

# INDONESIA LIFE INSURANCE NEWSLETTER

FEBRUARY 2015

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

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The fourth quarter of 2014 saw the introduction of a new Insurance Law for Indonesia. Furthermore, the trend of increased regulatory activity continued with new guidelines being issued to limit foreign reinsurance, the merging of three state-owned reinsurance companies to form a bigger entity with more capacity, and the establishment of a database for registered agents in the country. 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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## Market performance

### Industry performance for Q3 2014

According to *Warta Ekonomi*, The Indonesia Life Insurance Association (AAJI) statistics showed positive growth in the first nine months of 2014 as compared with the same period in 2013. Unweighted total premium collections in the first nine months of 2014 amounted to IDR 86.92 trillion, a 2% growth over IDR 85.22 trillion in the same period for 2013.

This is mainly due to a strong growth in renewal premium income, with unweighted renewal premium collections totaling IDR 37.57 trillion for the first nine months of 2014, a 22.7% increase over the same period in 2013.

Conversely, however, unweighted new business premium collections decreased to IDR 49.35 trillion in the first nine months of 2014, a 9.6% decline over the same period in 2013. Mr. Rahim, chairman of AAJI, attributed this decrease in new business premiums to the slowing economy.

## Market news

### A. Mergers and acquisitions, distribution agreements

The following transactions were announced during the four-month period from 1 September 2014 to 31 December 2014.

DATE	COMPANIES	DESCRIPTION
September 2014	Nippon Life; Sequis Life	In May 2014, Nippon Life Insurance announced its intention to acquire a 20% stake in Sequis Life. This acquisition was approved by Indonesia's Financial Services Authority (OJK) on 23 September 2014.

### B. New licenses

- There were no new licenses issued in the fourth quarter of 2014.

### C. Key company news

- PT Asuransi Jiwasraya, currently a state-owned enterprise, is looking to raise funds for the purpose of business development and is reportedly considering options such as a strategic sale or an Initial Public Offering (IPO).
- PT. Bank Tabungan Pensiun Nasional Tbk (BTPN) is reportedly looking to buy a life insurance company in 2015. Sumitomo Mitsui Banking Corporation acquired a 40% stake in BTPN in March 2014.
- Three state-owned reinsurance firms, namely Reasuransi Internasional Indonesia, Reasuransi Nasional Indonesia and Asuransi Ekspor Indonesia, have merged to form a

new entity called Indonesia Re. According to Mr. Wahyu Kuncoro, assistant in banking and insurance at the Ministry of State-Owned Enterprises, this new company will be the fourth-largest reinsurance company in Asia by assets.

### D. Key appointments

- Rianto Djojosugito was elected as the new president of PAI (Society of Actuaries of Indonesia) in September 2014. He is also a chairman of Ancora International.
- Rinaldi Mudahar was appointed as president director of Prudential Indonesia in November 2014.

## Regulatory developments

### 2014 Insurance Law

In September 2014, after about two years of discussion, the Indonesian House of Representatives (locally known as DPR) passed a new insurance law which replaces the 1992 insurance law. The new law contains several key provisions pertaining to areas such as single presence, a requirement to spin off Syariah business, the introduction of a policyholder protection mechanism, clarity on legal structures and ownership of insurance companies, the appointment of a "controller" and segregation of insurance funds.<sup>1</sup>

### Bond investment rules to be loosened

OJK is reportedly looking to change the current investment regulations for insurers and pension funds, which are currently only allowed to invest in the highest-rated corporate bonds. With the impending changes, which are expected early in 2015, insurers and pensions funds will be capable of investing in all types of investment-grade corporate bonds.

### New supervisory unit for financial groups to be set up

OJK is to issue three sets of regulations pertaining to financial groups in relation to good corporate governance and risk management policies. A new department will be established to oversee conglomerates operating in the sectors of insurance, banking, financing and the capital market, which will possibly have a big impact on Indonesia's financial system.

Among the 31 financial conglomerates identified are Mandiri Group, BNI Group, BRI Group, Mega Group, Bukopin Group, Sinar Mas Group, CIMB Niaga Group and Panin Group, etc. The new department will supervise, examine, collect data and information concerning financial conglomerates, which will then be evaluated according to their risk profile and current condition.

