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FOREWORD

As part of our commitment to keeping you informed, Marsh is pleased to present you with the Asia Insurance Market Report 2016. The report provides a snapshot of current market conditions and risk trends across major lines of coverage in countries throughout the region; it also reflects the experience of Marsh insurance professionals who work daily with the global insurance marketplace and provide clients with risk management advice.

With 2016 under way, the global insurance marketplace appears to be heading in the general direction of soft pricing, reflecting insurer capacity, competition, and relatively low catastrophe losses. At the same time, our industry will continue to be affected by macro dynamics, including global economic, political, regulatory, technological, and environmental developments.

In addition, the insurance industry is also experiencing some significant developments that bear watching throughout 2016, including:

► Large-scale mergers and acquisitions.
► Executive leadership changes.
► A reduction in and changes in underwriting appetite at several companies.
► Some insurers’ disposition of unprofitable segments.
► Recent announcements regarding potential and actual reinsurance underwriting.

These developments may ultimately produce positive outcomes, such as a prolonged healthy, competitive market with higher levels of innovation, new product offerings, and improved service.

Companies of all sizes and in all industries around the world choose Marsh for our breadth and depth of experience, expertise, and capabilities. These traits are critical in a volatile market, as is our ability as a trusted strategic advisor to help you navigate complex risk challenges and assess and recommend markets.

We thank you for the trust you place in Marsh every day. Should you have any questions about this report or the industry and market environment, please do not hesitate to reach out to your Marsh representative.

Best regards,

Martin South
CEO, Asia Pacific Region
Overall, the insurance market in Asia remained competitive in 2015, with rates remaining stable or decreasing in most lines of insurance. However, certain lines did experience rate increases and these were generally driven by loss experience, as in the case of the Tianjin explosion in August and its impact on property catastrophe-exposed coverage, or rising costs, such as has been seen in the medical malpractice and employee benefits lines.

Non-Catastrophe-Exposed Property Rates Remain Stable

- Rates for non-catastrophe-exposed property remained stable or decreased in most countries in the region, due to good loss experience.
- Although soft market conditions persisted in this line in the Philippines, due to the absence of catastrophic events (up to the publication of this report in early 2016) and low loss activity, a minimum tariff imposed by the government regulators for the perils of earthquake, typhoon, and flood – 0.15% in total for all three risks, prevents underwriters from offering rates below this mandated minimum amount.

Catastrophe-Exposed Property Insurance Readily Available; Overall Rates Stable

- Although rates in most countries in the region remained steady or decreased, a notable exception to this was in China, where the effects of the Tianjin explosion are expected to impact Chinese carriers’ treaty renewal in 2016, and result in tighter terms and conditions on CAT exposure cover and sublimits on some named exposures. Despite this, major rate changes are not anticipated.
- Insureds in the Philippines that were impacted by Typhoon Haiyan saw significant rate increases in 2015; however, rates are expected to soften in 2016.

Financial Institutions Line Remains Competitive With Exceptions

- The overall market for this line of insurance remained competitive in 2015, with this trend expected to continue into 2016.
- India was an exception to this trend due to limited market capacity and to the fact that only four public sector insurers are underwriting this line of coverage. Poor loss experience has driven most global and private insurers away and, as a result, rates and deductibles have increased.
- In Vietnam, although rates remained stable and coverage was readily available locally, the limits offered are considered insufficient when measured against international standards. However, excess capacity is available through the international marketplace.
Employee Health and Benefits (EH&B) Rates Increase

► Although overall rates increased throughout 2015 due to increasing loss ratios, rates were competitive in Hong Kong, despite rising medical costs. Employers are establishing wellness programs and other methods in order to contain costs.

► In Indonesia, medical inflation continues to drive premium increases, although for companies with healthy loss ratios rates will remain manageable due to competition among underwriters for this type of business.

► As a result of higher losses from medical inflation, most EH&B programs in Malaysia experienced rate increases in 2015.

► In Singapore, rising health care costs continued to drive rates up in 2015, with this trend expected to continue into 2016. Employers are establishing health and wellness programs with an eye toward disease prevention and curbing costs.

► Health insurance has remained unprofitable in Vietnam, with rising rates and reduced coverage. However, accident and health benefits have remained competitive. The government is expected to introduce a compulsory pension program in 2017 that will be funded by both employers and employees.

Aviation

► The overall aviation market in the region remained competitive in 2015, with abundant capacity. Those underwriters who missed the Malaysian Airlines and Tripoli, Libya air disasters are more likely to afford rate reductions to maintain or gain market share. Although the loss of a Germanwings A320 in the French Alps has not had an overall effect on current market conditions, the Turkish Airlines A330 incident in Nepal is of more concern to underwriters as continued premium erosion by attrition leaves very little to cover catastrophic losses.

Captives

► 2015 saw the continued development of the captive concept in Asia, with China leading the region in its use of captives. In Singapore, considered a hub for Asia captives, the number of captives increased from 64 in 2014 to 68 in 2015.

Marine Cargo

► The Tianjin explosion in China, this past August, will have a significant impact on the marine markets, with some estimates citing total potential losses to be in the area of US$6 billion. In addition, lower pricing in the oil, coal, iron ore and steel industries has resulted in reduced insured values, thereby impacting premiums. Despite all this, underwriters view Asia as a significant business opportunity.

Political Risk and Trade Credit

► The region has seen a growing awareness of political risk and trade credit insurance, and capacity has remained stable at approximately US$1 billion — more than enough to meet the demand. Although Myanmar continues to be an area of interest, uncertainty remains over the change of the government from the ruling junta to the National League for Democracy Party in 2016. Should this transition proceed smoothly, an increase in demand for credit and political risk insurance and reinsurance is anticipated.
China

GENERAL LIABILITY
RATES: STABLE -5% TO +5%
General liability rates have been going down for many years, leaving carriers feeling like there is not much room for further reductions. This trend is expected to continue in 2016. Only a handful of clients with favorable loss records can expect to see 5%-plus rate decreases.

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: DECREASE 0% TO 10%
Rates continue to decrease in this line of coverage as more carriers joined the Chinese markets in 2015 and provided significant additional capacity. The range of decreases is limited, however, as rates in this market in China are quite low already. However insurers still hold a cautious attitude towards high-risk categories like textiles, plastics, polychlorinated biphenyls (PCBs), wind power, and the storage of flammable and explosive products.

PROPERTY: CATASTROPHE-EXPOSED
RATES: INCREASE 0% TO 10%
The Tianjin explosion in August will impact Chinese carriers’ treaty renewal in 2016. Terms and conditions are expected to tighten on CAT exposure cover and sublimits on some named exposures are expected to be placed. However, major changes in rates are not expected.

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: DECREASE 0% TO 10%
The renewal cover of local sudden and accidental pollution saw rate discounts of 5% to 10%. For international gradual cover of pollution, rates are expected to remain stable.

DIRECTORS AND OFFICERS (D&O) LIABILITY
RATES: DECREASE 0% TO 10%
The soft market continues for risks without US securities exposure; market capacity is abundant. Insurers are more cautious around risks with US securities exposure considering the recent trend of US-listed Chinese companies going private.

FINANCIAL INSTITUTIONS
RATES: DECREASE 0% TO 10%
More capacity has become available with several insurers filing policy wordings in China. Banks, funds, and private equity firms in China are starting to consider banker’s blanket bond (BBB)/investment management insurance (IMI)/financial institution professional indemnity (FINI) cover, but there is still limited market penetration.

PROFESSIONAL LIABILITY
RATES: DECREASE 0% TO 10%
Despite the abundance of new business risks being generated in China, the general P&I rate is decreasing because more markets are available and the claims rate is relatively low. This trend is expected to continue in 2016, with more local insurers entering this sector.

EMPLOYEE BENEFITS: HEALTH
RATES: DECREASE 0% TO 10%
Rate reductions can be expected in 2016 when there is growth and a positive underwriting balance to markets. The aviation market continues to be fractionalized, with underwriters that avoided major losses in 2014 being more competitive. Capacity remains abundant, but early signs have indicated that some insurers may withdraw if pricing remains inadequate or market premiums shrink further.

MEDICAL MALPRACTICE
RATES: INCREASE 0% TO 10%
Due to many large claims and a high claim ratio, the general medical malpractice premium rate increased in 2015. This trend is expected to continue in 2016, but with a more modest increase in rates compared to previous years. However, for those hospitals with a foreign capital background or international health care accreditation standards, insurance rates may decrease due to their strong risk control policies.

MARINE
RATES: DECREASE 0% TO 10%
In the first nine months of 2015, premium and underwriting profits fell by 8.14% and 2.8%, respectively, compared with the same period in 2014. Along with the general economic trend, trade turnover, the decreasing value of bulk cargo, and intense competition among most carriers, also pushed premiums down. The overall rate for cargo insurance is expected to continue to follow a downward trend in 2016, with decreases of up to 10%.

AVIATION
RATES: DECREASE 10% TO 20%
The aviation market continues to follow a downward trend in 2016, with decreases of up to 10%.

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

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

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RISK TRENDS

Mergers and Acquisitions (M&A)

New entrants in China’s property and casualty (P&C) insurance market are mainly regional or local players with shareholders that are primarily local state-owned or private enterprises, and foreign insurers seeking accelerated growth via acquisition of a national insurer. Some large banks and other non-insurance financial institutions entered the insurance industry by M&A or reorganization. Meanwhile, some large insurers set foot in banking, securities, and other financial fields, creating large financial holding groups to capitalize on advantages related to integration and scale.

Internet and Big Data

For the P&C market, the Internet will not only impact the traditional distribution channels (especially for individual businesses), but it will also spark a bundle of changes and innovations, affecting products, business models, and pricing models.

Auto Insurance Reform

The pilot rate reform program in commercial auto insurance formally kicked off in 2015, bringing real benefits to consumers, including broader coverage, easier claims procedures, and an improved industry pricing capability. Insurers will need to reduce rates by improving operation and service levels, otherwise a new round of a price war will be inevitable.

C-ROSS and Capital Reform

The “China Risk-Oriented Solvency System” (C-ROSS), which officially launched in 2015, marks the start of comprehensive reform in the capital system of China’s insurance industry. This reform will benefit short-tail, high-frequency but low-loss-ratio business such as auto insurance, while imposing higher capital requirements on non-auto insurance business. Foreign (re)insurers are required to increase their capital in China. Under C-ROSS, large Chinese insurers whose primary business is auto insurance will face relatively low requirements in terms of a capital increase. Insurers focusing on non-auto insurance business and foreign reinsurers may change their development strategies.

