of property and motor tariffs in the country in February 2014, when many insurance buyers resorted to seeking higher reductions on cargo premium to compensate for the increases on their property and motor programs.

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

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

EMPLOYEE BENEFITS:
ACCIDENT AND HEALTH
RATES: STABLE -5% TO +5%
Both private and state-owned companies were required to enroll their employees in the national health care scheme as of 1 January 2015. This will most likely entail additional costs in rate increases from approximately 15% to 30% for those companies that wish to maintain their current private health care scheme.

RISK TRENDS

National Health Insurance Program (BPJS Health)
1 January 2015 marked the day when all companies (state-owned and private) needed to have enrolled their employees into the national health care scheme (JKN) – amidst criticism of the inadequacy of existing health care...
infrastructure to serve the salaried employees and the lack of commitment from many private hospitals. Companies that have private health care schemes in place can defer activation of their membership under JKN until 30 June 2015 and only start paying premium contributions from 1 July 2015 onwards.

The recent launch by the government of the KIS (Indonesia health card) as part of the social welfare policy, together with the integration of the regional health care scheme, are stretching the capacity of BPJS Health and participating providers in terms of delivering service levels equivalent to those enjoyed by salaried employees prior to joining JKN. Companies are still searching for solutions to avoid doubling up on premiums (that is, for JKN and supplementary programs) and to uphold employees’ welfare and the quality of health care benefits.

**OJK Tariff Regulation**

Since its introduction in February 2014 by the Financial Services Authority of Indonesia (OJK), the Indonesian Property Insurance Tariff has drawn a lot of criticism from insurance buyers for its abrupt implementation and the substantial impact on insurance premium cost and budget.

OJK has recently been receptive to various input and suggestions from the market and has issued a number of clarifications and amendments to bring the tariff to a more acceptable level. It can be anticipated that before the first anniversary of the tariff (1 February 2015), or by first half of 2015 at the latest, there will be amendments to the current tariff pricing structure, as well as other regulated coverage conditions.

**New Insurance Law**

A new insurance law (no. 40/2014) was passed by the Indonesian House of Representatives on 23 September 2014 and signed into law on 17 October 2014. Amongst several areas in the insurance sectors touched by the new law, one notable highlight is the requirement for insurance and reinsurance companies to optimize the utilization of local/domestic insurance capacity. This may lead to further detailed regulations impacting outward reinsurance.

The government and/or OJK are expected to drive the establishment of a new national reinsurance entity and consolidate existing state-owned reinsurance companies. Some pooling of specified risks may also be anticipated.

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GENERAL LIABILITY
RATES: DECREASE 0% TO 10%
Rates, terms, conditions, and capacity are expected to remain competitive for 2015. Insurers are offering enhanced and extended coverage with the expectation that it will stabilize the prices. Japanese companies operating globally are trying to purchase higher limits.

MOTOR
RATES: INCREASE 0% TO 10%
Most local insurers changed base rates throughout the second half of 2014, with average rate increases of 1% to 2% in personal lines, whereas the base rate remained stable in commercial lines (fleet). Insurers started to target exposure zones by number of vehicles/loss ratios.

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

PROPERTY: CATASTROPHE-EXPOSED
RATES: STABLE -5% TO +5%
The local property market continues to be stable, following the devastating losses from the Tohoku earthquake in 2011. Earthquake capacity is readily available, and the rates continue to come down to the pre-Tohoku earthquake level. Non-catastrophe-exposed capacity and rates remain stable. This trend is expected to continue throughout 2015.

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: STABLE -5% TO +5%
Japanese headquartered corporate clients that are looking to expand their businesses overseas by means of acquisitions. Historical environmental contamination at the target site(s) often becomes a bottleneck to the transaction, and our clients look to environmental liability insurance as a risk-transfer or management mechanism. Operational accounts have seen stable renewals, and are dominated by J-REIT businesses. We do not anticipate any major change in this trend for the immediate or foreseeable future.

DIRECTORS AND OFFICERS (D&O)
LIABILITY
RATES: DECREASE 0% TO 10%
We expect the capacity, rates, terms, and conditions to remain competitive in 2015.

FINANCIAL INSTITUTIONS
RATES: STABLE -5% TO +5%

PROFESSIONAL LIABILITY
RATES: DECREASE 0% TO 10%
Major Japanese insurers are entering the market, thereby creating more competition and favorable terms for buyers.

MARINE
RATES: DECREASE 0% TO 10%
Insureds can enjoy rate reductions under stable markets in Japan if they have favorable loss records. More buyers are trying to review their policy conditions by getting quotations from several insurers, including non-Japanese insurers.

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

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

EMPLOYEE BENEFITS: ACCIDENT AND HEALTH
RATES: STABLE -5% TO +5%
All life and accident, death, and dismemberment (A&D) insurance in Japan is tariff-rated. This means that all life and A&D insurers offer the same level of benefit at the exact same premium. Group long-term disability insurance and hospitalization insurance rates can be negotiated with insurers, however, and rates are expected to remain stable in 2015.

RISK TRENDS
Market Landscape
Two of Japan’s top-ranked non-life insurers, Sompo Japan and Nipponkoa, completed their merger to form Sompo Japan Nipponkoa Insurance Company on 1 September 2014. Another merger between AIU and Fuji Fire is targeted for completion in the second half of 2015. The integrated AIU/Fuji group will rank fourth in the market on a net-written premium basis. As a result of these mergers, insurance buyers will have fewer choices. While international insurers are expected to play a more important role in the market, the three Japanese mega insurer groups maintain nearly 90% of market share.

Natural Catastrophe Risks
Japan was hit with two large winter storms within a 10-day period in February 2014. Tokyo experienced its heaviest snowfall in decades. Total insured losses have been estimated at over 253 billion yen. While it is not expected to impact the market, this event ranks among the top five largest losses in Japan over the past 15 years.
Despite increased reinsurance capacity and decreases in treaty rates for Japan earthquake risk, Tokio Marine announced in July their intent to raise commercial earthquake insurance rates, particularly in areas where they believe rates are underpriced relative to the risk of earthquake or the concentration of older, damage-prone structures. It remains to be seen if other insurers will follow Tokio Marine’s lead.

Renewable Energy
New investment continues to flow into the field of renewable electricity-generation facilities, including solar power plants, following the feed-in tariff program that started in 2012 and which requires electricity companies to purchase renewable energy at fixed prices. Insurance demand for contractors’ all risks/erection all risks (CAR/EAR) and operational property in solar power projects is robust and this trend is expected to continue through 2015.

