INDONESIA LIFE INSURANCE NEWSLETTER

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WE ARE PLEASED TO PRESENT THE INAUGURAL EDITION OF MILLIMAN'S INDONESIA LIFE INSURANCE NEWSLETTER. THROUGH THIS PUBLICATION, WE AIM TO BRING YOU THE LATEST DEVELOPMENTS AND INSIGHTS INTO THE LIFE INSURANCE MARKET OF INDONESIA.

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With favourable demographics, low insurance penetration and a rapidly growing middle class, the life insurance sector of Indonesia has enormous potential. The sector is attracting much interest and is expected to continue its recent strong growth. Attracted by the strong growth prospects, several foreign insurance companies have recently entered the market, with several more still looking to enter. Of course, the existing players also expect strong growth and an increasing share of the pie.

Since the formation of the new regulator Financial Services Authority (OJK) in January 2013, the industry has started to experience some regulatory changes, some of which are already in effect while others have yet to be fully implemented. These changes are helping to add to the excitement of what is currently a very dynamic market place.

This newsletter aims to shed light on some of the recent developments. We hope you find this first edition interesting, and we look forward to receiving your feedback.

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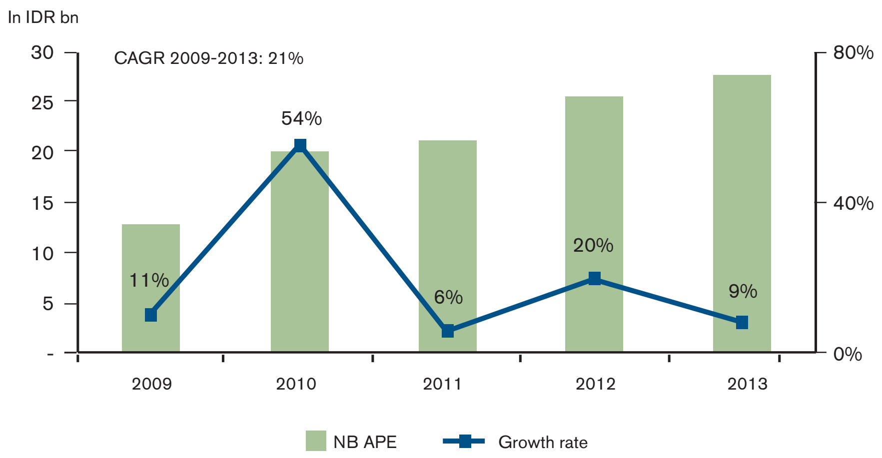
Market performance

The life insurance market of Indonesia has become one of the hottest emerging markets in the South East Asia region, experiencing healthy growth for the past few years. From the 2013 statistics which have recently been released by the Indonesia Life Insurance Association (AAJI), the sector has experienced a 21% compounded annual growth rate in weighted new business premium over the five-year period from 2009 to 2013.

The aggregate market share of the top 10 insurers in the industry has been maintained at over 75% for the past five years. As at December 2013, the top 10 insurers contributed to 78% of the overall new business sales in terms of weighted premium. Prudential and AXA Mandiri sit comfortably as the top two players, with strong agency and bancassurance models, respectively.

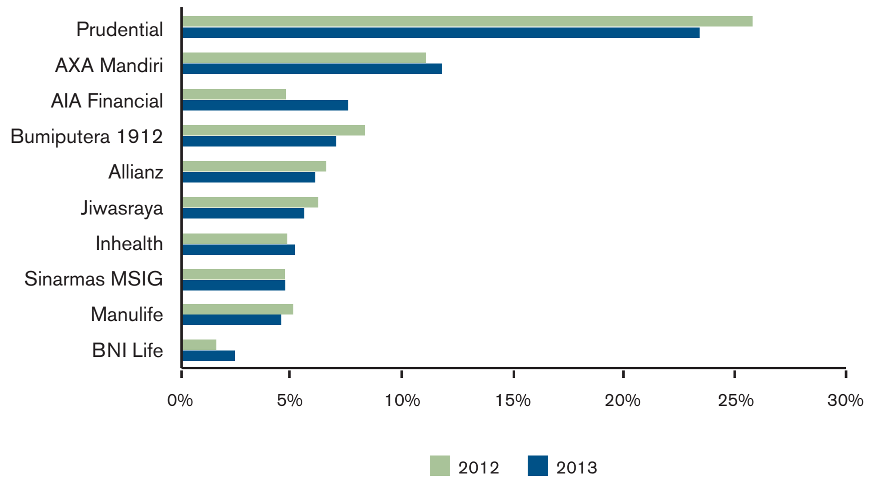
The distribution landscape has also undergone a period of transformation. While agency is still the dominant distribution channel in Indonesia, bancassurance distribution has grown substantially since 2010. The increasing significance of bancassurance is evident through the interest in new partnerships between banks and life insurance companies, either through mergers and acquisitions (M&A) or bancassurance distribution agreements. Some of the recent transactions are highlighted in the next section.