Stricter Liability Regulation

ENVIRONMENTAL LIABILITY:

The amended China Environmental Protection Law took effect on January 1, 2015, placing a stricter pollution liability on companies. Also, the new law allows eligible non-governmental organizations to bring public-interest litigation against polluters.

AUTOMOTIVE PRODUCT RECALL:

Automotive recalls are on the rise, and the number of cars being recalled each time is soaring. Original equipment suppliers have a legal obligation to report safety defects to the National Highway and Traffic Safety Administration (NHTSA) and other national regulatory bodies.

Food Safety

The Food Safety Law of PRC was revised by the 14th Session of the Standing Committee of the 12th National People’s Congress on April 24, 2015. This law is formulated to assure food safety and safeguard the people’s health and life. Food producers and operations are responsible for the safety of the food they produce or trade in; the state establishes a food-recall system.

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**GENERAL LIABILITY**
**RATES: DECREASE 10% TO 20%**
The general liability market continues to be soft and is still a buyer’s market. Premium rates are not expected to harden in 2016. Companies with good risk profiles could expect some savings and improvements in terms and conditions.

**PROPERTY: NON-CATASTROPHE-EXPOSED**
**RATES: DECREASE 10% TO 20%**
The property insurance market continues to be soft and is still a buyer’s market. Premium rates are not expected to harden in 2016. Favorable loss history and excess capacity continue to drive down premiums, especially for the local real estate industry.

**PROPERTY: CATASTROPHE-EXPOSED**
**RATES: DECREASE 0% TO 10%**
Sufficient capacity and competition in Hong Kong is driving down premium rates for large clients even in cases where there is little to cover catastrophe losses. Capacity remains abundant and competition between insurers is driving down rates for some clients. Companies with good risk profiles could expect some savings and improvements in terms and conditions.

**DIRECTORS AND OFFICERS (D&O)**
**RATES: DECREASE 0% TO 10%**
Sufficient capacity and competition in Hong Kong are driving down rates for some clients. Companies with good risk profiles could expect some savings and improvements in terms and conditions.

**FINANCIAL INSTITUTIONS**
**RATES: DECREASE 0% TO 10%**
Most clients expect premium reductions upon renewal as insurers compete for business. Incumbent insurers typically offer premium discounts to valued clients. There is sufficient capacity for financial institutions, and competition between insurers is driving down the premium rates for large clients.

**PROFESSIONAL LIABILITY**
**RATES: STABLE -5% TO +5%**
There is a trend of flat premiums upon renewal for clients without serious adverse claims histories.

**MEDICAL MALPRACTICE**
**RATES: INCREASE 0% TO 10%**
Total health-care expenditure has been increasing in Hong Kong, due in part to a rise in the share of private health-care expenditure. See “Risk Trends” at the end of this section for more details.

**EMPLOYEE BENEFITS: HEALTH**
**RATES: INCREASE 0% TO 10%**
The rate for life and accidents remain steady. Looking forward, the rate for life and accident insurance will remain at a stable level.

**AVIATION**
**RATES: DECREASE 10% TO 20%**
Aviation market conditions remain relatively soft. Overcapacity is the key driver, with very few underwriters withdrawing and many maintaining their market presence despite their inability to make a profit. Markets are looking to maximize their participation and some are willing to accommodate reduced premium levels in order to achieve this. Rate reductions remain available where there is growth and a positive underwriting balance to markets. Renewals with marginal or negative underwriting balances are finding their negotiations more challenging. The loss of a Germanwings A320 in the French Alps in March has not had an overall effect on current market conditions. The overall cost of the Turkish Airlines A330 incident in Nepal, also in March, is of more concern to underwriters as continued premium erosion by attrition leaves very little to cover catastrophe losses. Capacity remains abundant, but Hardy has withdrawn from aviation and Ironshore is reviewing its maximum participation by half. New entrants to the market include Endurance and Fidelis.

**EMPLOYEE BENEFITS: ACCIDENT AND HEALTH**
**RATES: DECREASE 0% TO 10%**
Life expectancy in Hong Kong is one of the longest in the world, and the premium cost remains competitive in the market. On the medical front, the cost of benefits, particularly medical-related benefits, continues to rise. Employers are looking at containing benefit costs through wellness and innovative designs. Higher use and advances in medical technology are contributing to increased medical premiums.
RISK TRENDS

Employees' Compensation

With costs of living and medical costs constantly rising, it is expected that the value of claims will continue to increase. With an aging population, there may also be an accompanying increase in frequency of injuries that require more time for rehabilitation, thus increasing the periodical payments claims under the Employees Compensation ordinance. With claims cost rising, which are ultimately shifted to the premium costs, some clients have positively differentiated themselves by clearly identifying surrounding risks and employing preventive measures pre-loss.

Medical

Total health-care expenditure has been increasing in Hong Kong, due in part to a rise in the share of private health-care expenditure. A growing aging population, higher disposable incomes, advancement in medical technology, and increasing health care use are some of the factors contributing to the rise in expenditure. Employers are facing much pressure on rising costs and are looking at cost containment measures through wellness and other innovations.

“WITH CLAIMS COST RISING, WHICH ARE ULTIMATELY SHIFTED TO THE PREMIUM COSTS, SOME CLIENTS HAVE POSITIVELY DIFFERENTIATED THEMSELVES BY CLEARLY IDENTIFYING SURROUNDING RISKS AND EMPLOYING PREVENTIVE MEASURES PRE-LOSS.”

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GENERAL LIABILITY
RATES: DECREASE 0% TO 10%
Excess capacity and low claims have contributed to a general reduction in rates in this line of coverage.

MOTOR
RATES: INCREASE 0% TO 10%
Motor premium comprises two sections i.e. third party premium and material damage premium. While third party premiums have increased in recent years, the discounting in material damage section continues and, as a result, the overall premium has increased slightly.

WORKERS' COMPENSATION
RATES: DECREASE 0% TO 10%
Fewer claims in this area have contributed to a reduction in rates for insureds.

PROPERTY: CATASTROPHE-EXPOSED
RATES: STABLE -5% TO +5%
Property natural perils rates are tariff and dependent upon the geographical location and type of risk. These rates have not changed over the past few years.

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: STABLE -5% TO +5%
Rates have been stable after deep reductions in rates over the past few years.

ENVIRONMENTAL
RATES: STABLE -5% TO +5%
Environmental coverage has a limited market in India although there is take-up from some clients in the chemicals and mining industries. Accidental damage to pollution is covered in the CGL policy which is experiencing a soft market due to few claims instances.

DIRECTORS AND OFFICERS (D&O) LIABILITY
RATES: STABLE -5% TO +5%
The Indian market is not very litigious, and as such, the rates are stable and affordable. Many global corporations in India have started to purchase local D&O policies that are affiliated with their global programs in the country.

FINANCIAL INSTITUTIONS
RATES: INCREASE 0% TO 10%
Financial institutions risk placement has limited market capacity as only four public sector insurers are writing it selectively. Most of the global and private insurers are not writing these lines due to adverse claim ratio. As a result, rates and deductibles have increased for most clients.

PROFESSIONAL LIABILITY
RATES: STABLE -5% TO +5%
The rates are more or less stable due to clients’ increasing focus on risk management.

MEDICAL MALPRACTICE
RATES: INCREASE 0% TO 10%
Market is limited with only four to five insurers providing this cover. Past instances of large claims for medical malpractice have resulted in an increase in premium for some clients. This product is under-penetrated in India.

MARINE
RATES: STABLE -5% TO +5%
Market rates are stable and clients are focused on reducing frequency losses. In some of the large programs, clients have accepted higher deductibles to avoid high-frequency losses in the policy. Many large clients have started focusing on loss prevention and recovering losses from logistics companies.

EMPLOYEE BENEFITS: HEALTH
RATES: INCREASE 0% TO 10%
Medical inflation has resulted in an increase in the rates of employee benefits policies. Due to aggressive pricing by public sector companies, the rates have hardened. Further pressure on these companies to contain their loss ratio will drive rate increases.

EMPLOYEE BENEFITS: LIFE
RATES: STABLE -5% TO +5%
Life insurance for corporate clients has been stable with not many significant changes in the previous year. However, for retail clients, online sales have grown exponentially as compared to the past few years.

EMPLOYEE BENEFITS: ACCIDENT & HEALTH
RATES: STABLE -5% TO +5%
Rates have been stable with no new capacity added in the market. Sum insured values have increased as they are generally linked with employee salary base. This portfolio is mostly decided in tandem along with employee benefits (health), that is, mediclaim policies and is priced relatively low.

RISK TRENDS

Business Interruption
Chennai is one of the most important manufacturing/software hubs for major corporations in India. During recent natural catastrophe losses in Chennai, the entire city came to a stand still and most of the companies suffered major business interruption losses. It also exposed the low penetration of business interruption (BI) policies in the market. Companies with significant dependence on select offices that were affected by such events should consider exploring BI coverage. Clients are also exploring solutions for risk management/insurance for supply chain risks to mitigate losses due to natural catastrophes in Asia.

Cyber Interruption
Cyber protection has gained traction in recent years with cyber-attacks on the e-commerce operations of many retail financial institutions. Rates are soft currently and many clients are reviewing their existing cyber protection systems and reinforcing them with insurance.

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### GENERAL LIABILITY
**RATES: STABLE -5% TO +5%**
This line of coverage has remained stable and affordable to insurance buyers for years due in part to a relatively less-litigious country environment and lack of high-profile claims. The coverage is typically purchased by large corporates or multinational companies at relatively low limits. With many expecting economic growth to be slow until the second half of 2016, this line of coverage should remain very competitive to insurance buyers.

### ENVIRONMENTAL
**RATES: STABLE -5% TO +5%**
Most companies still rely on their general liability coverage, which provides a limited cover for sudden and accidental pollution. Despite the government’s efforts to make industries more accountable for environmental violations, a special environmental insurance policy is still rarely purchased. The trend is expected to continue in 2016.