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GENERAL LIABILITY
RATES: DECREASE 10% TO 20%
The general liability market has shown rate decreases due to heavy competition by carriers with no catastrophe-exposed losses. This trend is likely to continue in 2015, unless there is significant impact from the losses.

MOTOR
RATES: INCREASE 0% TO 10%
The rates for motor insurance have increased marginally due to increased loss ratios and higher repair costs, especially for imported foreign vehicles. This trend is expected to continue.

WORKERS’ COMPENSATION
RATES: STABLE -5% TO +5%
Private insurers are not allowed to manage workers’ compensation as they are government-managed programs. In the area of employers liability, which is managed by private insurers, rates are expected to remain stable.

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

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: DECREASE 10% TO 20%
Overall, the property market is very soft in Korea, mostly due to heavy competition among insurers with relatively good loss ratios. The market has seen rates for non-catastrophe-exposed risks continue to decrease with increased retentions by insurers, as long as they have satisfactory combined ratios.

DIRECTORS AND OFFICERS (D&O)
LIABILITY
RATES: DECREASE 15% TO 20%
Increased insurer capacity and no significant losses, coupled with tough competition among insurers, continue to drive rates down.

FINANCIAL INSTITUTIONS
RATES: DECREASE 5% TO 10%
Although there are repeated losses by financial institutions, the market remains soft for this risk mostly due to an abundance of capacity and competition among insurers.

PROFESSIONAL LIABILITY
RATES: DECREASE 10% TO 20%
Rates continue to be on a downward trajectory mainly due to intense competition and abundant capacity.

MARINE
RATES: DECREASE 0% TO 10%
With no significant losses, the soft market conditions are likely to prevail with enough insurer capacity.

AVIATION
RATES: DECREASE 0% TO 10%
With good loss ratios and capacity in the marketplace, insurance buyers can expect rate decreases.

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

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

EMPLOYEE BENEFITS:
ACCIDENT AND HEALTH
RATES: INCREASE 0% TO 10%
Due to high loss ratios in the employee health and benefits market, rates are expected to increase by approximately 10% in 2015.

RISK TRENDS
The most important market trend in Korea is that most insurers are trying to retain more risks than they have done in the past, based on good combined loss ratios and increased operating capital. However, most insurers’ net profits are expected to decline this year with high acquisition costs and rate decreases due to heavy competition among carriers. As a result of the unstable global economic conditions, we can expect to see most insurers restructure their organizations and underwriting philosophies in an attempt to adapt to their environment.

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GENERAL LIABILITY
RATES: DECREASE 20% TO 30%
There is increased competition amongst underwriters, and hence, rates for insureds with good claims experience have dropped between 20% and 30%. December renewals saw rates decrease beyond 30%, as underwriters scrambled to meet budgets.

MOTOR
RATES: STABLE -5% TO +5%
Rates have remained stable as motor is a tariff product in Malaysia.

WORKERS’ COMPENSATION
RATES: STABLE -5% TO +5%
As claims in these portfolios have been relatively benign over the years, in general, the rates have already hit bottom with almost no room for further reductions.

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: DECREASE 20% TO 30%
Property is a tariff product in Malaysia except for industrial risks with some insureds in excess of RM 300 million. The tariff has remained stable. The non-tariff property market, also known as the LSR risks (large and specialised risks), has seen some rate reductions between 20% and 30%. This is fuelled by the competing markets all eyeing to grow their property portfolios. Nonetheless, the other factor that is pivotal in rate reductions is clients that risk manage their properties. Insurance buyers that engage risk consultants and adhere to their recommendations are viewed favorably by insurers.

ENVIRONMENTAL
RATES: STABLE -5% TO +5%
Environmental insurance is still in its infancy in Malaysia, so the rates are very stable.

DIRECTORS AND OFFICERS (D&O)
LIABILITY
RATES: DECREASE 10% TO 20%
Despite adverse industry claims experience, rates have been declining. There is ample capacity in the region. Insurance buyers are generally assessing their limits and a number of them have increased their limits. Further rate reductions could be expected in 2015.

FINANCIAL INSTITUTIONS
RATES: DECREASE 0% TO 10%
Rates for financial institutions have been fairly stable with some minor rate reductions. There is ample capacity in the marketplace and quite a number of insurers have bolstered their financial institution teams. Further rate reductions are expected in 2015 as competition intensifies.

PROFESSIONAL LIABILITY
RATES: DECREASE 10% TO 20%
Rates for professional liability have decreased between 10% and 20% due to ample capacity in the marketplace. Further rate reductions are on the horizon in 2015.

MARINE
RATES: DECREASE 20% TO 30%
The marine cargo business has seen keen competition over the last few years. This has driven rates down. This downward trend is fuelled by personnel movements in the Malaysian marine cargo industry, which has seen senior underwriters switching employers. We remain optimistic that 2015 will be another year for a rate slide, although for some accounts where the rates are already very good, this may not be the case.

AVIATION
RATES: STABLE -5% TO +5%
The Malaysian aviation industry was hit by two epic losses, MH370 and MH17. However, the smaller general aviation accounts did not see any rate increase, as almost all renewals took place at expiring terms. We foresee the same outlook for 2015.

RISK TRENDS

GST Implementation
The Goods and Services Tax (GST) will be implemented in Malaysia on 1 April 2015. All general insurance products will be subject to 6% GST effective 1 April 2015.

Terrorism Insurance
There has been increased demand for terrorism insurance following the Lahad Datu standoff in 2013. In light of the fact that Malaysia has moved up from 91st place to 48th in the Global Terrorism Index, and compounded by the fact that the Malaysian police have made several arrests of militants in Malaysia, the threat of terrorism is definitely something that concerns risk managers in Malaysia.

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The Philippines has had a benign liability environment vis-a-vis the industrialized countries. Protracted litigation and more often trivial court awards encourage parties to settle disputes out of court. Under such circumstances, liability insurance is still affordable. Only a few cities (mainly in the metropolitan Manila area) require premises operations liability.

Other than the statutory coverages, comprehensive general liability insurance is not widely purchased, except by multinational companies and large domestic corporations. No significant change is anticipated in 2015.

This line of insurance is generally loss driven. We are able to negotiate rate reductions for fleets with favorable loss ratios (that is, below 65%).

Property accounts that have been severely affected by typhoon Haiyan experienced significant rate increases in 2014. We foresee this softening in 2015. During 2014, non-catastrophe-exposed property accounts with good loss experience were frequently renewed subject to expiring terms and conditions. However, underwriters are also more stringent when it comes to setting deductibles and are reluctant to offer coverage enhancements/extensions. Furthermore, many underwriters have rejected underwriting exposures in high-risk areas.

