

INDONESIA LIFE INSURANCE NEWSLETTER

MAY 2015

WE ARE PLEASED TO PRESENT THE FOURTH EDITION OF MILLIMAN'S INDONESIA LIFE INSURANCE NEWSLETTER. THIS EDITION COVERS DEVELOPMENTS DURING THE PERIOD FROM 1 JANUARY 2015 TO 30 APRIL 2015.

TABLE OF CONTENTS

Introduction	1
Market performance	2
Market news	3
Regulatory developments	3
Other recent developments	4

Total weighted new business premiums for the Indonesian life insurance industry decreased by 3% in 2014, the first year of negative growth in the last five years. This was in line with a slowing economy and a weakening Indonesian rupiah. However, there is optimism that the insurance industry will bounce back quickly from this temporary blip.

We discuss these and other key developments in this edition of our newsletter. We hope you find this edition interesting, and we look forward to receiving your feedback.



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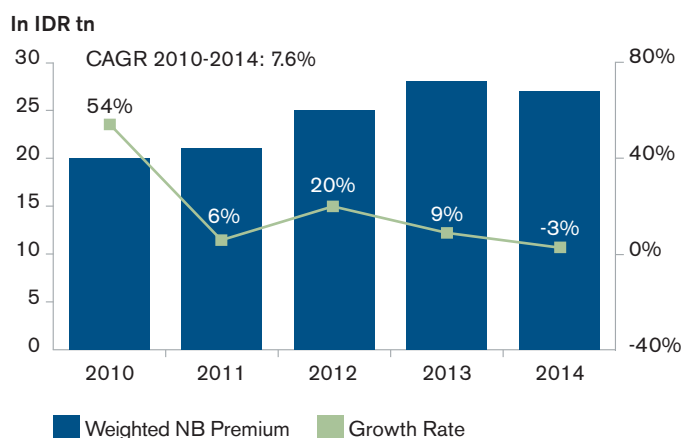


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Market performance

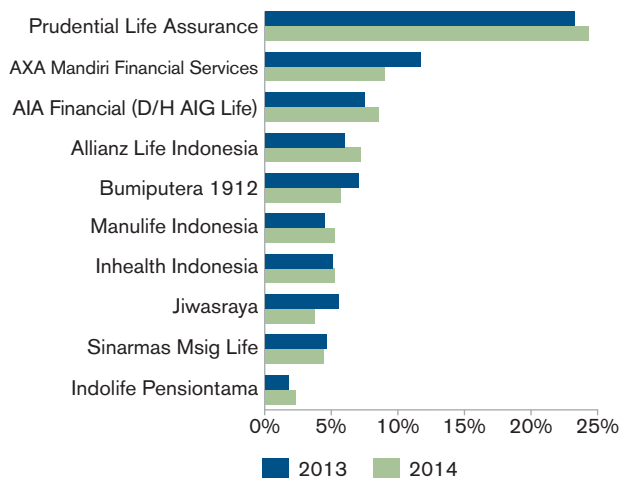
According to the 2014 statistics recently released by the Indonesia Life Insurance Association (AAJI), the life insurance market in Indonesia experienced negative growth in 2014, declining 3% on a weighted new business premium basis. Over the five-year period from 2010 to 2014, the sector achieved a compounded annual growth rate of 7.6%, also on a weighted new business premium basis.

FIGURE 1: WEIGHTED NEW BUSINESS PREMIUM OF INDONESIAN LIFE INSURERS*



The market shares of the top 10 and top five players currently comprise 74% and 55% of the weighted new business premium in 2014, respectively. The leading two players are still Prudential and AXA Mandiri; however, while Prudential increased its market share from 23% to 24% in 2014, AXA Mandiri's market share reduced from 12% to 9% during the same period.

FIGURE 2: MARKET SHARE OF TOP 10 LIFE INSURERS BY WEIGHTED NEW BUSINESS PREMIUM*

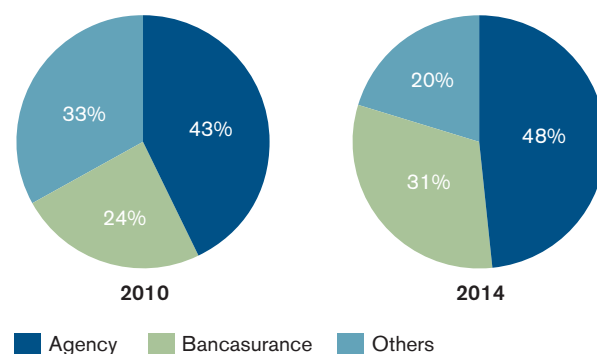


The distribution landscape has seen a significant increase in bancassurance distribution since 2010. This growth has arisen due to an increased focus on and commitment to bancassurance by banks and life insurers through several new distribution partnerships and the reinvigoration of some partnerships following merger and acquisitions activity over the past few years. In addition, life insurance companies have also been aggressively recruiting more agents into the industry, with agent numbers as at 31 December 2014 reaching 414,595, a 16% increase from the level at the end of 2013.

FIGURE 3: DISTRIBUTION LANDSCAPE*

CAGR 2010 – 2014

Agency: 15%
Bancassurance: 20%



Unit-linked products accounted for 55.8% of total (new business and renewal) un-weighted life insurance premiums of IDR 122 trillion, representing a 9% growth over the level in 2013. Traditional products registered a 4% growth in total premiums over the same period. In terms of 2014 weighted new business premium, unit-linked and traditional products contributed to 59% (IDR 16 trillion) and 41% (IDR 11 trillion) of the overall market, respectively. In addition, life insurance assets grew by 26% in 2014, rising to IDR 364 trillion.

