

# INDONESIA LIFE INSURANCE NEWSLETTER

OCTOBER 2017

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We are pleased to present the 11th edition of Milliman's Indonesia Life Insurance Newsletter. This edition covers developments during the period from 1 June 2017 to 30 September 2017. We also present the results of an interactive poll conducted during a Milliman seminar held in Jakarta on 28 September 2017 around various current issues facing the life insurance industry.

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



Richard Holloway  
*Managing Director  
South East Asia & India, Life*



Halim Gunawan  
*Country Manager  
Indonesia*



David Kong  
*Consulting Actuary  
Singapore, Life*

## Market performance

### Industry performance for 2017 H1

According to Indonesia Insurance Statistics published by the Financial Services Authority (OJK), the Indonesian life insurance industry continued to expand in the first half of 2017 (2017 H1).

FINANCIALS (IN IDR TRILLIONS)	2016 H1	2017 H1	% GROWTH
Net Premium Income	58.5	70.3	20%
Net Profit Before Other Comprehensive Income	4.7	5.9	25%
Total Technical Reserves	269.9	327.4	21%
- Premium Reserves	264.1	320.6	21%
- Unearned Premium Reserves	2.9	3.3	15%
- Claim Reserves	3.0	3.5	18%

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

For the first six months of 2017, the industry recorded a total net premium income of IDR 70.3 trillion, a 20% growth year-on-year compared to the same period in 2016. In line with the growth in net premium income, for the first half of 2017 the total technical reserves for the industry increased by 21% year-on-year to IDR 327.4 trillion.

## Market news

### Mergers and acquisitions

**US-headquartered Prudential Financial (PFI) entered the Indonesian life insurance market through a joint venture with the prominent local conglomerate, CT Corp.** Under the joint venture agreement, PFI subsidiary Pruco Life Insurance acquired a 49% ownership in CT Corp's wholly owned life insurance subsidiary, Asuransi Jiwa Mega Indonesia. The transaction closed on 3 July 2017.

The industry is also reporting the following merger and acquisition (M&A) activities:

- **PT Bank Tabungan Negara (Persero) Tbk. (Bank BTN) and PT Asuransi Jasa Indonesia (Jasindo) plan to set up a life insurance company called 'BTN-Jasindo Life.'** The new company is expected to be launched officially in December 2017 with an ownership structure of 89%/11% for Bank BTN/Jasindo, respectively. BTN-Jasindo Life is reportedly planning to invite FWD Life to act as a technical advisor during the early stage of the life insurance company, with a possibility for co-ownership of the life insurance company after several years by means of right issues.
- **Recapital Group plans to sell its life insurance subsidiary, PT Asuransi Jiwa Recapital Life (ReLife), to PT Transpacific Mutual Capita (Transpacific Mutual) as a part of the plan to restructure ReLife.** Earlier this year, the OJK halted ReLife's business activities following its Risk-Based Capital (RBC) ratio falling below the minimum requirement of 120%. Transpacific Mutual is a local investor that also owns a general insurance company called PT Asuransi Asoka Mas.

- **PT Bank Pembangunan Daerah Jawa Barat dan Banten Tbk (Bank BJB) has reported plans to acquire insurance and multi-finance companies in 2018.** Bank BJB has set aside IDR 1 trillion for this plan.
- **Two of AXA Group's Indonesian entities, AXA Life Indonesia (ALI) and AXA Financial Indonesia (AFI), will merge in order to comply with the single presence policy.** Upon completion of the merger process, which is expected to be by the end of this year, AFI will reportedly be the surviving entity.
- **PT Sinarmas Multiartha Tbk. (Sinarmas) plans to divest its entire stake in PT Asuransi Jiwa Sinarmas MSIG (Sinarmas MSIG) this year to comply with the single presence policy.** Currently, Sinarmas owns 50% of Sinarmas MSIG, while Mitsui Sumitomo Insurance Co. owns the remaining 50%. Sinarmas also owns another life insurance company, PT Asuransi Simas Jiwa.

**In addition, PT Asuransi Jiwa Syariah Jasa Mitra Abadi (Jasa Mitra Abadi), a fully fledged Syariah life insurer, has announced plans to be the first Indonesian Syariah life insurer listed publicly on the Indonesia Stock Exchange in an initial public offering (IPO) targeted to occur this year.** The company aims to raise additional capital in the range of IDR 50 billion to IDR 60 billion from the IPO. Jasa Mitra Abadi is a subsidiary of Kospin Jasa, a company based in Pekalongan, Central Java. PT Jasa Utama Capital Sekuritas has been engaged to execute the IPO.

### Capital injections

According to Haru Koesmahargyo, Bank BRI's Finance and Treasury Director, Bank BRI plans to inject additional capital between IDR 800 billion and IDR 1 trillion into its life insurance subsidiary, BRI Life. BRI Life plans to use the additional capital to enhance its sales force and information technology (IT) systems.