The basic cover offered by domestic insurers is limited to sudden and accidental pollution, as an extension under the comprehensive general liability policy. A limited number of multinational insurers, duly licensed in the Philippines, are able to offer environmental impairment liability coverage.

The challenge is to be able to meet the demand for capacity in insuring catastrophic perils, given the Philippines’ geographical location.

The regulators have imposed a series of increases in the minimum paid-up capital for insurers from 2013 up to 2022. As of 30 June 2013, it stands at PHP 250 million and we anticipate that, as this figure is increased over the next few years up to PHP 1.3 billion by 31 December 2022, there will be mergers, consolidations, or acquisitions for the smaller domestic insurers and closure for those unable to satisfy the capitalization requirements.

The integration of the ASEAN countries into a single economy (modeled after the European Union) is expected to be achieved in 2015. The objective is to promote the free flow of goods and services, and lift trade barriers between the member nations. We have yet to receive concrete guidelines from the regulators on its impact on the domestic insurance industry, particularly with respect to insurance-related taxation, the possibility of lifting the prohibition on non-admitted insurance, or possible liberalization of requirements for ASEAN-based insurers intending to set up operations in the Philippines.
Singapore

GENERAL LIABILITY
RATES: DECREASE 0% TO 10%
The market is expected to remain soft, with carriers offering both rate reductions and enhanced coverage.

MOTOR
RATES: STABLE -5% TO +5%
Overall insurance market’s claims experience for motor is below average. No competitive market pressure exists to reduce rates.

WORKERS’ COMPENSATION
RATES: STABLE -5% TO +5%
ACE has entered the market and demonstrated its competitive appetite.

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

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: DECREASE 0% TO 10%
There is an increasing trend of carriers agreeing to two-year deal renewals at pre-agreed reduced rates, which are typically -5% to -10%.

ENVIRONMENTAL
RATES: DECREASE 0% TO 10%
Singapore is perceived to be a good risk for environmental underwriters, so this segment is expected to be soft.

DIRECTORS AND OFFICERS (D&O) LIABILITY
RATES: DECREASE 0% TO 10%
We anticipate further expansion in market capacity with new carriers poised to enter the D&O market in 2015. The risk landscape remains relatively benign, with no major catalyst driving claims or litigation risk factors.

FINANCIAL INSTITUTIONS
RATES: DECREASE 0% TO 10%
Overall carriers’ appetite and capacity for financial institutions risk remains robust and will continue into 2015, in the absence of any major risk factors that could increase the risk profile for this segment.

PROFESSIONAL LIABILITY
RATES: DECREASE 0% TO 10%
We are seeing greater deployment of underwriting authority and decision making by professional liability insurers, which should mean more competitive terms in 2015.

MEDICAL MALPRACTICE
RATES: DECREASE 0% TO 10%
We keep hearing from carriers that they intend to enter the market for medical malpractice in 2015. AIG and Beazley have announced their plans, so greater competition is expected in 2015.

MARINE
RATES: DECREASE 0% TO 10%
The marine marketplace is expected to be competitive, with most insurers keen to write this business, and no withdrawal in market capacity.

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

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

EMPLOYEE BENEFITS: ACCIDENT AND HEALTH
RATES: STABLE -5% TO +5%
The overall market is competitive, with both life and general insurance insurers able to offer competitive products and solutions.

RISK TRENDS
Risk Events with Global Footprint
Singapore companies are increasingly influenced by worldwide risk events, which may affect their operations, especially those with a global footprint. The Ebola outbreak, political tensions in some of the global hotspots, and the threat of terrorism are key concerns.

Enhanced Health Care Benefits
From a human capital perspective, more companies are looking to introduce greater flexibility and a suite of health care benefits, which can be offered to their workforces in a bid to retain talent, as well as attract fresh talent into their organizations.

Cyber Risk
In 2014, there was a significant increase in hacking incidents globally and Singapore companies were not spared. This should prompt more companies to adopt a risk-based approach in assessing their vulnerabilities to a cyber-attack.

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GENERAL LIABILITY
RATES: STABLE -5% TO +5%
Casualty insurance rates were stable in 2014 due to good loss ratios across the marketplace. We expect a similar situation in 2015.

MOTOR
RATES: STABLE -5% TO +5%
Markets are stable due to good loss ratios. We expect a similar rate trend in 2015. A “cash before cover” premium payment rule became effective 1 January 2015. A proposed regulation change to compulsory automobile liability insurance, which entails the exclusion of medical payment (which could be paid by national health insurance), might lead to premium decreases of about 7%.

PROPERTY: CATASTROPHE-EXPOSED
RATES: DECREASE 0% TO 10%
Good loss records in local and international markets with abundant capacity worldwide resulted in strong competition and decreased rates at the end of 2014. We expect a soft market in 2015.

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: DECREASE 0% TO 10%
Good loss records and strong competition at the end of 2014. We expect a soft market in 2015.

DIRECTORS AND OFFICERS (D&O) LIABILITY
RATES: DECREASE 0% TO 10%
The rate trend was essentially flat overall for the last quarter due to competition. We expect a similar situation in 2015.

FINANCIAL INSTITUTIONS
RATES: STABLE -5% TO +5%
No major losses and a soft market at the end of 2014. We expect a similar situation in 2015.

PROFESSIONAL LIABILITY
RATES: STABLE -5% TO +5%
Financial products lines were more stable overall. Similar trends are expected in 2015.

RISK TRENDS

Market Landscape
The general insurance market is still competitive. The 2014 gross written premium for non-life insurance is marginally higher than 2013. Main catalysts for the growth premium came from motor vehicle insurance due to increased sales of cars; the other area of growth was seen in health insurance, as it was a relevant new product since 2008 with a smaller portfolio. We expect the same situation to prevail in 2015. The premium portfolio will be similar in the commercial lines business, and insurers expect to see growth in the personal lines business due to the approval of insurance e-commerce by the Financial Supervisory Commission (FSC) in 2014.

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GENERAL LIABILITY
RATES: STABLE -5% TO +5%
Market pricing is still highly variable depending on an insurer’s risk profiling.

PROFESSIONAL LIABILITY
RATES: DECREASE 10% TO 20%
Increased market competition has resulted from very low loss ratios and increased capacity.

MOTOR
RATES: INCREASE 0% TO 10%
Rising repair costs and increasing volume of vehicles and accidents will impact rates going forward.

MEDICAL MALPRACTICE
RATES: INCREASE 10% TO 20%
High medical costs and claims ratios are forcing market rates upward.

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

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

DIRECTORS AND OFFICERS (D&O) LIABILITY
RATES: DECREASE 0% TO 10%
This is a stable market with no anticipated change for 2015.