### MOTOR
**RATES: STABLE -5% TO +5%**
This line is a tariff-regulated product. With dwindling sales of new vehicles expected to continue until the second half of 2016 amid a slow economy, most insurance companies will compete to offer additional features and services — such as car replacement, towing service, and authorized repair garages — to attract insurance buyers.

### WORKERS’ COMPENSATION
**RATES: STABLE -5% TO +5%**
This is a relatively stable line of coverage. Companies, both public and private, must enroll their employees under a national social security scheme for workers’ compensation. Employers’ liability insurance remains non-compulsory and is purchased by select companies.

### PROPERTY: CATASTROPHE-EXPOSED
**RATES: STABLE -5% TO +5%**
Although this line of coverage is tariff regulated, support (capacity) from the international market will remain available at competitive prices amid an oversupply of capacity and relatively benign catastrophic claims. Insurance buyers should be able to negotiate a few coverage elements to their benefit for non-tariffed perils.

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

### DIRECTORS AND OFFICERS (D&O) LIABILITY
**RATES: DECREASE 0% TO 10%**
Sufficient capacity and competition keeps driving rates/premiums down and continue to present insurance buyers with opportunities to improve terms of coverage.

### FINANCIAL INSTITUTIONS
**RATES: STABLE -5% TO +5%**
Due to a limited domestic market, rates are driven by the international market, which has been seeing the growth in losses outpacing the growth in premium. This market is expected to remain stable in 2016 for loss-free accounts.

### PROFESSIONAL LIABILITY
**RATES: STABLE -5% TO +5%**
This line of coverage is still purchased selectively, typically for doctors, engineers, and lawyers. Only a limited number of insurers are able to offer the product. This line of coverage is expected to remain stable in 2016.

### MEDICAL MALPRACTICE
**RATES: STABLE -5% TO +5%**
The volume of business placed into the market is very thin and thus attracts little interest from insurance companies. Unless there is a legislative or regulatory push that makes a certain level of coverage mandatory, these conditions are expected to remain unchanged in 2016.

### ENVIRONMENTAL
**RATES: DECREASE 0% TO 10%**
Despite a progressive loss ratio over the past five years and shrinking shipment turnover amid an economic slowdown that started in the second quarter of 2014, an oversupply of insurance capacity has kept the rates down. The trend is expected to continue in 2016 except for accounts with an excessive loss ratio.

### EMPLOYEE BENEFITS: HEALTH
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RISK TRENDS

Property Tariff

A revised tariff has been issued by OJK, the Indonesian Financial Services Authority, effective June 30, 2015. Insurance buyers with insured assets below US$300 million could expect slight reductions (10% to 20%) in their premium spend as the tariff allows for progressive discounts. Conversely, insurance buyers with insured assets between US$300 million and US$1 billion could expect an increase in premium spend due to the discontinuation of a discount for earthquake cover. The revised tariff allows exemption for risks above US$1 billion.

Regulation

OJK regulation no. 14/POJK.05/2015 — “Own Retention and Domestic Reinsurance Support” — has been passed and has been in effect as of January 1, 2016. The regulation sets minimum levels of risk that insurers are obliged to retain, as well as controls how they obtain reinsurance support. This regulation will complicate access to international market support for major lines of business. Where reinsurance support is necessary, it must be obtained from the domestic Indonesian market until such capacity is exhausted — or at least up to minimum amounts set out in the regulation. The level of required reinsurance cessions is significant and the impact is likely to be felt by multinational companies that have insurance programs managed centrally by their head offices, including challenges related to the fact that the majority of local insurers and reinsurers are unrated.

BPJS / Social Security Provider

The national health care scheme (JKN) is now mandatory but it faces a number of challenges, such as adequacy of funding (with expected increases in levies), a limited health care infrastructure in the public sector versus the expectation of white-collar employees, and the demand for high-quality treatment and patient experience. New pension regulation is also widely expected in 2016, which will place further demands on employers and increase the cost of funding employee benefits.

Infrastructure

The successful implementation of major infrastructure projects will have a critical influence on foreign direct investment going forward. At the heart government’s policy is 35 thousand megawatts of planned investment in the power sector over the next nine years, equivalent to 70% of current installed capacity. Interest appears to be shifting from Japanese and Korean to Chinese developers due to the absence of government offtake guarantees.

The government has established a public-private partnership (PPP) unit and increased the number of sectors eligible for PPPs to include social infrastructure (namely, hospitals and educational institutions). PPPs are considered critical as the state budget and domestic lending capacity are not sufficient to cover the funding of large-scale projects required for infrastructure development.

There is substantial insurance (and reinsurance) capacity available to cover the construction, transit, business interruption, and liability risks associated with large-scale projects in Indonesia, including the need for natural catastrophe coverage.

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GENERAL LIABILITY
RATES: STABLE -5% TO +5%
Competition remains fierce due to an oversupply of capacity in the local market. Rates are close to hitting the bottom in terms of the cycle.

MOTOR
RATES: STABLE -5% TO +5%
Base rates throughout 2015 were stable, and most local insurers expect improved results and foresee stable rates in 2016 as well. However, the rates are variable according to the age of the policy holders.

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

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

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: STABLE -5% TO +5%
The supply of earthquake capacity is now back to the pre-Tohoku earthquake levels. Earthquake rates have been stable following a 30% to 50% increase in 2011-2012 renewals. The local property market has been stable with large non-catastrophe capacity readily available from Japanese insurers.

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

DIRECTORS AND OFFICERS (D&O) LIABILITY
RATES: STABLE -5% TO +5%
Pricing remains very competitive in this area. Terms, conditions, and capacity remain stable except for a change of underwriting stance by a few international insurers. This trend is expected to continue for 2016. Global companies are buying higher limits and trying to adopt a centralized approach through global programs.

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

PROFESSIONAL LIABILITY
RATES: DECREASE 0% TO 10%
Pricing continues to decline due to competition created by the entry of new players. The market recognizes this line of cover as profitable, and purchasing is driven primarily by contractual requirements.

MARINE
RATES: STABLE -5% TO +5%
Japanese insurers continued to provide clients with stable premium rates in 2015. Insurers are requesting more detailed disclosures to provide the coverage for inventory.

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 (AD&D) insurance in Japan is tariff-rated. This means that all life and AD&D insurers offer the same level of benefit at the exact same premium. Group long-term disability insurance and hospitalization insurance rates can be negotiated with insurers. However, rates are expected to remain stable in 2016.
RISK TRENDS

Market Landscape

Although the Japanese economy was affected by the increase of the consumption tax rate (5% to 8%), the economy gradually recovered. Amid the depreciation of the yen and rising Tokyo Stock Exchange share prices, improvement could be seen in the corporate sector.

As a result of consolidation, insurance buyers have fewer choices when it comes to insurers than before. Although international insurers are expected to play a more significant role in the market, around 90% of market share is held by the three Japanese mega insurer groups: Sompo Japan Nipponkoa (NKSJ), MS&AD, and Tokio Marine. Those three groups are striving to diversify earnings sources by expanding overseas operations. Tokio Marine is buying HCC Insurance Holdings Inc. for $7.5 billion, and Mitsui Sumitomo Insurance (MSI, a member of MS&AD) is acquiring Amlin plc in the United Kingdom.

Earthquake Exposure

Overall rates for all lines of insurance, including earthquake, have remained relatively stable. Another year of loss recoveries from the devastating 2011 Tohoku earthquake and Thailand floods has been completed. Earthquake capacity is available in both local and international markets, with rates stabilizing after a 30% to 50% increase in 2011-2012. This trend of increasing capacity and stable rates is expected to continue throughout 2016, barring the occurrence of another catastrophic event.

Products Recall and D&O

Following the publicity of large claims in the United States, there is increasing interest in products recall insurance, especially by the automobile industry. Due to this demand, several insurers are looking to offer coverage. D&O insurance is also seeing elevated interest after a well-known Tokyo Stock Exchange listed company was hit with a financial scandal.

Personal Information Protection Law and Cyber Risk Insurance

Due to the introduction in Japan of a social security number system called “My Number,” many corporations have heightened concerns about the protection of private information. Personal information leakage insurance has been popular since a personal information protection law was introduced in 2003. There is also increasing awareness of cyber risk and threats. Companies are not only concerned about protection of data and information, but also how to prepare for recovery once a breach occurs. Although uptake for cyber risk insurance is still low, the major Japanese insurers are offering broader coverage terms.

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GENERAL LIABILITY
RATES: DECREASE 10% TO 20%
The general liability market has seen rate decreases due to heavy competition by carriers with no catastrophe-exposed losses. Insureds can typically expect decreases of 5% to 10%, even those with low loss ratios.

DIRECTORS AND OFFICERS (D&O) LIABILITY
RATES: DECREASE 10% TO 20%
Increased insurer capacity and no significant losses, coupled with tough competition among insurers, continue to drive rates down.

FINANCIAL INSTITUTIONS
RATES: DECREASE 0% TO 10%
There is heightened regulation in force for cyber breach and personal information protection. The market remains soft for this risk mostly due to an abundance of capacity and competition among insurers.

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

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: DECREASE 10% TO 20%
The property market is getting softer. This trend is expected to continue in 2016 due to severe competition among carriers, increased local retention, and oversupply of reinsurance capacity.

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

MEDICAL MALPRACTICE
RATES: INCREASE 0% TO 10%
As a result of an 8% increase in the medical inflation rate, loss ratios are high in the marketplace.

MARINE
RATES: DECREASE 10% TO 20%
Although the overall market loss ratio is getting worse due to an influx of capacity into the cargo market, a reduction of 15% to 20% in premium for clients with favorable loss experiences could be expected.

AVIATION
RATES: DECREASE 10% TO 20%
Due to soft market conditions, an insured with good renewal volume could see a 15%-plus rate reduction.

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

EMPLOYEE BENEFITS: ACCIDENT AND HEALTH
RATES: DECREASE 0% TO 10%
As the result of an 8% increase in the medical inflation rate, this market has a high loss ratio.

RISK TRENDS
The most significant 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. Korean insurers have placed a greater focus on net underwriting profits. This trend is predominant in the property and casualty lines of business because insurers have established sufficient underwriting databases in these sectors.

Korea maintains the tightest regulation in force in Asia as far as cyber protection and personal information protection go; there is growing demand in cyber protection insurance from business sectors.