FIGURE 1: WEIGHTED NEW BUSINESS PREMIUM OF INDONESIAN LIFE INSURERS



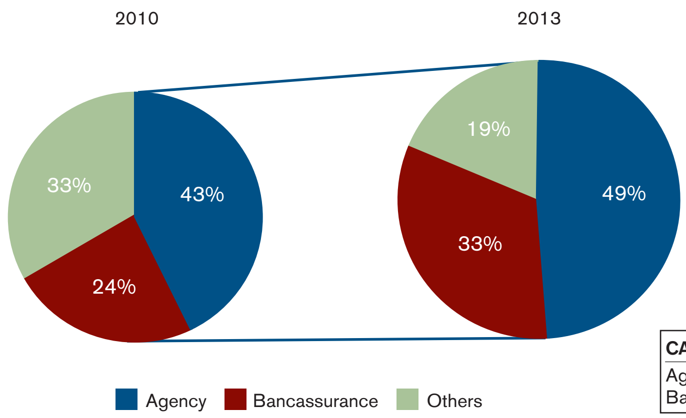
Source: AAJI

FIGURE 2: MARKET SHARE OF TOP 10 LIFE INSURERS BY NB APE



Source: AAJI

FIGURE 3: DISTRIBUTION LANDSCAPE



CAGR 2010 - 2013	
Agency:	16%
Bancassurance:	23%

Source: AAJI

Market news

A. Mergers and acquisitions, distribution agreements

The following transactions in Figure 4 have been announced over the past few months.

FIGURE 4: RECENT TRANSACTIONAL ACTIVITY

DATE	COMPANIES	DESCRIPTION
December 2013	Sumitomo Life; BNI Life	Sumitomo Life entered the Indonesian insurance industry by acquiring 40% of BNI Life for approximately USD 354 million. The deal is awaiting regulatory approval.
December 2013	AIA; Citibank	AIA and Citibank entered into a 15-year exclusive bancassurance agreement covering 11 countries, including Indonesia.
December 2013	Meiji Yasuda; Avrist Assurance	Meiji Yasuda increased its shareholding in Avrist Assurance from 23% to 29.87%, with DEG Germany divesting its stake in the joint venture. Meiji Yasuda first increased its stake in Avrist from 5% to 23% in 2012.
December 2013	Inhealth; Bank Mandiri	Bank Mandiri acquired 60% of Inhealth Indonesia for IDR 1.07 trillion (approximately USD 87 million) and is expected to acquire another 20% stake for IDR 350 billion (approximately USD 29 million) by the end of 2014.
January 2014	Aviva; Astra International	Aviva and Astra International have teamed up to form a 50-50 joint venture, Astra Aviva Life, to sell and distribute life insurance products in Indonesia. Astra Aviva Life will become the preferred provider of a range of life insurance products to Astra and its subsidiaries. In addition, it will also enter into distribution arrangements with a number of Astra group companies, including PermataBank.
March 2014	Prudential; Standard Chartered Bank	Prudential and Standard Chartered agreed to extend and expand their strategic bancassurance partnership with a new 15-year bancassurance agreement that would allow a wide range of Prudential's life insurance products to be exclusively distributed through Standard Chartered branches in nine markets, including Indonesia.

Going forward, we are expecting further M&A transactions, spurred by the continuing interest from many foreign insurers looking to enter the market.

B. New licenses

In 2013, the OJK approved a number of new life insurance licenses. According to the 2013 statistics released by AAJI, the following new companies started selling new business in 2013:

- Mega Indonesia
- Reliance Life Indonesia
- Syariah Amanahjiwa Giri Artha (Amanah Githa)
- Central Asia Financial

The statistics also reveal that two companies, PT Finansial Wiramitra Danadyaksa (FWD Life) and Indosurya Sukses, were issued licenses but had not started selling new business as at 31 December 2013.

Moreover, from various press sources it was also reported that several other companies have applied for new licenses from the OJK and are awaiting their licenses:

- Bank BCA is reportedly setting up its own life insurance company, BCA Life.
- Taspen is also said to be in the process of applying for permit to set up a new life insurance company called Taspen Life.
- Bank Tabungan Negara (BTN) and Asuransi Jasa Indonesia (Jasindo), both government-owned corporations, are currently in talks to set up a life insurance joint venture in the second half of 2014. BTN is reportedly planning to own 51% of the new joint venture.

C. Key company news

FWD Life, which has just acquired a new license, aims to be among the top 10 insurers in five years. It has targeted to hire about 1,200 agents within the first year of operation. Reporting that it will be the first fully electronic-based life insurance company in Indonesia, its agents are to be provided mobile tablets and could process policies entirely via its website. As at February 2014, FWD Life was offering six products comprising unit-linked and traditional life insurance.

