

INDONESIA LIFE INSURANCE NEWSLETTER

MAY 2018

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We are pleased to present the May 2018 edition of Milliman's Indonesia Life Insurance Newsletter. This edition covers developments during the period from 1 January 2018 to 31 March 2018.

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



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Market performance

Industry performance for 2017 Q4

According to the Indonesia Insurance Statistics published by the Financial Services Authority (OJK), the Indonesian life insurance industry achieved double-digit growth in 2017.

FINANCIALS (IDR TRILLIONS)	FY 2016	FY 2017	% GROWTH
Total Assets	395.11	512.95	30%
Net Premium Income	161.23	232.06	44%
Net Profit Before Other Comprehensive Income	8.56	11.12	-30%
Total Technical Reserves	297.31	397.41	34%
- Premium Reserve	292.06	390.98	34%
- Unearned Premium Reserve	2.01	2.58	28%
- Claim Reserve	3.24	3.83	18%
- Catastrophic Reserve	0.00	0.02	0%

Source: OJK's Indonesia Insurance Statistics: December 2016 and December 2017.

In 2017, the industry recorded a net premium income of IDR 232.06 trillion, a 44% growth year-on-year over 2016. Total assets grew 30% year-on-year to IDR 512.95 trillion.

Market news

Mergers and acquisitions

One transaction was announced in the first quarter of 2018:

- **Otoritas Jasa Keuangan (OJK) approved the acquisition of PT Asuransi Jiwa Recapital Life (ReLife) by PT Transpacific Mutual Capita (Transpacific Mutual) from Recapital Group as a part of the plan to restructure ReLife.** Early in 2017, the OJK halted ReLife's business activities following its Risk-Based Capital (RBC) ratio falling below the minimum requirement of 120%. Transpacific Mutual, which will acquire a 99.99% stake in ReLife, is a local investor that also owns a general insurance company called PT Asuransi Asoka Mas.

Reports also suggest a potential transaction, suggesting that Commonwealth Bank of Australia (CBA) is considering the sale of PT Commonwealth Life (Commonwealth Life), its life insurance business in Indonesia, in a transaction reported to be worth around USD 200 million to 250 million. Currently CBA holds 80% ownership of Commonwealth Life.

New (potential) company

It has been reported that PT Bank Pembangunan Daerah Jawa Barat dan Banten Tbk (Bank BJB) is planning to establish an insurance subsidiary in 2018.

Syariah sector

It has been reported that BNI Life is planning to spin off its Syariah business unit in 2020.

Following OJK approval to set up a Syariah business unit, PT Asuransi Jiwa Generali Indonesia (Generali) entered the Indonesia Syariah life insurance industry by launching its first Syariah product, iPlan Syariah. A Syariah-compliant unit-linked product that has a Wakaf¹ feature, it is reportedly the first Syariah product within the Generali group.

It was also reported that PT Pacific Life Insurance (Pacific Life) is planning to establish its own standalone Syariah life insurance subsidiary. The process is expected to be completed in 2018.

Updates to restructuring of Asuransi Jiwa Bersama Bumiputera 1912

The restructuring plan for Asuransi Jiwa Bersama Bumiputera 1912 (AJBB 1912), which involved Bumiputera Investasi Indonesia (BII, formerly known as Evergreen Invesco), is reported to have been called off after both parties failed to agree over the size and timing of capital injections. BII had wanted to inject capital in several stages, while AJBB 1912 had instead wanted a sizeable amount of up-front funding.

As a result, the report suggests that BII no longer has any rights over Bumiputera's brand and has had to rename its life insurance subsidiary from PT Asuransi Jiwa Bumiputera to PT Bhinneka Life Indonesia (Bhinneka Life).

While no new restructuring plans have been announced, the following updates have been reported:

- The statutory managers of AJBB 1912 will be searching for a new partner for the company. According to the latest report, CT Corp and Mayapada group are interested in further exploring the opportunity.
- IDR 2 trillion worth of financial assets have been liquidated to cover AJBB 1912's claim payments and to also return IDR 436 billion to BII, reducing AJBB 1912's total financial assets to IDR 4.5 trillion as at March 2018.
- The IDR 436 billion returned by AJBB 1912 to BII reflects the capital injection made by BII in 2017 of IDR 536 billion, offset by IDR 100 billion, which has been used to set up the new subsidiary Bumiputera Life (which will continue to become a subsidiary of BII).

The OJK has reinstated AJBB 1912's license to sell its insurance products after a suspension of around 18 months.

¹ Wakaf is an endowment made by a Muslim to a religious, educational or charitable cause. The Wakaf feature gives the policyholders options to distribute certain proportions of their investment income to particular Wakaf institutions.