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GENERAL LIABILITY
DECREASE 10% TO 20%
The general liability market remains very competitive. Both Kuwait Re and Trust Re have hired dedicated liability underwriters in Malaysia; Labuan Re is looking to hire a dedicated casualty underwriter in 2016.

MOTOR
RATES: STABLE -5% TO +5%
Motor is a tariff product in Malaysia. No rate changes are expected for 2016. The proposed de-tariff in 2016 may be delayed into 2017.

WORKERS’ COMPENSATION
RATES: STABLE -5% TO +5%
Employers’ liability rates have been historically low due to good claims experience. As the current rates appear to have already hit bottom, there is no room for further rate decreases.

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: DECREASE 20% TO 30%
Malaysia is not a catastrophe-exposed country. Property is tariff except for industrial risks with values exceeding US$70 million (combined property damage/business interruption). As the general market has seen little growth, stiff competition for business has resulted in rate reductions.

ENVIRONMENTAL
RATES: DECREASE 20% TO 30%
The Malaysian market for environmental impairment liability (EIL) insurance is small, but there is additional capacity from new market entrants such as Allianz that has increased competition and caused rate reductions. This trend has been supported by healthy claims experience in this line.

DIRECTORS AND OFFICERS (D&O) LIABILITY
RATES: DECREASE 10% TO 20%
Rates have been gradually declining over the years and continue to do so with greater reductions in the larger programs.

FINANCIAL INSTITUTIONS
RATES: STABLE -5% TO +5%
Rates in this line of coverage are stable and expected to remain so in 2016.

PROFESSIONAL LIABILITY
RATES: DECREASE 0% TO 10%
Rates have been generally stable in this line with some reductions on the larger programs, where there is competition for market share. Minimal rate decreases are expected in 2016.

MEDICAL MALPRACTICE
RATES: INCREASE 10% TO 20%
The health care liability market has seen some significant claims that have led to some significant changes, too. The Medical Protections Society changed the cover for obstetricians to claims-made from occurrence and introduced a cap on indemnity (US$2.5 million) where there was no cap in the past. Pricing is expected to increase by 30% for 2016. Marsh has come up with limits of up to US$7.5 million.

MARINE
RATES: DECREASE 20% TO 30%
The marine cargo portfolio has been historically profitable and hence the rates have been decreasing steeply, especially on larger placements. Where rates have hit bottom, markets compete by enhancing coverage.

AVIATION
RATES: STABLE -5% TO +5%
Aviation premiums have been relatively stable and are expected to remain so for 2016.

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%
Medical inflation has caused a trend of an increase in losses, so most programs have seen rate increases.

RISK TRENDS
Economic Effects
The overall general market conditions remain challenging as Malaysia relies significantly on crude exports. Dampened car sales and the credit squeeze have slowed down the macro economy. The Malaysian general premium is predominantly motor tariff, so with the slow growth in the motor space, 2016 will see intense competition on the non-tariff classes (that is, the industrial all-risks and engineering classes). On a brighter note, numerous large infrastructure projects are slated for 2016 and 2017.

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GENERAL LIABILITY
RATES: STABLE -5% TO +5%
This line of coverage is expected to remain stable with no significant local market developments anticipated in 2016.

MOTOR
RATES: DECREASE 0% TO 10%
No significant market developments are anticipated in 2016. Premium rates are still dictated by a fleet’s loss statistics.

PROPERTY: CATASTROPHE-EXPOSED
RATES: STABLE -5% TO +5%
Insureds that were severely affected by Typhoon Haiyan experienced significant rate increases in 2015; this trend is expected to soften in 2016.

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: DECREASE 0% TO 10%
Soft market conditions are anticipated in this line, particularly for non-CAT exposed property. The Philippines has been spared from catastrophic events (up to the publication of this report in early 2016), so overall losses have been low. Although we anticipate a softening of the property market for non-CAT exposed risks, there exists a minimum tariff imposed by the government regulators for the perils of earthquake, typhoon, and flood – 0.15% in total for all three risks. Underwriters are therefore not able to offer rates below this mandated minimum amount.

ENVIRONMENTAL
RATES: STABLE -5% TO +5%
The local demand for this cover is minimal, hence there is no locally available capacity. Companies requiring this type of cover (for example, those in mining or chemical manufacturing) are referred to the international markets.

DIRECTORS AND OFFICERS (D&O) LIABILITY
RATES: STABLE -5% TO +5%
No significant local developments are anticipated in 2016 that would affect pricing in this line of coverage.

FINANCIAL INSTITUTIONS
RATES: STABLE -5% TO +5%
No significant developments or changes are expected in 2016 that would affect pricing in this line of coverage.

PROFESSIONAL LIABILITY
RATES: STABLE -5% TO +5%
No significant local developments or changes are anticipated in 2016, so pricing in this line is expected to remain stable.

MARINE
RATES: STABLE -5% TO +5%
No significant developments or changes are anticipated in 2016. Marine cargo terms, conditions, and pricing are still dictated by an insured’s own merits, risks, and loss statistics.

AVIATION
RATES: DECREASE 0% TO 10%
The primary markets in the Philippines are the Philippine Air Lines (the country’s flag carrier) and Cebu Pacific Air, smaller fleets, and general aviation risks. The local demand for coverage is met solely by the international aviation insurance capacity; it is therefore dictated by global market conditions.

Risk Trends

Natural Catastrophe
Natural catastrophe continues to be the primary risk that concerns most risk managers, especially given the geographical location of the country (the so-called “Pacific Ring of Fire”). Heightened awareness and concern for business resiliency management is also being seen in the market, especially since the release of a government report on earthquake fault lines bracketing the Metropolitan Manila area.

Capital Requirements
The government has imposed an increase in the minimum net worth of local insurance companies, in tranches, with a target of PhP 550 million by December 31, 2016 (up from the current PhP 250 million) and PhP 1.3 billion by 2022. These requirements are expected to bring about market consolidation because not all local insurers may be able to comply with those new capital requirements.

2016 Elections
Elections will be held in May 2016 for the presidency and other elected positions. Depending on the results, there may be a significant impact on the political risk environment and regulatory areas, including taxation and other related legislation.

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We expect premium erosion to continue, with carriers competing for the same market share.

The market is also seeing rate reductions from improving loss ratios attributed to the efforts of the Motor Insurance Task Force in collaboration with industry players to explore ways to lower claims cost. Coupled with the launch of the Motor Accident Guide (MAG), an initiative of the State Court to guide motorists on the do’s and don’ts when they have an accident, the Singapore market is expected to remain highly competitive as new and existing players compete to gain market share.

Work injury compensation insurance is a one-insurer policy and insurers vie strongly for market share in this space. Even with high loss ratios, new carriers are able to provide very competitive premium rates but existing carriers, on the other hand, are more interested in retaining their business and thereby are causing increased competition.

There continues to be a downward trend in premium pricing due to competition for market share.

Rate decreases are expected to continue into 2016 due to competition between brokers and insurers for market share.

Demand and supply for this class of business is still relatively low in Singapore. In 2016, moderate premium reductions are expected to continue, consistent with other lines of insurance.

There continues to be a downward trend in premium pricing due to competition for market share.

Rate decreases are expected to continue into 2016 due to competition between brokers and insurers for market share.

We expect a continued downward trend in rate due to the abundance of capacity from new market entrants who are looking to build critical mass, and in turn, strong competition from incumbents who want to retain good business, albeit at aggressive pricing.

The medical malpractice market continues to remain competitive in Singapore with new market players which underwrite medical malpractice insurance.

Nevertheless, we are expecting cargo rates to be reduced especially for profitable accounts due to abundance of market capacity.

There continues to be an upward trend in premium pricing due to rising health care costs and increased demand in health care services as the workforce ages. This trend is expected to continue in 2016. Employers are paying more attention to health and wellness and early disease prevention in order to curb the trend.

The premium rates are expected to be stable in 2016 as the claims experience has remained stable with no major market issues.

There is increasing competition for the accident and health insurance business which may have a downward pressure on price in the future.
RISK TRENDS

Terrorism and Political Violence

Rates for terrorism and political violence insurance may harden in 2016 for Singapore if the increase in political unrest activities continues in other parts of the world, stoking fears that such activities will eventually trickle down to Singapore, which is deemed to be the regional hub for Asia.

Hazy Outlook

With haze becoming almost a certainty every year, its potential to impact businesses and events is now being more carefully considered. As Singapore hosts many conferences and exhibitions, clients are also showing greater interest in extending their event cancellation insurance to cover this risk.

“WITH HAZE BECOMING ALMOST A CERTAINTY EVERY YEAR, ITS POTENTIAL TO IMPACT BUSINESSES AND EVENTS IS NOW BEING MORE CAREFULLY CONSIDERED.”

Return to Work

With the tightening availability of foreign labor, the Singapore government is keen to explore the Return to Work program, a project that Marsh Risk Consulting is working on as the first broker to provide this consulting service, with the aim of reducing claims, and ultimately, the overall cost of insurance premiums.

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GENERAL LIABILITY
RATES: STABLE -5% TO +5%
Casualty insurance rates were stable in 2015 due to favorable loss ratios across the market. This trend is expected to continue in 2016. A tariff for public liability may come into effect in 2016, but the details are still under discussion.

MOTOR
RATES: STABLE -5% TO +5%
This line of coverage is a tariff market, and has been stable due to good loss ratios. This rate trend is expected to continue in 2016.

EMPLOYERS’ LIABILITY/WORKERS’ COMPENSATION
RATES: STABLE -5% TO +5%
Employers’ liability rates are stable due to good loss ratios. A similar rate trend is expected in 2016. Labor insurance is a government-run social insurance program, and it is also stable.

PROPERTY: CATASTROPHE-EXPOSED
RATES: STABLE -5% TO +5%
Favorable loss records in local and international markets along with abundant capacity worldwide resulted in strong competition in this line of coverage and decreased rates at the end of 2015. However, a stable market is expected in 2016 due to the tariff in Taiwan.

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: DECREASE 10% TO 20%
Good loss records and strong competition due to international reinsurance capacity support were seen at the end of 2015. This market is expected to continue to remain soft in 2016.

DIRECTORS AND OFFICERS (D&O) LIABILITY
RATES: STABLE -5% TO +5%
The rate trend was essentially flat overall for the fourth quarter of 2015 due to competition. This trend is expected to continue in 2016.

