

# INDONESIA LIFE INSURANCE NEWSLETTER

SEPTEMBER 2014

WE ARE PLEASED TO PRESENT THE SECOND EDITION OF MILLIMAN'S INDONESIA LIFE INSURANCE NEWSLETTER. THIS EDITION COVERS THE DEVELOPMENTS DURING THE PERIOD FROM 1 MAY 2014 TO 31 AUGUST 2014.

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The Indonesian presidential election has taken centre stage during the last few months in Indonesia. With both presidential candidates (Mr. Prabowo Subianto and Mr. Joko Widodo) tied up in a tight race, the Indonesian public, corporate sector and foreign investors alike waited anxiously for the outcome of the elections. With the elections finally over (with Mr. Joko Widodo being declared the winner), the focus will now shift back to the economy.

We hope you find this edition interesting, and we look forward to receiving your feedback.



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## Market performance

### Industry performance for 2014 1H

According to the *Jakarta Post*, un-weighted new business premium collections in the first half of 2014 totalled IDR 30.57 trillion, which is equivalent to a 16.3% drop from the IDR 36.52 trillion of un-weighted new business premiums collected during the same period in 2013. The Indonesia Life Insurance Association (AAJI) attributed this slowdown to the recent political activity prior to and after the election and a 'wait and see' attitude amongst the general public. The AAJI also reported a slowdown in single premium sales. On the other hand, regular premiums were reported to increase up to IDR 23.01 trillion in the first six months of 2014, a 24.9% growth compared to IDR 18.42 trillion during the same period in 2013.

Life insurance players in Indonesia were reported to have achieved investment returns of IDR 20.78 trillion during the period from January to June of 2014, a strong growth of 75.8% compared to the IDR 11.82 trillion achieved in the same period in 2013. This is likely to be attributed to the rising stock markets in Indonesia. Overall, the total revenue (including premiums and investment returns) for life insurance players is reported to have increased from IDR 68.72 trillion in the first half of 2013 to IDR 76.6 trillion in the first half of 2014.

Despite the slowdown in performance during the first six months of the year, Mr. Hendrisman, director of AAJI, was quoted as saying that he expects the life insurance industry to achieve 15% to 16% growth in total premium by the end of the year, citing stronger growth trends in the second half of the year.

## Market news

### A. Mergers and acquisitions, distribution agreements

The following transaction was announced during the four-month period ending 31 August 2014.

DATE	COMPANIES	DESCRIPTION
May 2014	Nippon Life; Sequis Life	Nippon Life Insurance has agreed to acquire a 20% stake in Sequis Life for IDR 4.87 trillion (approximately USD 423.9 million). This follows the entrance of three other Japanese life insurers—Dai-ichi, Meiji Yasuda and Sumitomo Life—into the Indonesian market. Nippon Life announced that it will send a commissioner, a board director and support staff to Sequis Life to provide expertise in sales and product development.

### B. New licenses

- Taspen Life officially acquired a new life insurance license in 2014 Q2. Its target market would include civil servants and state-owned enterprise employees.
- Bank BCA officially received a new life insurance license from the OJK in 2014 Q2 to set up its life insurance company, BCA Life. The new company will offer mainly health insurance products. The Bank has reportedly allocated IDR 100 billion to 200 billion to invest into the new operation.

### C. Key company news

According to Bank BTN's director Irman Alvian Zahiruddin, Bank BTN's plan to form a joint venture life insurance company partnering with Jasindo has been put on hold, at least for this year. The bank has instead chosen to boost its fee-based income by focusing on its current bancassurance business with three life insurers—PT Asuransi Jiwa Generali Indonesia, PT Zurich Insurance Indonesia and PT Asuransi Jiwasraya (Persero).

Bank BRI is reported to be considering acquiring a stake of BRIngin Life from BRI Pension Fund. Following the acquisition, which the bank is hoping to complete by 2014 Q4, Bank BRI is looking to expand its bancassurance business from its captive customer base. Currently, BRI Pension Fund is understood to own about 90% of BRIngin Life.

It has been reported that MNC Life is interested in setting up a joint venture. There has been reported interest from Japanese and Korean life insurance companies.

