

INSURANCE SECTOR UPDATE

THE ASEAN ECONOMIC COMMUNITY

Background

The Association of Southeast Asian Nations ("**ASEAN**") was established on 8 August 1967 under the framework of the "3 pillars" of regional cooperation: security, socio-cultural integration and economic integration. The 10 member countries of ASEAN are:

ASEAN 5	ASEAN 6	CLMV
Indonesia	ASEAN 5 + Brunei Darussalam	Cambodia
Malaysia		Lao PDR
Philippines		Myanmar
Singapore		Vietnam
Thailand		

America commits a third of its investments in Asia to Asean nations - more than US investment in China, India, South Korea, Hong Kong, Taiwan and New Zealand combined¹.

At the 12th ASEAN summit in January 2007, the ASEAN leaders affirmed their strong commitment to accelerate the establishment of an ASEAN Economic Community (the "**AEC**") to create a legal regime that will unify ASEAN into a single market and economy. On 20 November 2007, the ASEAN leaders adopted the ASEAN Economic Blueprint (the "**AEC Blueprint** ") to serve as a coherent master plan in guiding the implementation of the AEC by 31 December 2015.

¹ "Long on optimism" - *Financial Times*, Tuesday July 22 2014

Key Characteristics of the AEC

The AEC seeks to substantially liberalise trade and services amongst the 10 ASEAN member countries by working towards the following key goals, the so called "four pillars" of the AEC:

1. Single Market and Production Base:

The ASEAN member countries have agreed that there will need to be a freer flow of goods, services, investment, capital and skilled labour. The AEC Blueprint recognises free flow of services to be the most important aspect of achieving a single market. Free flow of services means that there will be "*substantially no restriction*" to ASEAN services suppliers in providing services and in establishing companies across national borders within the ASEAN region. However, this will be subject to domestic regulations.

2. Highly Competitive Economic Region:

The AEC will promote coordination of policies and frameworks in all ASEAN member countries in respect of competition law, consumer protection, intellectual property rights, infrastructure development, taxation and e-commerce.

3. Region of Equitable Economic Development:

The AEC Blueprint entrusts ASEAN to address different levels of development between ASEAN member countries by introducing or enhancing strategic work programmes, policy measures, technical assistance and development cooperation to achieve equitable economic development amongst all ASEAN member countries.

4. Region Fully Integrated into the Global Economy:

The ASEAN member countries shall work towards a coherent approach to external economic relations, including regional free trade agreements (FTAs) and comprehensive economic partnership agreements (CEPs), and enhancing participation in global supply networks.

In recognition of the diversity in economic and social background for each ASEAN member country, liberalisation will be conducted in various stages and different timelines and milestones will apply for each member country depending on their individual circumstances and readiness for reform.

In terms of liberalisation of the financial services sector, the overarching goal of the liberalisation measures is to allow member countries to ensure orderly financial sector development, while maintaining financial and socio-economic stability.

Liberalisation of insurance services covers four "*modes*" of supply for the delivery of services in cross-border trade:

- **Mode 1:** "*Cross-border supply*" (e.g., insurer based in Singapore writing policies for policy holders based in Indonesia)
- **Mode 2:** "*Consumption abroad*" (e.g., policyholder based in Malaysia travelling to Singapore)

to buy a policy from an insurer based there)

- **Mode 3:** "*Commercial presence*" (e.g., insurer based in Singapore writing policies in Thailand through the Singapore insurer's Thai branch or subsidiary)
- **Mode 4:** "*Presence of natural persons*" (e.g., insurer based in Singapore managing a claim through an employee working in Thailand)

Insurance industry participants in or familiar with the ASEAN region will be aware that liberalisation of these Modes is far from complete. Indeed, cross-border supply of insurance services (Mode 1) and cross-border consumption of insurance services (Mode 2) are still widely restricted in the ASEAN member countries. However, it is noteworthy that many of the member countries are already complying with the benchmark for foreign equity participation (e.g., 80% in Indonesia and 70% in Malaysia).

Looking Forward

The AEC is expected to be in place to a meaningful extent by 31 December 2015 and it aims to progressively liberalise and substantially remove restrictions in the ASEAN region's financial services sector by 31 December 2020 and beyond. While it remains to be seen how the insurance industry within each ASEAN member country will respond to the implementation of the AEC, there is no doubt that such progressive developments in the region will provide interesting opportunities within the financial services sector as a whole.

If you would like to learn more about the development and potential impact of the AEC, please do not hesitate to contact our team.



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