Key appointments

- Following the collapse of the previous AJBB 1912's restructuring plan, Bumiputera Life has been renamed as Bhinneka Life. The management of Bhinneka Life is as follows:
 - President Director: Wiroyo Karsono
 - Director (Operational & Marketing): Lina Bong
 - Director (HRD): Rully Safari
 - Director (Finance): Elvira Amran
 - Director (Agency): Sudarwo
 - Director (Actuary): Purwanto
 - Director (Legal, Compliance, Risk): Robbi Yanuar Walid
- Rini Soemarno (Minister of State-Owned Enterprises) has appointed the following new directors in PT Asuransi Jiwasraya (Jiwasraya):
 - Act. President Director: Muhammad Zamkhani
 - Director (Finance, Investment & IT): Hendyono
 - Director (Retail business): Indra Widjaja

The previous management (Hendrisman Rahim, Hary Prasetyo and De Yong) have been replaced as they had served for two terms (2008-2018), in line with the requirement for state-owned enterprises, where the board of directors and commissioners of state-owned enterprises may only serve for a maximum of 10 years.

- Bimal Balasingham has been appointed as the new CEO of PT Chubb Life Insurance Indonesia (Chubb Life Indonesia).
- Cecil Mundisugih has been appointed as the new chief financial officer (CFO) of AXA Mandiri Financial Services (AMFS).
- Hans De Waal has been appointed as the new chief operating officer (COO) of PT Asuransi Jiwa Manulife Indonesia (Manulife Indonesia).
- Perry Warjiyo has been appointed as the new governor of Indonesia Central Bank (BI), succeeding Agus Martowardojo, whose term ends in May 2018.
- Wimboh Santoso (the OJK Chairman) has been appointed as Chairman of Syariah Economic Community (MES).

Regulatory developments

New regulations in Q1 2018

One OJK regulation (POJK) and two circular letters (SEOJK) were released during the period 1 January 2018 to 31 March 2018. They are summarized below:

- **SEOJK No. 1/SEOJK.05/2018** formalized the format and structure for periodical reports for conventional insurance and reinsurance companies in accordance to Article 6 of POJK No.55/POJK/05/2017.
- **SEOJK No. 2/SEOJK.05/2018** formalized the format and structure for periodical reports for Syariah insurance and reinsurance companies in accordance to Article 6 of POJK No.55/POJK/05/2017.

- **POJK No. 1/SEOJK.05/2018** regulates mutual insurance companies. Key regulations include:
 - Mutual companies are required to meet minimum liquidity requirements (i.e., current assets greater than current liability).
 - Mutual insurance companies that do not meet the minimum solvency level (120% of the minimum RBC), or 100% minimum liquidity level, must set out a financial restructuring plan and are prohibited from distributing profits to its members.
 - An option for demutualization has also been added as part of the financial restructuring plan for mutual insurance companies.

At this point in time, the only mutual insurance company in Indonesia is Asuransi Jiwa Bersama Bumiputera 1912 (AJBB 1912).

Regulation for insurtech

The OJK is reportedly working on introducing guidelines to regulate the insurtech industry. Aimed at ensuring customer protection, the new regulation is expected to cover various aspects such as operational models and requirements around claim payment and complaints.

Distribution updates

Bancassurance

New bancassurance partnerships that have been announced are:

- **Wanaartha Life** will be selling credit life products through Bank Banten.
- **PT Hanwha Life Insurance Indonesia (Hanwha Life)** would sell its unit-linked product through PT Bank Woori Saudara Indonesia 1906.
- **PT Asuransi Jiwa Sinarmas MSIG (Sinarmas MSIG Life)** will be selling SMlle Link Pro Syariah, a Syariah unit-linked insurance product, through PT Bank Tabungan Negara Syariah.

Other recent developments

Macroeconomics

Indonesia's sovereign credit rating improved in the first quarter of 2018. This is supported by an improvement in the credit rating provided by Japan Credit Rating (JCR), and Rating & Investment Information, Inc (R&I), which have upgraded Indonesia's sovereign credit rating from BBB- to BBB (stable).

The decision to upgrade Indonesia credit ratings is due to:

- A lower interest rate (currently the Bank Indonesia's 7-day Reverse Repo rate is at 4.25%), which has boosted private investment.
- A strong growth in gross domestic product (GDP). In 2017, Indonesia's economy expanded by 5.07% year-on-year.
- Low and stable inflation (0.62% inflation in January 2018 and 0.17% inflation in February 2018).

In return the upgraded credit rating is expected to continue to boost the customer's confidence and increase demand for life insurance products in the country.

Green investment

A total of USD 1.25 billion has been raised in the first green bond issuance exercise, which will see its proceeds being used to finance 'green projects' such as those related to renewable energy, green tourism and waste management. Indonesia is reported to be the first country in Asia that has issued such bonds.

Microinsurance sector

The microinsurance industry recorded a good growth in 2017. According to OJK, the number of microinsurance participants has increased by 12.26% to 21.79 million and premium income has increased by 34.9% or equal to IDR 1.43 trillion as compared to last year.

Digital doctor

PT Asuransi Allianz Life (Allianz Life) and Halodoc, a healthcare network platform, have entered into partnership where Halodoc will provide a 'Contact Doctor' feature to all Allianz Life policies through a digital application. The feature allows policyholders access to online health discussion with general health practitioners or specialists via voice call, chat or video call.

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