### D. Key appointments

- Benny Waworuntu, ex-Executive Director of the AAJI, has recently moved to Swiss Re as Director, Head of Indonesia.
- Mei-Chee Shum, ex-CEO of Manulife Taiwan, has recently been appointed as the CFO-Elect of AIA Financial Indonesia.
- Tim Shields, ex-President Director of ACE Indonesia, is now CEO & President Director of CIGNA Indonesia.

## Regulatory developments

No new regulations have been issued in the past four months. However, it is reported that the regulator, the OJK, is in the process of finalising the following regulations.

### Bancassurance regulation

The OJK is expected to announce new regulations on bancassurance. It is likely that banks engaging in bancassurance activities would be required to disclose the amount of commission received from their insurance partners. Mr. Lucky Fathul, deputy commissioner of OJK, has reportedly also revealed that the regulator plans to issue a series of new regulations on the non-banking financial sector in the near future.

### Foreign ownership limit

The Indonesian regulator is reportedly mulling to reduce foreign ownership limit of insurance companies. Currently foreign direct investment into insurance companies is capped at 80% (although dilution of domestic shareholding has been permitted for existing licenses). Press reports have suggested that the limit may be reduced to between 49% and 50%, which would meet the minimum levels as per Indonesia's commitments under the World Trade Organization (WTO). Clarity over how to interpret this for new and existing businesses has not been received. Ngalm Sawega, OJK's deputy commissioner for the Non-Banking Financial Industry Division, was quoted as saying that the aim was for local companies to fill any gap that may arise as a consequence of the cap.

### Microinsurance regulation

The OJK is currently in the process of drafting a new regulation specifically for the microinsurance segment of the industry. According to the Director of Sharia Non-Banking Financial Industry Division of OJK, Pak Muchlasin, the new regulation will cover areas such as the characteristic of microinsurance, the distribution of microinsurance and financial reporting. The regulator has not yet decided whether all insurance companies would be required to sell microinsurance, which is imposed in some countries such as India.

## Other recent developments

### OJK fee collection program

The OJK announced that it had collected around IDR 379.9 billion from financial companies through its newly established fee-collection program. The money was collected during the first payment period that ended on 15 April 2014. The total fee received from the non-banking sector, which includes insurance and multi-finance firms amounted to IDR 43.1 billion. The OJK fee, which is due in April, July, October and December each year, will increase in 2015. Moreover, the OJK expects to cut off from state funding in 2016.

### Natural disaster risks in Indonesia

According to a recent study released by Swiss Re, river floods and earthquakes pose the biggest risk to Jakarta, with close to 28 million people potentially affected. The study also stated that even though many people believed that both climate change and global warming are rapidly increasing as natural disaster risks, a significant part of the economy still remains uninsured. In the event that an earthquake or a major flood was to hit Jakarta today, the gap between economic and insured losses could reach US\$10 billion. By 2023, this number would triple to US\$28 billion.

### ASEAN Insurance Summit

The ASEAN Insurance Council (AIC) is organising the inaugural ASEAN Insurance Summit, which will be held at the Marina Bay Sands, Singapore on 1 October 2014. The Summit, which is believed to be one of the first regional event held on the topic of ASEAN Economic Community (AEC) focusing on the insurance industry, is expected to bring together senior ASEAN industry leaders, practitioners as well as insurance regulators to discuss the implication of the launch, which has a deadline of December 2015. Aimed at raising the awareness and level of preparedness of the insurance industry in each ASEAN country, highlights at the Summit include a presentation on the AEC 2015 Blueprint (a formal document setting out the objectives and guidelines for the AEC implementation) for the Insurance Industry as well as the Regulators' Panel, at which a number of ASEAN insurance regulators will share updates on the progress of preparations for AEC 2015 in their respective markets.

### Industry event

Milliman, in conjunction with AAJI, recently organized an industry seminar themed 'Maximizing Value From Corporate/Business Planning'. It was a timely event given the upcoming new requirements for insurance companies in Indonesia to submit detailed corporate and business plans (starting from 2015). Apart from discussing the regulatory requirements, Milliman consultants from Singapore and Hong Kong also discussed related topical issues such as capital projections, expense analysis and the importance of establishing appropriate KPIs and management reporting. The event, which was held at AAJI offices on 27 August 2014, attracted over 90 attendees.

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