FINANCIAL INSTITUTIONS
RATES: STABLE -5% TO +5%
Frequency in claims is increasing, which may affect rate increases in 2015, should this trend continue.

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

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

EMPLOYEE BENEFITS: ACCIDENT AND HEALTH
RATES: INCREASE 10% TO 20%
Medical inflation continues to drive higher costs, but the market remains competitive due to procurement-purchasing style. New entrants to the marketplace are generating additional capacity and product offerings in Thailand.

RISK TRENDS

Political Risk
Political risk is less of a concern now in Thailand due to “martial law” and the current interim government. In fact, political stability is anticipated throughout 2015, with potentially increased risk in 2016 attributed to pending elections and new constitutional implementation.

Infrastructure
There is an anticipated increase in infrastructure during 2015 as the interim government increases spending on projects and development with the ASEAN Economic Community (AEC). Cross-border road and rail projects are expected.

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GENERAL LIABILITY
RATES: DECREASE 0% TO 10%
The concept of liability is not well understood in Vietnam and, as a result, the market is soft from a pricing perspective with ample capacity available. Care should be taken in reviewing policy conditions to ensure appropriate coverage for an occupation or industry.

MOTOR
RATES: STABLE -5% TO +5%
No issues with securing coverage at reasonable price levels.

WORKERS’ COMPENSATION
RATES: STABLE -5% TO +5%
No unfavourable issues. Good capacity and pricing are available.

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

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: DECREASE 10% TO 20%
The market is very soft in terms of pricing, with ample capacity supported by international reinsurance markets. Following the incidents in May 2014, the market is attempting to impose sublimits for riot strike and malicious damage (MD). Depending upon location, firefighting may be an issue. Risk management is left to individual concerns with limited local regulations.

ENVIRONMENTAL
RATES: STABLE -5% TO +5%
There are limited local regulations and, as a result, this line of business is rarely purchased. However, companies’ CEOs can be held criminally responsible for losses as a result of negligence.

DIRECTORS AND OFFICERS (D&O) LIABILITY
RATES: DECREASE 0% TO 10%
Most companies, including listed companies, do not purchase this line of business. The concept of liability is not understood. As Vietnam raises capital from international markets, exposures have increased and will continue to do so. Vietnam will be a signatory to the Trans-Pacific Partnership (TPP) agreement along with 16 other countries, including the US and Europe. This agreement is aimed at expanding exports and, as a result, strong consideration should be given to this cover.

FINANCIAL INSTITUTIONS
RATES: STABLE -5% TO +5%
Although rates remained stable in Vietnam, limited capacity is driving insurers to buy reinsurance from international markets. Policy conditions can be restrictive depending on an insured’s risk management practices, enterprise risk management, and other governance issues.

PROFESSIONAL LIABILITY
RATES: STABLE -5% TO +5%
Many Vietnamese professional companies do not purchase professional indemnity insurance. In addition to mandatory professional indemnity coverage for lawyers and insurance brokers, recent government regulations now mandate cover for doctors and dentists. Again, limited capacity is available locally, although reinsurance is available. Professional indemnity coverage is sometimes required for construction all risk (CAR) and infrastructure projects.

MEDICAL MALPRACTICE
RATES: INCREASE 10% TO 20%
The health care market has been unprofitable for underwriters for several years. Local companies are now increasing rates and imposing tighter coverage. Driving this trend are losses coming from outpatient benefits for minor illnesses.

MARINE
RATES: DECREASE 0% TO 10%
There is good capacity in the market from both domestic and international underwriters. This is traditionally a profitable line of business.

AVIATION
RATES: DECREASE 10% TO 20%
There is limited capacity in the local market, which relies on the international market, mainly London and Singapore, for support. Global rate increases would also impact Vietnam.

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

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

EMPLOYEE BENEFITS: ACCIDENT AND HEALTH
RATES: STABLE -5% TO +5%
The life and accident and health markets remain competitive, both in terms of product and pricing. Complex investment-linked products are not readily available, but insurance buyers can access international markets.

RISK TRENDS

Coverage Lines
Vietnam is very much a maturing market. The concept of liability is not well known, thus products that are taken for granted in more mature markets and economies are not widely purchased. Examples are product liability, cyber risk, D&O liability, trade credit and political risk, professional indemnity, and bankers blanket bond (BBB).

Impact of the TPP Agreement
The Trans-Pacific Partnership (TPP) agreement that Vietnam will soon sign is expected to expand export opportunities, and Vietnam manufacturers will be exposed to external risks that are not common in Vietnam.

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

19 Aviation
20 Captives
21 Construction
22 Employee Health and Benefits
24 Marine Cargo
26 Marine Hull
27 Mining
29 Power and Utilities
30 Trade Credit and Political Risk
31 Warranty and Indemnity Insurance
# Aviation

## INSURANCE MARKET CONDITIONS

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>RATE CHANGE Q4 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIRLINES</td>
<td>STABLE -5% TO +5%</td>
</tr>
<tr>
<td>AEROSPACE</td>
<td>DECREASE 0% TO 10%</td>
</tr>
<tr>
<td>GENERAL AVIATION</td>
<td>DECREASE MORE THAN 10%</td>
</tr>
</tbody>
</table>

### Market Commentary

2014 has been a tough year for the airline market. Following significant losses for both the hull and liability (Malaysian Airlines) and hull war (Tripoli, Libya) sectors, there was a general expectation that rates and premiums — particularly in the very active fourth quarter — would show a sharp increase to balance the market and start a recovery back to profitability.

However, surplus capacity has restricted this recovery. On average, lead markets were able to secure expiring rates but the following markets engaged in fierce pricing competition to secure market share, resulting in significant growth (in average fleet value and passengers) being absorbed with little premium growth overall.

In the aerospace sector, the market continued to remain profitable. However, deterioration in past years has eroded some profitability. The majority of renewals saw premium reductions in 2014. However, those insureds with losses or significant exposure growth saw their premiums increase.

General aviation is experiencing the most competitive pricing in this market’s history. A combination of increasing capacity and increased appetite for rotor-wing operations, particularly offshore operations, has resulted in accounts with good loss records and fleet growth able to achieve rate and premium reductions.

### RISK TRENDS

#### Search and Rescue Extension

Following the Malaysian Airlines (MAS) loss of flight MH370 in 2014, and the significant expenses incurred by MAS as a result of its efforts to recover the aircraft wreckage, the extension of coverage granted under hull and liability for costs incurred for search and rescue has received much more lead-market scrutiny as insurers seek to limit their exposure to this potential risk.