<sup>1</sup> For more information, refer to Indonesia: New Insurance Bill Passed in September 2014, Milliman Asia e-Alert, November 12, 2014. Available at [http://www.milliman.com/uploadedFiles/insight/Periodicals/asia-ealert/indonesia-insurance-bill-09-14.pdf?utm\\_content=brittany.robertson%2540milliman.com&utm\\_source=VerticalResponse&utm\\_medium=Email&utm\\_term=This%20Asia%20e-Alert&utm\\_campaign=Indonesia%253A%20New%20Insurance%20Bill%20Passed%20in%20September%202014content](http://www.milliman.com/uploadedFiles/insight/Periodicals/asia-ealert/indonesia-insurance-bill-09-14.pdf?utm_content=brittany.robertson%2540milliman.com&utm_source=VerticalResponse&utm_medium=Email&utm_term=This%20Asia%20e-Alert&utm_campaign=Indonesia%253A%20New%20Insurance%20Bill%20Passed%20in%20September%202014content)

### **OJK proposes that more insurance business be placed with local reinsurers**

OJK released a draft circular stating that from 1 January 2015 more business should be placed with local reinsurers to improve and optimize capacity in Indonesia. It is proposed that for some lines of business, all reinsurance should be placed with local reinsurance companies, while some other lines of business will have a minimum of 25% of their business or US\$ 6 million for life business (whichever is higher) to be placed with local reinsurers. OJK also asked all insurance companies to report their treaty renewals by 31 December 2014.

### **Other recent developments**

#### **Microinsurance market receives boost with new product launches**

OJK, together with the Association of Indonesian General Insurance Companies (AAUI), AAJI and the Indonesian Sharia Insurance Association (AASI), has developed a series of microinsurance products aimed at increasing access to financial and protection products for low-income groups. In September 2014, AAJI launched a microinsurance product, 'Si Peci Asuransi' or 'Full of Love'. With a premium of IDR 50,000 per year, the insured could be covered with a sum assured between IDR 10 to 25 million. These products can be sold by companies that do not have their own microinsurance products.

#### **Regulator to ramp up oversight of insurance agents**

OJK is looking to better protect customers against unlicensed agents by accelerating the agent licensing and certification process. According to *Asia Insurance Review*, data from OJK shows that 200 out of 267 agency companies are licensed and 76% of agents in the country are certified as of October 2014.

OJK has also asked industry stakeholders to reduce the cost of agent certification and to improve the distribution of agent training materials by making use of the internet.

Meanwhile, AAJI reported 360,870 licensed insurance agents in the first nine months of 2014, a small growth of 4.2% over the same period in 2013. AAJI is optimistic that there will be 500,000 licensed insurance agents in 2015. The association's positive outlook comes from the observation that many companies are actively looking to hire agents.

In order to enhance productivity and quality of the agency channel, several players in the life insurance sector, including PT Zurich Topas Life, PT Sun Life Financial Indonesia and PT Great Eastern Life Indonesia, are reported to be looking to move to a full-time agency model in the long term.

#### **Milliman roundtable event: Life insurance products – Time to innovate?**

On 4 December 2014, Milliman's Indonesia team hosted a roundtable lunch event on 'Life Insurance Products – Time to Innovate?' at the Mandarin Oriental in Jakarta. The event attracted senior actuaries from a mix of both local domestic and foreign joint venture life insurance companies. Milliman consultants Amar Mehta, Alex Bryant and Albert Hu gave short presentations covering the current product landscape in Indonesia, product trends observed in other regional markets, and thoughts on potential alternative products that could be of interest to the Indonesian market in the future (i.e., participating products such as unitised-with-profits and universal life).<sup>2</sup>

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2 A summary of key points discussed during the event is available in the publication Life insurance products – Time to innovate?, available at [http://www.milliman.com/marketing/email/asia/pdfs/Jakarta\\_roundtable\\_20141218.pdf](http://www.milliman.com/marketing/email/asia/pdfs/Jakarta_roundtable_20141218.pdf)