### New companies

OJK awarded new licenses to two life insurance companies, namely PT Victoria Alife Indonesia (Victoria Alife), and PT Asuransi Jiwa Nasional (Asuransi Jiwa Nasional) on 19 June 2017 and 19 July 2017, respectively. In addition, OJK also awarded a new license to reinsurance company PT Reasuransi Nusantara Makmur on 19 July 2017.

### Sanctions

In an announcement by the OJK, Pasaraya Life has received a sanction restricting all business activities. According to Ahmad Nasrullah, Director of Insurance Supervision for the OJK, the sanction is related to capital adequacy issues.

### Asuransi Jiwa Bersama Bumiputera 1912

The statutory managers of Asuransi Jiwa Bersama Bumiputera 1912 (AJBB 1912) stated that the existing restructuring plan would be reviewed to allow for input from the newly appointed OJK commissioners. It is reported that the current restructuring plan has not been progressing well due to various challenges, including a planned bancassurance partnership with a state-owned bank



which has not materialised. AJBB 1912 has also reportedly only received IDR 0.5 trillion out of the promised IDR 2 trillion capital injection from Bumiputera Investasi Indonesia (BII, formerly known as Evergreen Invesco), although it expects to receive the remainder by the end of this year. The company remains in financial difficulty, with a forecasted income deficit of IDR 500 billion this year.

### Key appointments

The Board of Commissioners of the OJK has determined the positions for the seven new commissioner members for the five-year period 2017 to 2022 at the OJK Board of Commissioners Meeting that was concluded on 20 July 2017. The new positions are:

- Wimboh Santoso: Chairman of the Board of Commissioners
- Nurhaida: Vice Chairman
- Tirta Segara: Chief Executive of Law and Consumer Protection
- Riswinandi: Chief Executive of the Non-Bank Financial Industry
- Haru Kristiyana: Chief Executive of the Banking Industry
- Hoesen: Chief Executive of the Capital Market
- Ahmad Hidayat: Chief Executive of Audit

In addition, several key appointments have been made in life insurance companies and associations:

- Choo Sin Fook has been appointed as FWD's new CEO, replacing Rudi Kamdani who is now the company's Deputy CEO.
- Rio Winardi has been appointed as BCA Life's new CEO, replacing Christine Setyabudhi. He was formerly the company's chief financial officer (CFO).
- Budi Tampubolon has been appointed as AXA Financial Indonesia's new CEO. He was formerly the CEO of BNI Life.
- A. Sya'roni has been elected as the new chairman of the Syariah Life Insurance Association of Indonesia (AASI). He is the CEO of PT Reasuransi Syariah Indonesia (ReIndo Syariah).

## Regulatory developments

### New regulations in Q2 2017

There were two OJK regulations (POJK) and 10 circular letters (SEOJK) released during the period 1 June 2017 to 30 September 2017. They are summarised below.

**POJK no. 55/POJK.05/2017** provides requirements on the periodic reports of insurers, reinsurers, brokers and loss adjustment companies that have to be submitted to the OJK.

**POJK no. 56/POJK.05/2017** amends and expands on the types of assets allowed by the regulator to satisfy the requirement of meeting a minimum percentage of investments in government securities as stated in POJK no. 1/POJK.05/2016 and POJK no. 36/POJK.05/2016.

**SEOJK no. 22/SEOJK.05/2017 and SEOJK no. 23/SEOJK.05/2017** provide details on the valuation basis for the

admitted assets under the solvency requirements stated in POJK no. 71/POJK.05/2016 and POJK no. 72/POJK.05/2016 for conventional and Syariah life insurance and reinsurance companies.

**SEOJK no. 26/SEOJK.05/2017** provides details on the OJK approval process for the placement of investment assets in excess of the allowable limits, and the placement of non-investment assets in the form of reinsurance assets and deferred acquisition costs (DAC) for conventional and Syariah insurers and reinsurers.

**SEOJK no. 29/SEOJK.05/2017** describes the new format and structure for the annual actuarial report (Laporan Aktuaris) of conventional and Syariah insurers and reinsurers.

**SEOJK no. 37/SEOJK.05/2017** covers the guidelines for implementation of anti-money laundering and counterterrorism financing programs in the non-bank financial industry sector.

**SEOJK no. 46/SEOJK.05/2017** covers insurance companies' fraud control, implementation of anti-fraud strategy, and anti-fraud strategy report requirements.

**SEOJK no. 24/SEOJK.05/2017 and SEOJK no. 25/SEOJK.05/2017** specify the guidelines for calculating the Minimum Risk-Based Capital (MRBC) and Minimum Risk-Based Tabarru' and Tanahud funds (MRBT) for conventional and Syariah insurance and reinsurance companies.