#### Non-Cancellable Hull War Coverage

Some major airlines have been prepared to trade additional premium to remove the current seven-day cancellation provision provided under the standard hull war policy based upon LSW555D. Notwithstanding this change, the “Automatic Review of Terms orCancellation” arising from the hostile detonation of any device, including any weapon of war employing atomic or nuclear fission, would still stand.

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Captives

Market Commentary
The year 2014 proved to be an interesting one for captives, and witnessed China moving from a position of casual interest in captives to taking action in setting up captives for a few state-owned enterprises; interest remains high. However, a broader increase in the development of captives in Asia has not come about as quickly as previously anticipated, due in part to the significant reduction in rates that occurred again for many potential captive owners.

Focus has shifted from the area of traditional coverage, such as property and casualty coverage, to less common policies (broadly speaking, from existing captives with Asia-based sponsors) such as trade credit, which is being seen as a potential tool to enable increased sales whilst maintaining a focused discipline around the process, and other areas such as cyber liability, political risks, and cost overruns for projects. Currently, about 27% of the captives managed in Asia write some form of non-traditional cover (those writing risk outside property, business interruption, and liability programmes).

Although Hong Kong has had captive legislation in place for many years, given the increase in interest and activity from the Chinese market, additional captives have been formed — now a total of three — and this is expected to continue through 2015. Singapore did increase the overall number of captives domiciled there, although it was fairly minor (adding two to reach a total of 64), other locations (Labuan and Hong Kong) are still a fair way off. However, Hong Kong could, over the longer term, be a contender given the size of the potential market it is targeting, judging from past experience in places like Bermuda (US) and Guernsey (UK).

RISK TRENDS

China
As noted above, China’s interest in captives is probably a significant event for 2015. Captives are being seen as a focus of risk management and a tool to try and harmonise the various insurance programmes/policies that are in place currently. With this in mind, we do not believe any further rate decreases would impact the benefits of having a captive and thus, anticipate a further five to 10 captives being formed in 2015.

Non-Traditional Coverage
Given the current commercial pricing environment for many companies that have good loss histories and are of sufficient size to normally consider a captive for traditional covers, it is a challenge to ensure there is sufficient reward for any additional risk taken. Leveraging “big data” and analytics tools, an emphasis on the cost of capital to the organization versus external providers has added a different dimension to the discussions of a captive’s role — and thus the rise of non-traditional coverage.

Trade credit has been written during 2014 in Asia captives and we anticipate significant growth in this area, with potential captives being established to meet this need. However, some of these are unlikely to be based in Asia, given the scope of coverage (including associates and non-controlled entities) and would require captive domiciles that allow this sort of risk to be included.

Although using a captive to afford non-traditional coverage not currently purchased in the commercial market does not create any risk transfer outside the overall group, it can be combined with structured reinsurance arrangements where cash flow protection can be arranged with professional reinsurers, which can vary over time to match the appetite and capacity of the group and captive. We feel this trend will continue, at a similar pace, and contribute to the growth of captives overall.

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INSURANCE MARKET CONDITIONS

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>RATE CHANGE Q4 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONSTRUCTION</td>
<td>DECREASE 0% TO 10%</td>
</tr>
</tbody>
</table>

Market Commentary

Asia is one of the key growth areas in the global economy, weathering the global recession triggered by the financial markets’ instability of 2008 better than the Western economies and other emerging markets. Continued economic expansion, combined with fast population growth, is expected to result in rapid growth in demand for infrastructure and, with it, investment in new infrastructure projects across the region. Although the pace of economic growth in the region has slowed recently, dropping from 5.9% in 2011 to 5.3% in 2012, and 5.2% in 2013, marking the first time in two decades that the economy has grown at less than 6% in a three-year period, the outlook is still promising. According to the International Monetary Fund’s World Economic Outlook published in April 2014, the pace of expansion will increase to 5.4% in 2014 and 5.6% in 2015.

The advanced Asian economies are expected to perform at a slower rate, ranging from Japan’s growth of only 1.4% in 2014 and projected 1.0% growth in 2015 to South Korea’s 3.7% growth in 2014 and projected 3.8% in 2015. China and India, meanwhile, are expected to perform strongly, with 7.5% and 5.4% gross domestic product (GDP) growth in 2014 and 7.3% and 6.4% GDP growth, respectively, expected in 2015. However, there are some risks to growth in the region. Uncertainty over the developed economies’ fiscal and monetary policies, including the withdrawal of quantitative easing in the US and interest rate increases elsewhere, could act as a brake on the region’s economies. The move to more protectionism by the developed economies could also affect the developing economies in the region.

Asian public and private sectors agree that the top priority in the preparation for a more fully integrated region is investment in infrastructure. It is believed that both private companies and member governments have a role to play in the development of the region.

The assumption that the current US$2.4 trillion collective GDP would reach between US$3.5 trillion and US$4 trillion in the years to come, while purely assuming linearity, sometimes makes us forget the fact that infrastructure development spending must be in place to support the expected growth.

Indeed, 2014 was a difficult year in the construction/infrastructure area. While many projects were in the planning stages and expected to begin construction, commencement has, more often than not, been severely delayed due to lack of funding and, for other reasons, as cited above.

Public-private partnership (PPP) investment in certain ASEAN countries was expected to generate significant additional projects, but many have yet to start due to a mixture of financing, political, and land-acquisition issues.

Furthermore, an oversupply of insurance capacity remains with an increasing number of markets chasing less business. As a result, it is anticipated that rates will be further squeezed as targets and budgets need to be met. This is not helped by the fact that many clients in Asia (other than experienced buyers or those required to comply with lenders’ requirements) are entirely driven by premium and commission spend, making differentiation amongst brokers and insurers very difficult.

RISK TRENDS

The attitude of foreign investment in infrastructure continues to drive risk focus. Elections, political uncertainty, and natural catastrophes in Asia will continue to focus the mind of investors and their financial, legal, and insurance advisors with insurance being asked to respond on a broad basis.

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Employee Health and Benefits

Market Commentary
The market in Asia remains unstable for employee health and benefits (EH&B) risks, as many of the emerging economies, Southeast Asia in particular, grapple with major political and social reforms, and experience a significant change in the cost infrastructure for funding employee benefits. The larger and more mature economies, although much more stable from a medical inflation standpoint, still continue to wrestle with an aging population as their governments begin to focus on providing retirement medical insurance to cater to an aging workforce.

A dramatic increase in the use of employee benefits has been seen in the face of rising chronic conditions in the young, such as diabetes, drug-resistant tuberculosis, orthopedic/musculoskeletal conditions, and the ever-present hypertension, which are driving the rising costs of health care in the emerging economies.