FINANCIAL INSTITUTIONS
RATES: INCREASE 10% TO 20%
A major trade credit market that reduces its capacity or credit limit by over 20%, especially for the emerging countries, this market will have the opportunity to harden more than it did in 2015.

PROFESSIONAL LIABILITY
RATES: STABLE -5% TO +5%
Financial products lines were more stable overall in 2015. This trend is expected to continue in 2016.

MEDICAL MALPRACTICE
RATES: STABLE -5% TO +5%
This line has stable markets due to good loss ratios. A similar rate trend is expected in 2016.

MARINE
RATES: STABLE -5% TO +5%
The stability of the cargo quantities for import and export has led to strong market competition. The cargo treaty capacities are still very substantial and competitive, but if the loss ratio is too excessive to use treaty capacity coverage, the international market rates will be much higher than the local market rates. A flat market is anticipated in 2016; only businesses with excellent loss ratios may expect a rate decrease.

AVIATION
RATES: STABLE -5% TO +5%
There were no major losses in 2015 to impact this market. This stable rates trend is expected to continue in 2016.

EMPLOYEE BENEFITS: HEALTH
RATES: STABLE -5% TO +5%
This market is competitive, keeping the medical loss ratio high. Medical inflation is low because National Health is managing the cost increases. Similar trends are expected in 2016.

EMPLOYEE BENEFITS: LIFE
RATES: STABLE -5% TO +5%
Stable risk factors and loss ratios helped keep rates stable at the end of 2015. This rate trend is expected to continue in 2016.

EMPLOYEE BENEFITS: ACCIDENT AND HEALTH
RATES: STABLE -5% TO +5%
Stable risk factors and loss ratios helped keep rates stable at the end of 2015. This rate trend is expected to continue in 2016.

RISK TRENDS
Competitive Market
The general insurance market remains competitive. The 2015 gross written premium for non-life insurance had a good loss ratio. The main catalysts for the growth premium came from motor vehicle insurance, as sales of cars remained strong. This situation is expected to prevail in 2016. The premium portfolio will be similar in the commercial lines business, and insurers are anticipating growth in the personal lines business.

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GENERAL LIABILITY
RATES: STABLE -5% TO +5%
Market pricing is still highly variable depending on an insurer’s risk profiling. The market has been stable for some time in this regard and the trend should continue.

MEDICAL MALPRACTICE
RATES: INCREASE 0% TO 10%
As medical tourism increases year on year in Thailand, we are seeing an increase in the frequency of claims, which has an impact on rates.

PROPERTY: CATASTROPHE-EXPOSED
RATES: DECREASE 0% TO 10%
We have not seen major losses across the market in the past few years and the ratings are reflective of this going forward. However, this can vary on a risk-by-risk basis.

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: DECREASE 0% TO 10%
Flood coverage on property insurance policies will become more flexible due to the market’s position changing after the stabilization of the previous year’s heavy flood losses. Now that the country is deemed to be no longer at a high risk of severe flooding, the caution that insurers had is subsiding and we are seeing a trend of declining rates.

ENVIRONMENTAL
RATES: DECREASE 0% TO 10%
Rates for this line of coverage will depend on the level of government spending for country projects. Insurers’ appetite for risk will also be determined by the location and type of project. Large scale environmental projects are scheduled for 2016 but are at a tentative stage in terms of bidding, planning and implementation.

RISK TRENDS
2016 Elections
With elections supposed to be held sometime in the middle or late part of the year, a change in government could impact insurance in 2016. Political instability affects both consumer and insurer confidence in the Thai market. On the other hand, continuity in government and governmental policies will sustain a stable market not just this year but also in years to come.

Infrastructure Expansion
Proposed government spending on infrastructure projects is set to continue and expand in 2016 with large-scale projects scheduled for the second quarter and onwards. Overseas investors are beginning to see Thailand as a potential growth sector again and this will generate more opportunities for new business.

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GENERAL LIABILITY
RATES: DECREASE 0% TO 10%
This market remains soft for profitable accounts, with ample capacity available. The Transpacific Partnership Trade Agreement will provide good opportunities for Vietnam manufacturers and exporters. However, care needs to be taken when selecting an insurance carrier — for example, in the US, Japan, or Europe — in terms of service and claim capabilities.

MOTOR
RATES: STABLE -5% TO +5%
The market is competitive with a wide range of insurance carriers. Liability limits are low, but foreign-owned companies can easily purchase additional limits if required.

WORKERS’ COMPENSATION
RATES: STABLE -5% TO +5%
Ample capacity is available in the market, which is expected to remain competitive in 2016.

PROPERTY: CATASTROPHE-EXPOSED
RATES: INCREASE 10% TO 20%

PROPERTY: NON-CATASTROPHE-EXPOSED
RATES: STABLE -5% TO +5%
This market has been very competitive for property risks with favorable loss records. The exception is Category 4 and 5 risks (primarily textiles, footwear plastics, and furniture manufacturing, which have not been profitable for underwriters for several years). Capacity may well become an issue following Reinsurance Treaty renewals effective January 1, 2016, with international reinsurers potentially increasing pricing, reducing capacity — or some combination of both. Risk selection and the ability to demonstrate robust risk management practices will be key to securing cover.

ENVIRONMENTAL
RATES: STABLE -5% TO +5%
Vietnam is a maturing market and most clients do not purchase this cover. Markets are available with good capacity.

DIRECTORS AND OFFICERS (D&O) LIABILITY
RATES: STABLE -5% TO +5%
There is no shortage of capacity or insurance carriers for this cover. It is possible to access international markets via a fronting arrangement.

FINANCIAL INSTITUTIONS
RATES: STABLE -5% TO +5%
Cover is available locally although limits may be considered low by international standards. Excess capacity can be obtained through international markets if needed.

PROFESSIONAL LIABILITY
RATES: STABLE -5% TO +5%
Good capacity is available in the local market, which can be competitive for good quality risks.

MEDICAL MALPRACTICE
RATES: INCREASE 10% TO 20%
This market has been unprofitable for several years with medical inflation running at close to 20%. As a result, underwriters are increasing terms and limiting cover, particularly on risks with unfavorable claims records. Other actions taken by underwriters include specifying the hospitals and dentists where claimants can go for treatment, and imposing coinsurance for outpatient visits or deductibles. Several companies have pulled out of the health market due to its unprofitability.

MARINE
RATES: DECREASE 0% TO 10%
There is ample capacity in the market and pricing reductions available for clients with favorable claims records.

AVIATION
RATES: STABLE -5% TO +5%
Aviation is placed in the international markets via fronting arrangements with local Vietnam insurance companies that hold minimal retentions. Pricing is competitive for clients with favorable claims records.

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

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

EMPLOYEE BENEFITS: ACCIDENT AND HEALTH
RATES: DECREASE 0% TO 10%
Health insurance has been unprofitable for several years and the market is increasing pricing and reducing cover. Accident and health remains competitive and there are a number of international insurance companies in the life sector operating in Vietnam. In 2017, the government will introduce a compulsory pension program with contributions from both employees and employers. Current regulations are not tax efficient.
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RISK TRENDS

Maturing Market

Vietnam is a maturing market with local insurance companies relying on reinsurance for capacity. Care should therefore be taken in understanding the financial ratings of reinsurers. Non-traditional products such as cyber, D&O, and PI are not typically purchased and the prevailing legal climate is also still maturing. Health and medical has been unprofitable for several years and market correction is under way.

In general, the market is soft from a pricing perspective. This may change in the property sector if international reinsurers impose rate increases or capacity reductions for certain classes of risk such as textiles, plastics, footwear and furniture manufacturing. Good risk management practices will see clients benefit from both a pricing and coverage perspective.

“NON-TRADITIONAL PRODUCTS SUCH AS CYBER, D&O, AND PI ARE NOT TYPICALLY PURCHASED AND THE PREVAILING LEGAL CLIMATE IS ALSO STILL MATURING.”

Recent regulatory changes include a premium payment warranty of 30 days from inception, otherwise cover is cancelled. Selecting an insurance carrier requires care; one key factor is the ability to settle claims promptly. As a rapidly developing country, Vietnam has a lot of “red tape” that needs to be understood, but in general, the market performs well.

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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.

25 Aviation
26 Captives
28 Construction
30 Employee Health and Benefits
32 Marine Cargo
34 Marine Hull
36 Mining
38 Power and Utilities
39 Trade Credit and Political Risk
40 Warranty and Indemnity Insurance
Aviation

INSURANCE MARKET CONDITIONS

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>RATE CHANGE Q4 2015</th>
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<td>AIRLINES</td>
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<tr>
<td>AEROSPACE</td>
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</tr>
<tr>
<td>GENERAL AVIATION</td>
<td>DECREASE 10% TO 20%</td>
</tr>
</tbody>
</table>

Market Commentary

Aviation market conditions remain relatively soft. Overcapacity is the key driver with very few underwriters withdrawing, and many maintaining their market presence despite their inability to make a profit.

The market continues to be fractionalized, with underwriters who missed the major losses in 2014 being more prepared to follow rates downwards to maintain market share than those that participated. Markets are looking to maximize their participation and some are willing to accommodate reduced premium levels in order to achieve this.

Rate reductions remain available where there is growth and a positive underwriting balance to markets. Renewals with marginal or negative underwriting balances are finding their negotiations much tougher and may not be able to achieve the same level of result.

The loss of a Germanwings A320 in the French Alps has not had an overall effect on current market conditions. The overall cost of the Turkish Airlines A330 incident in Nepal, which is widely expected to become a constructive total loss (CTL), is of more concern to underwriters as continued premium erosion by attrition leaves very little to cover catastrophic losses.

However, capacity remains abundant. Hardy has withdrawn from Aviation and Ironshore is reviewing its maximum participation by half. New entrants to the market include Endurance and Fidelis. CV Starr took a much tougher stance on airline renewals with rate reductions in Q4, but none of these dynamics altered the overall downwards movement of rates and premiums.

RISK TRENDS

ATTRITONAL LOSS CONTROL AND RISK MITIGATION

Attritional loss control and risk mitigation will dominate the airline space in the months ahead as underwriters scrutinize airline performance and seek to penalize operators with high-level attritional losses, versus those with low-level claims/average “burn,” for whom the market will still deliver more favorable treatment.