In terms of the Syariah business segment, the Indonesia Syariah Insurance Association (AASI) reported a 10% growth in total Syariah life contribution, up from IDR 7.1 trillion in 2013 to IDR 7.8 trillion in 2014. According to Taufik Marjuniadi, a representative of AASI, one factor for the growth is the rise in unit-linked Syariah products in the market, especially those that offer critical illness benefits, which are very popular.

* Source: AAJI statistics

Market news

A. Mergers and acquisitions, distribution agreements

The following transactions and distribution agreements were announced in the period between January and April 2015:

DATE	COMPANIES	DESCRIPTION
26 March 2015	Bank Muamalat; Manulife Indonesia	Bank Muamalat and Manulife signed a long-term strategic bancassurance partnership deal which was initially announced in November 2014.
8 April 2015	DBS; Manulife Financial	Development Bank of Singapore (DBS) agreed to partner with Manulife Financial in an exclusive regional distribution agreement, covering Indonesia and other countries including Singapore, Hong Kong and China. Press reports suggest that the deal includes an upfront fee of US\$1.2 billion, with the agreement being effective from 1 January 2016.
28 April 2015	Global investors; Reliance Capital Management	LeapFrog Investments, FMO (the Dutch development bank) and PartnerRe have jointly invested US\$45 million in Reliance Capital Management, an Indonesian financial services company which includes a life insurance company PT Asuransi Jiwa Reliance Indonesia.

B. New licenses

- There were no new licenses issued in the period between January and April 2015.

C. Key company news

- PT Taspen has reported that it is prepared to offer around 30% to 40% of its stake in PT Asuransi Jiwa Taspen for sale to potential strategic investors in order to develop the life insurance entity's business.
- PT Bank Tabungan Pensiunan Nasional Tbk (BTPN) announced plans to start a new life microinsurance company in the second half of 2015 as part of its business plans for this year. For this purpose, the bank has reportedly set aside capital of between IDR 100 billion to 125 billion.
- PT Zurich Insurance Indonesia reported plans to launch microinsurance products in the near future.
- Bank Rakyat Indonesia (Bank BRI) announced plans to sell a 40% stake in its pension fund's life insurance arm Asuransi Jiwa Bringin Jiwa Sejahtera (BRIngin Life). The deal will likely come with an agreement allowing the buyer to sell products through Bank BRI's 10,000 outlets across Indonesia.

Regulatory developments

Insurance policy protection plan for Indonesia

Following the recent enactment of the new Insurance Law, in which a policyholder protection plan is to be set up within the next three years, discussions are ongoing in the industry regarding the possible appointment of the Deposit Insurance Corporation (Lembaga Penjamin Simpanan or LPS) to be the designated agency overseeing and dealing with this matter. The LPS, an existing institution responsible for the protection of bank deposits, is expected to work out further details of protection measures for insurance policies.

New reinsurance regulations will increase challenges for the local reinsurance sector

According to Fitch, the OJK's proposal to require life insurers to cede all reinsurance to the domestic reinsurance market is expected to pose significant challenges to the domestic reinsurers, given their current relatively low capitalisation levels and the shortage of local technical capabilities. Under the current regulation, insurance companies are only required to cede 10% of their risk to domestic reinsurance companies and, consequently, more than 70% of reinsurance premiums are ceded to international reinsurers. While the new regulation (when implemented) is expected to boost the local domestic reinsurance market, it may be hindered by the lack of local technical capabilities, which are currently sourced from the multinational reinsurers.

Meanwhile, as part of the strategy to restrain currency outflows from the domestic market to help reduce the current account deficit, the plan to create Indonesia Re, a new larger reinsurer formed by merging state-owned reinsurers Reasuransi Internasional Indonesia (Reindo) and Asei Reasuransi Indonesia is currently under way. The government is planning to inject IDR 1.5 trillion of initial capital into the new company.

According to the Asia Insurance Review, the OJK has reportedly confirmed that foreign reinsurance brokers are still allowed to work directly with insurance companies in the country.

OJK to ease investment rules for insurance funds

In a bid to boost the local capital market, the OJK plans to ease investment rules for insurance and pension funds to allow them to invest in higher-risk products. Ms. Nurhaida, the capital market supervisor, told Reuters that the local market lacks liquidity, as there are not enough products and investors. Currently, pension and insurance fund investments are restricted to only bonds with a certain rating, (even though lower-rated bonds could be relatively safe investments). Ms. Nurhaida also cited that possible measures being considered include allowing mortgage-backed securities and encouraging more municipal bond issuance.

Other recent developments

AAJI: Optimistic on life insurance industry outlook for 2015

Mr. Hendrisman Rahim, chairman of AAJI, announced that he expects at least 20% growth in total income (premium income plus investment income) in 2015. This is despite the slowdown in the economy and the ongoing depreciation of the rupiah against the dollar. Furthermore, Mr. Rahim also predicts that the contribution of unit-linked products in 2015 will increase as a result of companies focusing on this product segment.

Private sector partnership urged for BPJS

According to the Asia Insurance Review, the Indonesian government is encouraging private insurers to participate in the national universal health insurance (BPJS) by providing supplementary benefits that are not available under the current plan. Administered by the social security management agency BPJS Health, since its launch in January 2014, the national health scheme is currently covering 135.7 million people (as at January 2015) and will become mandatory for all Indonesians by 2019.

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