In view of these cost pressures, governments are looking to push the cost subsidy of health care to the end payers through adjustment of medical fees, treatment, and pharmaceuticals, as well as to insurers, which would result in increased medical premiums. From a regional perspective, the ASEAN markets are looking at medical rate adjustments of 15% or higher; other markets remain relatively stable. Life and disability insurance rates remain stable, increasing at a rate of 2% to 5% across Asia.

RISK TRENDS
Similar to early 2014, during which governments began to investigate the possibility of transferring costs to the private sector to bear the bulk of inflation expenses, 2015 will witness the actual implementation of this cost transference, with Indonesia and Malaysia, in particular, experiencing major cost and infrastructure changes.

Indonesia
Indonesia, with the government and private sector implementation of the National Healthcare Act (known as BJPS Kesehatan), will have full implementation and compliance by 2019. The key framework of this lies in the establishment of the primary and tertiary segregation of care, which is currently not in existence, and the implementation of the capitation of fees, a fundamental shift of the payor system which, for many years, operated on a fee-for-service structure. Hospitals and insurance companies in Indonesia report a flurry of activity in attempting to deal with what all parties agree is an increase in demand in the numbers of clinics and hospitals and competent doctors to treat the massive population of Indonesia, while striving to make the standard level of care equivalent to that of private practice.

The emergence of the middle-class income group in Indonesia also exacerbates the situation, as this sector of the population looks abroad for treatment and avoids the Indonesian health care system, which is viewed as inferior. As a result, there is an increase in “medical tourism” to neighboring Southeast Asia markets by this sector of the population.

Malaysia
Malaysia held general elections in 2013, with the incumbent political party winning the elections. In the subsequent budget reviews, emphasis was put on two major subsidies that the Malaysian government funds — oil and health care. At the end of 2013 and 2014, the removal of oil subsidies was announced and, subsequently, in early April 2014, the Malaysian Medical Association (MMA) announced the change of the Malaysian Health Care Act and Schedule 14, which increased doctors’ professional fees between 20% and 300%, depending on treatment. The second half of 2014 saw a particularly steep rate and premium increases in Malaysia for the latter part of 2014 and into 2015, averaging 18%, as insurers sought to offset the rise of costs in 2015.

In 2015, there will also be the implementation of the Government Services Tax (GST) of 6%, although there is no GST levied on the cost of medical services and treatment. However, as some of the suppliers for these services will have to bear the 6% GST, the general understanding is that this will have some effect on health care costs for 2015 and beyond.
Rise of Self-Insurance/Captives/ Multinational Pooling

We see an increased interest in large employer groups across Asia reviewing the funding of their programs and the possibility of implementing self-insurance for portions of their insurance programs; even larger groups are considering captives. This is understandable given the rise of health care costs and a stronger focus on cost neutrality for employee benefits in the region. There is also a trend for Asian multinationals (firms headquartered in Asia) developing a keen interest in consolidation of their employee benefits programs — which traditionally have been fragmented, with multiple insurers or different renewal dates — in order to leverage and gain economies of scale.

“A DRAMATIC INCREASE IN THE USE OF EMPLOYEE BENEFITS HAS BEEN SEEN IN THE FACE OF RISING CHRONIC CONDITIONS IN THE YOUNG, SUCH AS DIABETES, DRUG-RESISTANT TUBERCULOSIS...”

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INSURANCE MARKET CONDITIONS

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>RATE CHANGE Q4 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARINE CARGO</td>
<td>DECREASE 5% TO 10%</td>
</tr>
</tbody>
</table>

Market Commentary

The annual conference of the International Union of Marine Insurance (IUMI) took place in Hong Kong in 2014. Although this meeting, which takes place in a different host country each September, is only open to insurers, the various position papers and statistical data and analysis collected from the IUMI membership is available in the public domain. Apart from a forum that brings together underwriters from around the world, there are also specific workshops that address key issues of international concern related to hull, cargo, loss prevention, and liability.

Some of the interesting statistics that emerged from the 2014 conference are worthy of particular mention is that China is now the largest single market, with 9.3% of the 2013 total cargo premium of US$18.2 billion. Japan represents 8.5% of the market, followed by Germany and Brazil, amongst others. On a regional basis, Asia-Pacific now accounts for 29.2% of global cargo premiums, second only to Europe (43.8%).

RISK TRENDS

According to IUMI, cargo statistics show that insurers are losing money and difficult market trading conditions are expected to continue. In recent years, the automobile segment of the “cargo book” has been particularly badly hit with significant windstorm losses in 2012 due to Superstorm Sandy, and in April 2014, as a fire onboard the vessel “Asian Empire” amounted to a loss of US$110 million. The somewhat better news is that the risk from Somalian pirates appears to be diminishing, although there are, on average, two attempts per month to capture merchant vessels. However, the various naval forces and the introduction of armed guards on many vessels have been successful at counteracting these attempts.

Arguably, by its very nature, the IUMI conference focuses on issues and, as such, perhaps could be presenting a gloomier assessment than actually exists, as there is still ample and expanding capacity within the cargo line. In Asia in 2014 alone, the market saw new cargo entrants such as SwissRe, Berkshire Hathaway, Generali (a new Asia region focus) and the disposition and acquisition of the RSA businesses in Hong Kong and Singapore by AWAC and the China operations by SwissRe. Clearly, this influx of capacity is a result of Asia being perceived as a significant business opportunity, despite the adverse profitability alluded to at the IUMI conference. China, in particular, is looking to participate in international cargo business, thus not only fuelling capacity but signaling its confidence in the cargo line of insurance.

What is undeniable is the fact that for the marine segment, when catastrophic losses occur, they are becoming increasingly larger in monetary terms. The protection and indemnity (P&I) claim for the Costa Concordia now stands at just shy of US$1.5 billion, and the sinking of the New Zealand vessel Rena has risen to US$425 million. Although neither of these are cargo losses, they are part of the marine line of business and, to a certain extent, contribute to a knock-on effect.
Our client base is increasingly looking to include storage risks as part of their cargo policies. Generally, these are short to medium term in duration but, in many countries, this will require a local policy to comply with legislation within the country in question. From a risk perspective, underwriters are becoming increasingly concerned about the catastrophic element — in particular, earthquake, flood, and windstorm. In recent years we have seen the New Zealand earthquake, the floods in Thailand, and the earthquake/tsunami in Japan in 2011. 2012 brought Superstorm Sandy in the US. We then saw Central European floods in 2013 followed by the Australian hailstorms in November 2014.