CYBER RISK

Cyber risk is a new area of concern for airlines, following the recent attacks on LOT Airlines. The airline community is increasingly at risk of cyber-attacks that could pose significant safety issues and force carriers to ground their fleets to protect passengers, causing major financial damage.

MARKED INCREASE IN LIABILITY CLAIMS SETTLEMENTS

There is a noticeable trend of increasing global liability awards following air accidents, when the lawyers are encouraging families/dependents to come together to form action groups and sue airlines and aircraft manufacturers to take advantage of the increasing claims settlements in the more litigious parts of the world, particularly in the US. Social media is now also a major focus for airlines suffering a catastrophic loss. Often the ability of the airline to handle social media can dramatically affect the eventual outcome and level of settlement paid by underwriters.

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Captives

INSURANCE MARKET CONDITIONS

Market Commentary

2015 saw continued development of the captive concept in Asia and while not producing a significant number of captives, China continues an accelerated path to utilization of captives.

Singapore, as the hub for Asia captives, has seen growth over the year with the overall number of captives increasing from 64 in 2014 to 68 in 2015 (6% growth). Most of that growth has come from captive owners outside of Asia (principally Mexico), which has been the case for most of Singapore’s history, with Australia still providing 56% of the total ownership of Singapore-based captives.

The highly competitive insurance market globally has had a knock-on effect to existing captives. This is perhaps unsurprising to those organizations considering captives for their operations.

Most captives established are for strategic reasons. However, it is important that from a financial impact standpoint there has to be improvement in the overall economic cost of risk to the organization in establishing a captive. This has become even more challenging in the current insurance pricing environment and, as such, the hurdle to promote a captive internally within an organization is even more of a challenge. That said, we are seeing a developing trend of organizations seeking to minimize their external spend take more business into their captives, notwithstanding the payback periods are longer than may have historically been considered.

Non-traditional coverages, such as cyber and trade credit, continue to be areas of focus, although in 2015 there has not been much progress in actually having these risks underwritten by captives. It would appear, however, that it is just a matter of time before they are included.

We anticipate that three or four companies will move their captives into Asia in 2016, allowing them access to more appropriate regulatory structures for the risks they write.

ECONOMIC CONDITIONS GLOBALLY

It is often cited that captives are generally formed in “hard market” conditions. The long-prevailing “soft market” has shown this to be a fallacy with captive numbers continuing to increase each year. However, the current soft insurance market is also experiencing further complexity in that many Asian (and Pacific) countries are seeing some form of economic slowdown due to demand issues. This does provide a further hurdle for prospective captives. With businesses less able to suffer the volatility of losses, combined with a “cheap” insurance market, there is considerably less-compelling arguments for assuming additional risk within your insurance program.

Of course, it does also present some opportunities for captives in that it can also focus organizations on the level of external spend for their insurance and they may take a more criterial view of the spend (for example, a sleepeasy cover) and whether they can place more (good quality) risk into their own captives.

RISK TRENDS

IMPACT OF SOLVENCY II FOR ASIA-BASED CAPTIVE DOMICILES

With Solvency II coming into full force in 2016, a number of captives based in Europe have been considering their options with regard to the higher capital impost that this brings, and reviewing various domiciles. These captives fit the model of a captive, only writing the risk of the group and subsidiaries, and thus, have the option of relocating their operations to obtain a more appropriate regulatory structure for the risks they assume.

This is particularly of interest if they are “reinsurance” captives and already have fronting arrangements in place for writing European-based risk.
CHINA

Interest is still high, but there have been a few hurdles in place as the Chinese Insurance Regulator encourages captives to remain on-shore in China. Given there are no specific captive rules in China, any captives established there would be subject to the wider insurance company rules (with any exemptions they may be able to gain from the regulator), which adds a considerable cost element to the process. It is also important to note that the Chinese regulator has a certain view of the way captives need to operate, and a significant retention of risk is a key element of this.

Therefore, in 2015, there were not as many captives formed as originally expected, but interest levels are still high. A number of opportunities present themselves, and the concept of captives has moved from the National Oil Companies into other sectors (mostly heavy asset owners) and also into the private/public ownership companies (as opposed to state owned). This may well lead the charge for captives being formed outside China (with locations such as Hong Kong, Singapore, and Bermuda at the top of the list).

"NON-TRADITIONAL" COVERAGE

As mentioned last year in our 2015 Insurance Market Report, and the fact that overall the insurance market softened further in 2015, non-traditional coverages are still leading the way in discussions for expanding the use of existing clients, or often are the focal point of discussions with prospective captive owners that wish to supplement marginal results on a more traditional insurance structure.

Trade credit insurance discussions continue within Asian companies and whilst the take-up rate this year has been relatively slow, it is still an area of keen interest. With the drop in trade credit rates, this has added to the complexity of seeking retentions, and unless we see similar issues as the GFC where credit limits were being revoked at a time that insureds felt they needed them the most, trade credit will be restricted to a few large users who can obtain economic benefit from restructuring their programs.

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Construction

INSURANCE MARKET CONDITIONS

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>RATE CHANGE Q4 2015</th>
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</thead>
<tbody>
<tr>
<td>CONSTRUCTION MATERIAL DAMAGE</td>
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<tr>
<td>THIRD PARTY LIABILITY</td>
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</tr>
<tr>
<td>DELAY IN START UP</td>
<td>DECREASE 0% TO 10%</td>
</tr>
<tr>
<td>CONSTRUCTION PLANT &amp; EQUIPMENT</td>
<td>DECREASE 0% TO 10%</td>
</tr>
</tbody>
</table>

Market Commentary

Infrastructure development revives economies, creates jobs, improves productivity and facilitates economic development. The sustained growth of emerging markets in Asia, MENA, and Latin America is greatly dependent on the ability to build and operate infrastructure. There is a huge need for development of new infrastructure in Asia. The scale and breadth of the need is unprecedented in history [USD 8+ Trillion for ex-Japan Asia 2010-2020]. Generating funds at such scale will require access to long-term equity and debt financing that exceeds the current capacity of national and regional banks.

Capital markets and development banks (e.g. EBRD, World Bank, ADB, etc.) are active, largely in the sovereign infrastructure space. However, their capacity is also insufficient to fill the funding gap. Insurers, pension funds, and sovereign wealth funds, with global assets of over USD70 billion have been large investors and financiers of infrastructure in developed markets, however, the cross-border finance provided by those institutions to emerging markets has been small. Therefore, external funding in the form of project financing and foreign investment to fill the funding gap is critical and governments are looking to and have committed to engaging public/private partnership (PPP) projects to address their infrastructure needs.

There are a number of high profile multinational initiatives and studies that have (or are) addressing the infrastructure financing gap (e.g., World Economic Forum, Asia Pacific Infrastructure Partnership and Asia-Pacific Financial Forum under APEC, and initiatives by G-20, OECD and the multilateral development banks). These initiatives have identified impediments to infrastructure becoming investment-ready (“bankable”). Those impediments include lack of transparency and/or capacity in government approvals, gaps in legal and judicial systems, inadequate project planning and design capability, incomplete or under-performing PPP regimes, etc.

The government continues to strengthen legislation in support of PPP projects to ensure that the pipeline continues into the next administration, beginning 2016.

Indonesia is the most populated and largest economy in Southeast Asia. Its economy has been growing steadily but its lack of infrastructure has been cited as the number one obstacle to achieving its full growth potential. Indonesia itself requires substantial investment of US$479 billion from 2015-2019. Many of the infrastructure projects (especially PPP) are not financially viable. Governments are committed to further supporting these investments by finding ways to increase project financial returns to attract investors.

India has an improving funding environment, and continued focus by the government to develop the country’s infrastructure will help to accelerate...
infrastructure projects. The country’s potential will however continue to be hindered by a relatively negative business environment. The government will be the key driver for construction activity, given the lack of private sector investment, particularly in road and rail infrastructure. The government prioritized the development of the country’s transport network, and expect road and rail segments to account for almost 75% of the country’s transport industry value. Energy will also see significant opportunities particularly in the renewables and nuclear power segments as the government has been keen to develop these sectors as alternative sources of electricity.

The Chinese government has been promoting the use of PPPs for projects in the energy, transportation, and environmental protection sectors since 2014. In April 2015, China’s National Development and Reform Commission (NDRC) unveiled a list of 1,043 planned projects, ranging from transportation to water services, with a total investment value of about US$300 billion. In order to accelerate the development of projects, the Ministry of Finance is launching a US$28 billion development fund jointly with banks and other major investors. Ten institutions, including China’s top banks such as Industrial & Commercial Bank of China, China Construction Bank Corp and Bank of China, as well as China Life Insurance, CITIC Group and the National Council for Social Security Fund, have already signed up for the scheme.

Governments in Hong Kong and Singapore have continued to invest in infrastructure development in all sectors despite the economic downturn. However, there is little likelihood of additional “mega” projects in those territories other than those already planned.

The construction insurance market in Asia remains a highly competitive market with huge capacity and appetite on offer from a large pool of insurers. 2015 was considered to be a quiet year due to the lack of “mega” projects in the region. Many of the larger projects in Asia have been subject to severe delay, sometimes for years (or even cancellation) due to a variety of socio-economic reasons. With the exception of the OBOR projects, such a situation can be expected to continue into 2016, which is highly likely to result in even more intense competition for not only large but also “medium” and even “small” sized power projects. Many insurers have been offering significantly increased participation in order to secure larger proportional shares of project premium on offer.

Rates can be expected to be very competitive with likely downward pressure on all types of projects, although there may be opportunities to expand coverage given the current competitive environment. Deductibles largely are expected to remain stable.

RISK TRENDS

Risk trends have been consistent for some time. Natural-catastrophe exposed risks remain a consideration, as does the technical quality of the risks, particularly in the power industry following continued high-profile and expensive machinery failures in 2015. Client risk management practices, the reputation and ability of the contractors and the performance of high-specification machinery will continue to be closely scrutinized in 2016.

The role of lenders and their insurance advisors will be a further key consideration and it can be envisaged that insurance will be asked to respond on a broad basis to negate perceived risk trends.