AIA Financial and Bank BCA have recently launched four new protection products, an extension of their existing distribution partnership. The four products are named Maxi Health, Maxi Kid Investa, Maxi Retirement and Maxi Legacy and are targeting sales of about 1 million BCA customers via iPoS (AIA's new sales kit).

The Indonesian government is planning to merge four state-owned reinsurance companies (ReIndo, Tugu-Re, Nasional Re and PT Tugu Reasuransi Indonesia) into a new state-owned reinsurance company with minimum assets of IDR 70 trillion. The proposed name of the new entity is PT Asei Reasuransi Indonesia.

D. Key appointments

- Paul Setio Kartono, ex-chief financial officer (CFO) of AXA Financial, has recently been appointed as the CFO of FWD Life.
- Kukuh Prio Sembodo has also recently moved from Panin Life to become the Appointed Actuary of FWD Life.
- Phil Wilcock, who was previously chief operating officer of Aviva UK & Ireland Life, will be moving to Aviva Asia to run the Indonesian operation, subject to regulatory approval.

Regulatory developments

2013 could be viewed as one of the more active periods in recent times in terms of regulatory developments. After a long period with very little activity, it was perhaps not surprising to see increased regulation for the industry following the establishment of OJK. 2013 saw several new regulations, including:

- PER-08-BL-2012: An enhancement of required capital calculations including a new risk charge to quantify operational risks
- PER-09-BL-2012: Introducing the gross premium reserving methodology to value insurance liabilities
- PER-10-BL-2012: An expansion of the scope of the Appointed Actuary's annual Actuarial Report

Further changes have also been announced. Starting in March 2014, an OJK levy would be imposed on insurance companies (as well as most of the financial institutions under the supervision of the OJK), in accordance with Regulation No. 11 Year 2014. The levy, which varies by type of institution and nature of activities for entities engaged with the OJK, is collected to help fund the operations of the OJK. The annual levy charged onto insurance companies for general OJK supervision and regulation is set at 0.045% of the value of assets, with a minimum of IDR 10 million.

A draft regulation was circulated in the recent CFO Forum organized by the AAJI in relation to a requirement from the OJK for insurance companies to set up formal processes to support business planning exercises. Insurance companies are to prepare two written documents: a Corporate Plan which covers the overall objectives and strategies of the company for the next three to five years, and a Business Plan which covers in detail the shorter-term (one-year) plans for the company. The Business Plan would need to show detailed information on areas such as capital plan, investment plan, product development, risk management, financial projections, etc. The draft regulation also sets out clear responsibilities for the Board of Commissioners and Board of Directors towards the approval of the plans.

The OJK is also in the process of setting up a risk-based supervision framework, in cooperation with the Australian Prudential Regulation Authority (APRA). With the aim of enhancing the current supervisory regulations, the new framework would seek to better identify and measure the risk and financial soundness of non-bank financial institutions (which includes insurance companies) and provide the OJK clear and defined authority to interfere when necessary. The specifics of the framework are still being discussed and would be tested in 2014. In general, the proposed supervision framework would include areas such as strategy, operation, asset and liability management, insurance risk, financing risk, etc. The new regulation is expected to be enacted by the end of 2014, with an expected implementation date of January 2015.

Other recent developments

ASEAN Economic Community

The ASEAN Economic Community (AEC), a planned economic integration among the 10 ASEAN member countries, is expected to become effective by December 2015. As part of an effort to enhance regional competitiveness and boost regional economic growth, the AEC integration seeks to remove restrictions on investments in financial services among the member countries and allow cross-border selling of insurance policies. According to OJK Chairman Mulianman Hadad, "Financial services in Indonesia are ready, but we still need to improve ourselves." He also went on to say that the OJK has identified three key areas for the industry to focus on and improve, including capacity building, infrastructure development and harmonization of rules and regulations.

Microinsurance

After the launch of the Microinsurance Blueprint in 2013 by the OJK, the AAJI is now in the process of designing a microinsurance product to be targeted at low-income customer groups. The product would have a premium of around IDR 10,000. The Blueprint released by OJK in 2013 has set out a maximum premium of IDR 50,000 and sum insured of IDR 50 million for microinsurance products.

ERM seminar

The Society of Actuaries of Indonesia (PAI) in conjunction with OJK organized an industry seminar on enterprise risk management themed 'Taking Risk Management to the Next Level'. The well-attended event was sponsored by Prudential and held at the Ritz-Carlton Pacific Place on 20 March 2014. Milliman consultants Richard Holloway and Amar Mehta were speakers at the event and gave a presentation on 'Financial Risk Management and Economic Capital'.

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