Typically, the measure of profitability of a particular piece of business and, therefore, its qualification for a rate reduction on renewal was focused singularly on the loss ratio. However, given the storage/stock and, in many cases, the work in progress during manufacturing, the rating dynamic has changed. If the cargo assured now has significant storage exposure, or may indeed have gone to a full stock throughput program (STP), then just looking at the loss ratio in isolation isn’t considered to be the only criteria for reduction on renewal.

For cargo accounts showing a favorable loss experience, a reduction of 15% to 20% may be available from the Asian markets. If, as alluded to above, there is a significant stock element, a reduction would typically be in the 10% to 15% range.

“CHINA IS NOW THE LARGEST SINGLE MARKET, WITH 9.3% OF THE 2013 TOTAL CARGO PREMIUM OF US$18.2 BILLION... ”

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Marine Hull

INSURANCE MARKET CONDITIONS

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>RATE CHANGE Q4 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROTECTION AND INDEMNITY (P&amp;I)</td>
<td>INCREASE 0% TO 6.5%*</td>
</tr>
<tr>
<td>HULL</td>
<td>DECREASE 10% TO 15%</td>
</tr>
</tbody>
</table>

*P&I has one renewal date (February 20) for every single policy, therefore technically the increases are Q1 2015.

Market Commentary
There were no “headline losses” in 2014 that would cause the downward trend on rates to change. Shipowners with benign loss records continue to enjoy significant improvements to their insurance costs as the market remains hungry for growth in insurance premiums and mutual clubs fight against the continual churn of tonnage.

Protection and Indemnity (P&I) Market
The International Group clubs appear to have gone through their cycle of obtaining significant increases in premium for fear of falling behind capital adequacy requirements and losing ratings agencies’ confidence. Quite the contrary, their reserves have never been higher and after the series of high increases, combined net ratios are at an equitable level. This year, sitting on record levels of free reserves, the clubs are in a position to give back to members, through relaxed general increase positions and, in some cases, alleviation of calls on existing and prior policy years. The average general increase for 2015 at 3.3% is a vast improvement from 2013 and 2014 at 8.9% and 7.9%, respectively. With a plethora of fixed-premium insurers, the smaller vessel operators can continue to enjoy competitive pricing. As a market leader, Shipowners P&I Club has already set the bar low with a zero general increase, and we expect the other clubs are ready to compete.

Hull Market
On the face of it, combined hull, including construction and other interests, is returning profits for underwriters, despite the reductions in rates. Technically though, are underwriters using total loss premium to pay attritional losses? This then begs the question: Where is the premium in the industry to pay for the next Costa Concordia or a series of large losses? Although shipowners should enjoy rate savings, selection of hull insurers by owners for the long term should still be a consideration.

RISK TRENDS

Hull Market
► Continued softening market to the benefit of assureds.
► Packaging of all interests under one policy.
► Claim frequency: Downward trend in frequency of claims and continued drop in vessel total losses of vessels over 500 GT.
► Size and complexity of vessels continue to increase.

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Mining

INSURANCE MARKET CONDITIONS

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>RATE CHANGE Q4 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALL LINES FOR MINING</td>
<td>STABLE TO -15%</td>
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</tbody>
</table>

**Market Commentary**

Generally, there is increasing capacity available in the market for the right risks, and renewal reductions in the 10% to 15% range are achievable, but clients still have to demonstrate continued risk management improvements and a good claims record.

We have seen some renewed aggression from a couple of markets who will look at open-cut mining only. They include Royal SunAlliance (shortly to become AWAC), Liberty International, and Catlin.

Major changes in 2014 in the Asian market have included the introduction of the Indonesian Property insurance tariff, which has meant a lot more business being retained by local insurers in Indonesia. The challenge from an international perspective has not been the pricing so much (indeed we have been able to secure pricing below the predetermined tariff pricing, but this cannot be passed on to the original insured) but the low level of deductibles which, whilst being described as minimum, have generally been taken as the “norm” with established international mining markets not being able to compete — particularly on business interruption coverage where 14 days is achievable, and minimums of 30 days with 45 days for machinery breakdown are the normal minimum deductible levels in the international market.

The global downward pressure on commodity prices means we have seen a lot of clients amend their business interruption coverage from full-value gross profit to standing charges only.

Due to the continued pricing pressure on commodity prices, there are concerns from the insurance market that in an effort to save costs, mining companies will: 1) reduce capital expenditure, and thus, the number of mining-related construction projects will reduce; and 2) not commit the same amount of time and investment to risk management for operational risk. Allaying these concerns, particularly the latter, needs to be addressed when preparing the underwriting submission.

**RISK TRENDS**

**Cost Control**

The cost of business contraction is one of the greatest concerns as mining productivity in Asia and globally hits new lows whilst both input and cost of production remain stubbornly high. To reduce costs sustainably, major mining companies must improve overall productivity, strengthen management and reporting systems, use analytics to uncover underlying cost drivers, and rationalise their cost and supply chains.

In Asia, the mega miners have the luxury of being able to offset less profitable operations against those where the operational efficiencies are yielding better returns. In 2014, we saw the closure of a number of single mines where the owner/operators do not have this luxury, particularly in open-cut coal, where the depressed sale price makes such operations unviable.

The mining industry, according to most sources, needs to respond with a variety of cost-cutting measures in an attempt to offset eroding margins. The race for growth in the past decade saw poor operating-cost discipline, resulting in excessive costs build within the sector.

**Need for Innovation**

As grades decline and ore bodies are depleted, mega miners continue to move into increasingly remote locations with correspondingly harsh conditions, pushing costs to higher levels. A major factor in this trend can be seen in the industry’s use of energy, which can represent 40% to 60% of a mine’s operating costs.
Typically, major miners demand access to a constant source of energy to meet their production needs. This makes the adoption of renewables tricky, given their intermittency of guaranteed supply. Despite this approach, the fundamental thinking that underpins the energy mix remains the same. Generally, supply is expected to follow demand. Considering how a typical mine operates, this approach seems misaligned. In an operating mine, generally, production is virtually never continuous and, in some cases, trucks remain idle up to half of the time.

However, because miners approach operations from a modular perspective — with functions like energy management, site design, and fuel procurement working in silos — they aren’t equipped to take this operating intermittency into account when scheduling production.

Until 2013, rising commodity prices offset these higher energy costs. However, with prices in the doldrums, this is no longer the case. As a result, mining companies can no longer confine themselves to making incremental component-based performance improvements.

“INNOVATION IS NOT JUST ABOUT REALIZING POWER COST SAVINGS. IT’S ABOUT CHALLENGING EXISTING WAYS OF THINKING BY REVISITING LONGSTANDING PRACTICES AND PROCESSES.”