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Employee Health and Benefits

INSURANCE MARKET CONDITIONS

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>RATE CHANGE Q4 2015</th>
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<td>GROUP MEDICAL</td>
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<tr>
<td>GROUP FINANCIAL PROTECTION (LIFE,</td>
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<tr>
<td>DISABILITY AND CRITICAL ILLNESS)</td>
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</tr>
<tr>
<td>GROUP PERSONAL ACCIDENT</td>
<td>STABLE -5% TO +5%</td>
</tr>
<tr>
<td>GROUP BUSINESS TRAVEL</td>
<td>STABLE -5% TO +5%</td>
</tr>
</tbody>
</table>

Market Commentary

The Asian employee health and benefits market continues to be an unstable and unpredictable one, with aging populations, a rising prevalence of chronic conditions, and increased penetration of insurance and subsequent utilization increasing across the region. Consequently, health care costs remain one of the top concerns for employers. There is good reason for this, as health care inflation has outpaced general inflation for many years, with employers often bearing the brunt of these increased health care costs for their employees and their families.

To further exacerbate the problem, employers must also balance differing employee demands that come with having a multigenerational workforce, fierce competition for a limited talent pool, and managing other unique local challenges.

Despite health care costs consuming an ever-increasing share of companies’ budgets, employers are not seeing a return on their investment. In fact, the opposite has been the case. Asia’s population is aging rapidly and has experienced a significant increase in the incidence of serious health conditions and their accompanying high medical costs.

This rapid growth in health expenditures creates an unsustainable burden on employers, with far-reaching consequences. As a result of the escalating increase in health care expenditure, employers are deploying different tactical approaches to mitigate budget increases. Most of these tactics, however, are passive in nature.

Rather than continuing with the traditional tactical approach, employers are now looking for ways to stem the tide of runaway health plan expenses through a more strategic approach. This involves investigating the source of rising costs and implementing targeted solutions that address the root cause of the problem.

Such a strategic approach is important in order to address the high demand for more competitive benefits and anticipated cost escalation — which most say will double in the next four to seven years — to ensure their programs remain sustainable over the long term. Employers should first understand key cost drivers to design an effective and targeted program that stays within agreed budgets.

Several countries are faced with double-digit medical inflation, several times that of general inflation. Many factors will affect health care cost and spending this year and beyond; the rise in costs and premium inflation throughout Asia will continue as all key cost drivers are expected to continue their upward path.

RISK TRENDS

AGING POPULATION

The demographic structure of the entire region is changing rapidly. According to a 2004 United Nations report, “World Population to 2300,” the percentage of people in Asia aged 65 and above is predicted to rise from 5.9% to 16.8% between 2000 and 2050. This trend will have the greatest impact.
in Japan, South Korea, Taiwan, and Singapore, where fertility rates are declining and life expectancy is rising. China will also be hit hard by the effects of an aging population due to its long-running one-child policy, which has only recently been changed.

Aging populations, coupled with economic recovery and higher insurance penetration, will ensure that this area will continue to have a significant impact on health care resources and cost over the coming years. Per capita health care costs increase with age, especially given the higher prevalence of chronic conditions and critical illnesses.

The aging crisis is expected to put a tremendous strain on public health care facilities, and employers will inevitably be expected to take on more and more responsibility for their employees’ health care and retirement savings. The cost impact of risks associated with aging populations can be considerable; therefore, it is extremely important for employers to ensure they have appropriate solutions, targeted to their own employee demographics, to mitigate these risks.

DETERIORATING LIFESTYLES

Rising affluence and the emergence of a larger middle class throughout the region also means the increasing prevalence of an unhealthy and sedentary lifestyle, characterized by chronic illnesses that are affecting younger populations in Asia. Deteriorating lifestyle habits such as poor diet, alcohol consumption, tobacco intake, and lack of exercise are key contributors to the rising prevalence of chronic disease in Asia.

Current costs associated with treating chronic diseases are rising and are expected to increase significantly as the working population ages and becomes unhealthier.

Some of the conditions on the rise for employees in Asia include heart disease, cancers, and diabetes — all of which are manageable through improved lifestyle habits and vigilance, but all of which require long-term care if left unaddressed. Chronic diseases are also now competing for funds with infectious diseases such as dengue fever, malaria, cholera, typhoid, pneumonia, and tuberculosis, which are a problem in the less-developed areas of Asia.

The impact of chronic disease on employers can be substantial, both from a productivity and cost perspective. Employers must focus on long-term financial protection to ensure the cost impact of unannounced long-term sickness absence has a minimal budgetary impact on their organizations, as well as ensuring comprehensive health care benefits are in place to offer employees peace of mind and quick, easy access to quality treatment centers when they need it most.

ADVANCING MEDICAL TECHNOLOGIES

Advances in medical technologies have enabled new treatments that have higher success rates, lower risks, and faster recovery times. Well-informed employees are demanding the best medical treatment available, thereby putting additional upward pressure on employee health care costs and group insurance premiums. For example, in Malaysia, patients prefer minimally invasive and robotic surgeries, which cost approximately 67% more than traditional open surgeries. A similar trend is apparent in South Korea and Singapore as well.

Although advanced therapies, such as keyhole surgery means less invasive procedures, shorter inpatient stays, and an ameliorated patient experience; however, they also result in considerably increased costs for treatment.

For employers providing group medical insurance, this has a direct impact on claims experience and subsequent premium costs.

Medical inflation in Asia is amongst the highest in the world and, as a result, employers across all industry sectors are facing serious challenges when it comes to providing a competitive health care benefits package, whilst ensuring those benefits remain cost effective and sustainable over the longer term. Some organizations are looking at altering funding vehicles and moving towards multinational pooling, captives and self-insurance, which offer larger insured populations with greater financial control and global leverage.

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Marine Cargo

INSURANCE MARKET CONDITIONS

Market Commentary

According to the most recent International Union of Marine Insurance (IUMI) conference, cargo statistics, which traditionally always support the “marine” statistics to show profits, are under pressure. When looking at overall number returns, the suggestion is that cargo class insurers are not making profits, and possibly are losing money.

In general, catastrophic events in recent years have been benign, the one significant loss that is likely to have impact on the Marine Markets would be Tianjin. At the IUMI conference, the chairman said: “We are expecting to see cargo losses of at least US$1.5 billion, with some reports stating that the final figure could be as high as US$6 billion.” With this in the background and a wide gap in the estimation of the loss, insurers are likely to face difficult discussions with their reinsurance providers. It is possible that as a result, more details may need to be offered to insurers in respect of the possible accumulations of values/throughputs/storages at ports and the like.

World economics also have a significant impact on this class especially as primary industries including oil, coal, iron ore/steel have seen prices decline resulting in reductions in values/turnovers are likely to see the value of premiums amounts fall.

Capacity for this class is seeing Asia as a significant business opportunity despite the apparent adverse profitability alluded to at the IUMI conference.

The influence of the cost, and stipulations made by reinsurers within the treaties of many has a serious impact on this class. Many insurers now have specific exclusions in respect of certain types of cargo. Motor/auto has seen a significant tightening in the capacity that is available.

RISK TRENDS

At the time of writing it is clear that the market currently would have no firm ideas on the actual loss numbers that are likely to confront them in respect of Tianjin. With such numbers and the range offered it is possible that there could be impact on the cost of reinsurance to the insurers and depending on that cost this may result in their need to pass those costs on in their direct premium charges. It is further possible that markets may need to closely monitor their aggregations and accumulations of risks in port, however, the difficulty with the need for that data and detail could be most difficult.

The overall impact and effects of the Tianjin loss on this class might be sweeping and costly, but then if the large numbers that have been suggested are not realized, whilst cost may not be impacted, the potential for the need to understand accumulations and aggregation is likely to be considered by insurers.
Markets have been talking and expressing their concerns over the possibility of “cyber” loss. Some insurers from a corporate stance have taken to apply exclusions for such losses, whilst others are yet to offer comment and/or make decisions in this regard. Where in the past policies for this class have been silent on this issue and coverage is generally offered following physical loss or damage, it is possible that clauses could be introduced or specific exclusions made (where previously there were none) and the class underwriter may have little or no input in this.

Clients that import and export are unlikely to own the ships, ports, warehouses, land transit carriers or similar which are used for the movement of goods. Therefore, a general exclusion for physical loss or damage by reason of cyber-attack might be seen as being draconian. Whilst this is a matter that remains in discussion at Cargo Class level, it is possible that clients could be faced with the need to secure from their service providers to understand the mitigation of potential loss to their goods by reason of cyber-attack whilst in the care custody and control of the service provider.

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“WE ARE EXPECTING TO SEE CARGO LOSSES OF AT LEAST US$1.5 BILLION, WITH SOME REPORTS STATING THAT THE FINAL FIGURE COULD BE AS HIGH AS US$6 BILLION.”
Marine Hull

INSURANCE MARKET CONDITIONS

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>RATE CHANGE Q4 2015</th>
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<tbody>
<tr>
<td>PROTECTION AND INDEMNITY (P&amp;I)</td>
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</tr>
<tr>
<td>HULL</td>
<td>DECREASE 10% TO 20%</td>
</tr>
</tbody>
</table>

Market Commentary

2015 did not see any headline losses that would cause the downward trend on rates to change. Ship owners, even those with adverse loss experiences, continue to enjoy the benefits of a soft market for their insurance costs, as the market remains hungry for growth in insurance premiums and mutual clubs fight against the continual churn of tonnage. The market capacity in Asia continues to grow with new Lloyd's Syndicates and the influx of foreign insurance companies coming in. With the challenge to maintain growth, mergers and acquisitions have been strong among insurance companies during the last 12 months. This trend has also spread into the broking side for the latter period of the year.

Shipping segments like container, bulk, and offshore are suffering due to low charter rates as a result of a knock-on effect from low activity in the commodity markets and drop in oil prices. This is, again, furthering expectations of reduced insurance costs.

PROTECTION AND INDEMNITY (P&I) MARKET

The International Group clubs (the “IG Clubs”) appear to have gone through their cycle of obtaining significant increases in premiums for fear of falling behind capital adequacy requirements and losing ratings agencies’ confidence. On 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, increased by 8% across 13 clubs, the IG 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 2016 at 1.92% is a further improvement from 2014 and 2015 at 7.9% and 3.3%, respectively.

With a plethora of fixed-premium insurers, the smaller vessel operators can continue to enjoy competitive pricing. Several market leaders have already set the bar low with a zero general increase, and we expect the rest of the pack is ready to compete. The IG Clubs’ retention will be increased from US$9 million to US$10 million, which will put more pressure on smaller clubs and the pressure to consolidate clubs will increase.

HULL MARKET

On the face of it, combined hull, including construction and other interests, is straining the returns for underwriters and the rate reductions are producing marginal returns at best. According to the International Union of Maritime Insurance (IUMI), total losses have seen a downward trend from 1996 till 2014, but this is changing and there has been a slight upwards trend during 2015. Losses related to human error are still in the high 60% percentile and showing no sign of relief. This begs the question: Where is the premium in the industry to pay for the next Costa Concordia or a series of large losses? There are no signs of a turn in the market and whilst ship owners 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.
► Reduced premium income for underwriters due to lay-ups.
► Bankruptcy and delayed/nonpayment of premium.
► Claim frequency: Pure maintenance claims are starting to appear.
► Can long-term policies stabilize the downward trend on premiums and protect against potential upward swings?
► No slow-down in the building and delivery of new vessels. Short-term generic growth.

“THE MARKET CAPACITY IN ASIA CONTINUES TO GROW WITH NEW LLOYD’S SYNDICATES AND THE INFLUX OF FOREIGN INSURANCE COMPANIES.”

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THE MARKET CAPACITY IN ASIA CONTINUES TO GROW WITH NEW LLOYD’S SYNDICATES AND THE INFLUX OF FOREIGN INSURANCE COMPANIES.”

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INSURANCE MARKET CONDITIONS

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<td>THIRD PARTY LIABILITY</td>
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<td>STABLE -5% TO +5%</td>
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<tr>
<td>TERRORISM</td>
<td>DECREASE 0% TO 10%</td>
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Market Commentary

2015 can only be described as a catastrophic year for the global mining community as commodity prices continued to plummet by 20-30% for every major metal, and by 10% in the coal sector. As a result, industrial metals and coal are at lows last seen during the financial crisis of 2007-2008. Unsurprisingly, the profits and share prices of global miners followed suit as investors sought to cut their losses.

The global oversupply of most commodities and weak demand have spurred the sell-off in the futures markets and mining stocks.

By way of illustration, Anglo American alone posted a $6 billion loss for the year ended June 30, compared with a $100 million profit in the previous period.

Economic conditions globally remain depressed for any consumer-led recovery, specifically the significant reduction in China’s GDP growth and exports evidencing this trend.

Mining companies are seeking to counter the financial strain caused by tumbling raw-materials prices and broadening revenue streams, by taking the unusual step of entering low-margin businesses. The general depressed outlook for commodities has also led many mining companies to encroach into areas such as trading and refining, which have traditionally been the area of other specialist companies such as Glencore. Rio Tinto for the first time has started to refine other companies’ copper ore. Vale, the world’s largest iron-ore producer, has begun mixing minerals to make custom supplies for buyers.

Most analysts do not see how these low-margin businesses will add value in the long run.

The big iron ore producers like BHP Billiton, Rio Tinto, and Vale have seen the price drop from US$189 per ton in February 2011 to the now-around-US$40 mark, but continue to produce in huge quantities. They believe that by doing so, they can squeeze out less efficient competitors.

In the aluminum sector, where most production is in the US and Canada, the smelters closed down once profits slumped.

For copper producers, the key production areas are in emerging markets such as Chile, Peru, and Zambia. All have seen large investments from China to secure long-term supply.

These countries need the revenue from copper exports to service their hard-currency debts. Therefore, the lower the copper price, the more physical copper they must produce and export to earn the same dollars. The more they export, the lower the price becomes, in a self-feeding downward spiral.
These global trends are being hugely felt in Asia as capital expenditure has been slashed and producers’ revenues have slumped in line with global decreases.

Now is the opportunity for all insureds to fully review their insured values and, particularly, their revenue protection insurance to ensure that their insurance programs are providing optimum protection for their balance sheets as the mining downturn will need to be weathered for the next two years.

**RISK TRENDS**

**DECLINE IN CAPITAL EXPENDITURE**

As outlined above, we are seeing a dramatic cancellation of new or prior-planned projects through the development stage.

The reasons for this are listed below:

- During the 2007-2012 commodity “super-cycle,” mining companies responded to high commodity prices with a major expansion of mine supply from both greenfield and brownfield projects.
- In 2015, the majority of mined commodities are now oversupplied; and capacity continues to come on-stream.
- Commodity prices are falling, forecast to fall further, and are expected to remain subdued for at least two years.

**TAILINGS DAMS, THIRD PARTY LIABILITY, AND ENVIRONMENTAL LIABILITY**

The tailings dam collapse at the Samarco mine in Brazil on November 5, 2015, and the subsequent loss of life/property/ecological damage caused by toxic mud that occurred, is a stark reminder for all operational mines of the risks they face and how these could be mitigated.

In what is now Brazil’s worst environmental disaster, the immediate clean-up costs faced by the owners is estimated to be upwards of US$1 billion (and growing), according to Deutsche Bank.

The initial fine levied by the country’s environmental agency, IBAMA, for polluting river waters, causing health risks and making urban areas uninhabitable was Rs 250,000,000 (approximately US$64,373,000).

At the time of writing, we have not seen any renewals coming under pressure regarding provision of cover for sudden and accidental pollution, although most of the major mining lead markets are now giving this renewed focus and typically looking for the following additional information on tailings dams. Typical questions are as follows:

- Intended life of the tailings dam?
- Planned lifts over its lifetime?
- How many lifts have been completed?
- Details of engineers used to advise on lifts?
- Engineering reports where dams are past their anticipated lifespan or where there have been more lifts than anticipated.

Our initial view is that a number of mining companies remain underinsured for these exposures or mistakenly believe that they have coverage under their comprehensive general liability policy.

At a time when the commercial insurance market is providing relatively cheap capacity for layers of cover above US$100 million, insureds should discuss with their broker what could be achieved in the insurance market to mitigate their companies’ exposures.

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Market Commentary

OPERATIONAL POWER/UTILITIES

Competition in the power business in 2015 within the region generated significant reductions for clients with good loss records and proactive risk management policies. However, even in the absence of such merits, the power market regularly accommodated varying premium reductions in order to retain or win business. This can be mainly attributed to budget/premium income pressure pushed down from management to underwriters as well as the ferocity of competition for the power business between the brokers.

Rates can be expected to continue to decline into 2016 although the level of reduction is less certain and would be applicable on a case-by-case basis taking into account the factors mentioned above. The offer of two- or three-year long-term agreement deals with loss ratio benefits and penalties would represent the best opportunity for significant rate reductions going into 2016. Underwriters continue to be very receptive of such arrangements which give the opportunity for long-term engagement and provide “certainty” of continued premium flow across the period.

Despite the continuing downward pressure on rates, it is well known that certain global insurers are closely monitoring the profitability of their power book as a result of continued large losses year on year coupled with the continued decline in pricing. This would however be a global consideration rather than Asia-specific.

Aside from rate deterioration, deductibles and breadth of coverage remain generally stable with the power market tending to not deviate from “accepted” levels for different sub-categories within power. Technology and the performance of certain turbines and original equipment manufacturers continue to be considerations in any power placement.

POWER CONSTRUCTION

The power construction market in Asia remains a highly competitive market with huge capacity and appetite on offer from a large pool of insurers.

2015 was considered to be a quiet year due to the lack of “mega” projects in the region. Many of the larger projects in Asia have been subject to severe delay, sometimes for years (or even cancellation) due to a variety of socio-economic reasons. Such a situation can be expected to continue into 2016, which is highly likely to result in even more intense competition for not only large but also “medium” and even “small” sized power projects. Many insurers have been offering significantly increased participation in order to secure larger proportional shares of project premium on offer.

Rates can be expected to be very competitive with likely downward pressure on all power projects whilst there may be opportunities to expand coverage given the current competitive environment. Deductibles largely are expected to remain stable.

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Trade Credit and Political Risk

INSURANCE MARKET CONDITIONS

Market Commentary
Awareness of trade credit and political risk insurance continues to grow. In addition to the specialist broker channel, credit insurers are continuing to build on their distribution network, and have been focusing on smaller companies. This is typically done through agents, as well as cooperation with financial institutions and general insurers, to tap into their respective client bases.

Capacity has remained stable, and at approximately US$1 billion, is more than adequate to meet the demand in the region. In Q4 2015, the premium rates have been trending upwards as a result of increased losses. In cases where insureds have a favorable loss history, rates have been stable.

RISK TRENDS
The economic slowdown has led to increased levels of payment defaults and insolvencies, with insurers suffering more losses, especially in China. The slowdown is expected to affect other countries in the Asia region; it is also expected to be broad based, affecting retail, manufacturing, and commodity prices (especially in Indonesia). Higher unemployment is also anticipated.

Bank financing will also be tightened, and credit insurers will be adopting stricter underwriting and lowering credit limit approvals.

Infrastructure and project development are also expected to be implemented more selectively, and to be dependent on funding by development agencies (for example, World Bank, IFC, ADB, JBIC). China is now playing a more significant role in such financing on a bilateral basis throughout the region. The Asia Infrastructure Investment Bank is also expected to have an impact on such project development once it becomes active.

Myanmar continues to be an area of interest, but uncertainty remains over the change of government from the ruling junta to the National League for Democracy Party in 2016. Should this proceed smoothly, the accompanying development would likely result in demand for credit and political risk insurance and reinsurance.

MARKET COMPETITION
Most trade credit insurers are seeing deterioration in their loss ratios. The rate softening in 2015 is not expected to continue, and underwriters are reviewing and reducing credit limits on buyers, reflecting their lower risk appetite. Premium rates are expected to harden in 2016.

In 2015 there have been various management changes at key credit insurers, and this has resulted in servicing and engagement issues. The situation is expected to stabilize in 2016.

On the structured credit and political risk front, the market has been more stable, notwithstanding staff movement amongst underwriters.

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Warranty and Indemnity Insurance

INSURANCE MARKET CONDITIONS

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 the 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, and it is now increasingly popular and available domestically in China, Korea, Malaysia, India, 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 the local language, e.g. 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 who 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 3.5% 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 (typically at completion of the transaction) 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 eventual buyer will take out W&I insurance, and its main or sole form of recourse in the event of a breach of warranty or indemnity 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 find recourse against their insurance policy.

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

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