Instead, they need to take a broader view of innovation and question underlying systemic decisions. From an energy perspective, this means taking a more integrated approach to mine design and planning. The aim is to synchronize energy supply and demand from the outset. Companies are looking at ways to automate mine processes at the design phase to reduce reliance on fossil fuels. They must also gain a full understanding of local renewable energy capacity, from geothermal and hydroelectric to solar and wind.

Innovation is not just about realizing power cost savings. It’s about challenging existing ways of thinking by revisiting longstanding practices and processes. Companies are rethinking how to move ore around an open pit using hybrid technologies, such as a Rail-Veyor. Yet the biggest benefits of many possible innovations will not be achieved if mining companies simply layer new technologies over existing operating models. To realize their full value, current models may require system and operational redesign. This will present both challenges and risks, but failure to innovate will result in greater risk over time — not only as costs escalate, but as more remote mine sites heighten safety and operational risks.

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Insurers in the Power and Utilities sector have been experiencing a significant decrease in rate changes, with a focus on maintaining a healthy pipeline of projects and addressing the oversupply of insurance capacity.

**Power and Utilities Construction**

Market Commentary
Continued investment in all power types, driven by essential local demand to support much needed economic growth, has ensured a continued healthy pipeline of large projects into the market although financing has often significantly slowed the process—sometimes bringing the process to a complete stop.

An oversupply of insurance capacity remains, despite the potential for large losses being evidenced time and again, and Singapore continues to dominate as the hub for underwriters. In general, the number of underwriters writing construction risks in Singapore continues to grow, with significant transfer of expertise and underwriting authority from London to Singapore continuing.

It is anticipated that rates will be further squeezed as targets and budgets need to be met.

**Risk Trends**

The attitude of foreign investment in infrastructure continues to drive risk focus. Elections, political uncertainty, and natural catastrophes in Asia will continue to focus the mind of investors and their financial, legal, and insurance advisors with insurance being asked to respond on a broad basis.

**Power and Utilities Operational**

Market Commentary
Competition for business within the region has consistently resulted in double-digit premium reductions for clients with good loss records and/or proactive risk management approaches. Even in the absence of the above, there has also been evidence of the market accommodating single-figure percentage premium reductions in order to retain or win business.

The offer of two- or three-year long-term agreement deals has been common with incumbent insurers keen to retain what they already have on a longer-term basis.

Significant premium rebates are being offered on this basis, credited to the client upfront.

Such situations are normally indicative of the market believing that rates will soften even further in the foreseeable future, although the current level of rate reductions being seen in some circumstances would make further significant future rate reductions difficult to accommodate.

**Risk Trends**

Similar to the power construction industry, focus on natural-catastrophe-exposed risks remains a consideration, with insurers giving much more attention to the technical quality of the risks, following several high-profile and expensive machinery failures.

In addition, client risk management practices have become a focal point of many insurers.

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Trade Credit and Political Risk

Market Commentary
In 2015, insurers are continuing to invest in resources. Those involved in the more conventional trade credit business are strengthening their sales teams particularly in the small and medium enterprise (SME) sector, whilst those in structured trade political risk are strengthening their underwriting capability. The market is also expanding with reinsurers establishing credit and political risk capabilities in Asia.

The market in Asia is now well capable of managing global and regional trade credit programmes for the larger corporations, and also transactional business (with capacity in excess of US$1 billion) for both corporates and banks, which are increasing their usage of credit and political risk insurances for both risk sharing/capacity and capital relief purposes.

RISK TRENDS
Various sources are anticipating the overall economic environment in 2015 to be flat, with a slowdown in China, where an increase in credit insurance claims is expected. On the other hand, there is a sense of expectation around infrastructure development and economic stimulus in India and Indonesia given the installation of new political leaders.

“... WITH MORE CAPACITY ENTERING INTO THE STRUCTURED TRADE POLITICAL RISK SPACE, THERE WILL ALSO BE PRICE PRESSURES FOR THE TRANSACTIONAL BUSINESS.”

On the short-term trade credit front, insurers are expected to be more selective with their credit limit approvals on private buyer limits, whilst being supportive on government buyers and projects.

Although there has been a lot of interest in Myanmar and the IndoChina markets, insurers continue to be cautious, and more of a wait-and-see approach is expected for 2015.

Market Competition
The soft market for short-term trade credit is expected to continue in 2015, and with more capacity entering into the structured trade political risk space, there will also be price pressures for the transactional business.

More short-term trade credit insurers are also looking to provide Basel-compliant policy wordings, especially in response to demand from the banks.

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Warranty and Indemnity Insurance

Market Commentary
Warranty and Indemnity (W&I) insurance — also known as “reps and warranties” insurance — is an insurance solution that provides recourse against breaches of the warranties and indemnities being given by the seller in a sale and purchase agreement.

The understanding of the existence and potential of W&I insurance is increasing across Asia, year on year. The use of W&I in Hong Kong, Singapore, and Japan is well established, but it is now increasingly popular and available domestically in China, Korea, India, Malaysia, and Thailand. The majority of deals involving W&I have a cross-border and/or private equity element, but there have now been some policies written where all of the legal documentation is in local language (for example, Japanese or Korean).

As the take up of W&I across Asia has increased, the insurance companies have likewise gained more experience and understanding of the nature of deals in Asia, and their level of comfort for such deals has increased. One immediate impact of this is that the available capacity of W&I insurers able to write Asian risks has increased, with there now being five underwriters prepared to write W&I insurance as a primary insurer (depending on the jurisdiction) in Asia. There are also a number of other markets which are willing to consider taking excess positions on certain Asian deals, on a case-by-case basis.

In the current market, premiums are generally priced between 1% and 2.5% of the limit of insurance purchased, depending largely on the jurisdiction of the target business and the identity of the parties to the transaction. This premium is paid up-front and once-off for the duration of the policy.

RISK TRENDS
Historically, W&I has been considered in order to bridge specific issues arising in a transaction. However, as the understanding of the product has increased, we have seen users of this insurance starting to see its strategic benefits. For example, it is becoming increasingly common to see private equity sellers wishing to minimize their liabilities following a divestment look to “staple” W&I to a deal, whereby the bidders are informed at the start of the auction process that the successful buyer will take out W&I insurance, and its main or sole form of recourse in the event of a breach of warranty will be against that insurance policy. Similarly, we have seen buyers in competitive bid situations look to use W&I to allow them to reduce their escrow or liability requirements from the seller, on the understanding that instead they will be able to go against their insurance policy.

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

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