**SEOJK no. 27/SEOJK.05/2017 and SEOJK no. 28/SEOJK.05/2017** provide guidance for the establishment of technical reserves for conventional insurance and reinsurance companies, and technical provisions for Syariah insurance and reinsurance companies.

Further details on **SEOJK no. 24/SEOJK.05/2017, SEOJK no. 25/SEOJK.05/2017, SEOJK no. 27/SEOJK.05/2017 and SEOJK no. 28/SEOJK.05/2017** are discussed in our recent Asia e-Alert titled '[Indonesia: New RBC and Technical Reserves Requirements](#)'

### Foreign ownership

The draft regulations restricting foreign ownership of privately held insurance companies to 80% of paid-up capital has been approved by the House of Representatives (DPR) on 26 July 2017 and is now awaiting the President's signature. Existing foreign insurers will be exempted (i.e., grandfathered) as the final ruling is understood to not be applied retroactively. However, if existing foreign insurers plan to raise capital in the future, local ownership should be increased to at least 20%.

Interestingly Insurance Europe, a federation of European insurers and reinsurers, published a fact sheet in August 2017 lobbying the European Union (EU) to seek to overturn what it viewed as protectionist measures in Indonesia. One of the key concerns includes the current requirement for Indonesian insurers to place reinsurance with domestic Indonesian insurers, which 'diminishes the possibility of diversifying risk and creates high local exposure in the event of a natural disaster'. The federation has also expressed concern over the impending enforcement of foreign ownership limits of insurance companies.

## Distribution updates

### Bancassurance

The following new bancassurance partnerships have been announced:

- Victoria Alife has signed a strategic bancassurance partnership with Victoria Bank, selling personal accident products.
- Equity Life Indonesia has signed a strategic bancassurance partnership with Ganesha Bank, selling traditional whole life and unit-linked products.
- Great Eastern has signed a strategic bancassurance partnership with Mayora Bank, selling credit life products.
- Wanaartha Life has signed a strategic bancassurance partnership with Bank Victoria Syariah, distributing its Syariah products.
- CAR Life has signed a strategic bancassurance partnership (referral business model) with Bank Jasa Jakarta to distribute its life insurance products.

### Agency

Ms. Aryani Razik, Country Chair of Million Dollar Round Table (MDRT) Indonesia, announced that the group plans to double the number of agents joining the MDRT from the current number of 1,367. The expectation is that Indonesia will have the highest number of MDRT members in the Association of Southeast Asian Nations (ASEAN) within the next two to three years.

### Telemarketing

Sinarmas MSIG Life has signed a strategic partnership (telemarketing business model) with Bank BTN. Through this partnership, Sinarmas MSIG Life will offer four products to BTN's customers: Smart Accident Care, Smart Hospital Care, Smart Life Care and Smart Medical Care.

## Other recent developments

### Macroeconomics

In July 2017, Fitch Ratings, one of the three big global credit rating agencies, affirmed Indonesia's long-term foreign- and local-currency issuer default ratings (IDRs) at 'BBB-' (investment grade) with a positive outlook.

### Universal healthcare

As of September 2017, around 70% of the Indonesian population has participated in the government-subsidised universal healthcare program (Jaminan Kesehatan Nasional or JKN), an initiative launched by the Healthcare and Social Security Agency (BPJS Kesehatan) in early 2015 aimed at providing all Indonesian citizens access to a wide range of health services by 2019.

According to Jakarta Health Agency head Koesmedi Priharto, only 90 out of 189 hospitals have partnered with BPJS Kesehatan, which only includes local public and state-owned hospitals as there is no obligation for private hospitals to do so.

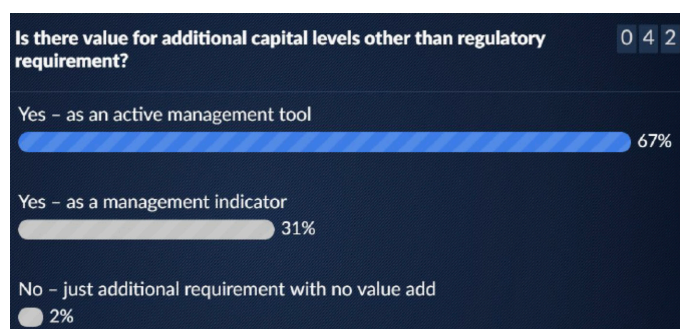
### Innovation in underwriting

Allianz has launched an automated underwriting system called the Expert Underwriting System (EUS), which aims to increase agent productivity and deliver convenience for prospective customers. The new system ensures that underwriting decisions are made faster, and in a more objective, consistent and transparent manner.

### Industry speaks at Milliman event

During a Milliman event held in Jakarta on 28 September 2017, 'Current Hot Topics in the Indonesia Life Insurance Industry', life insurance executives representing 29 companies based in Indonesia responded to three poll questions which were designed to get a better understanding of the industry view on various topics affecting the life insurance industry.

#### A. Internal target capital



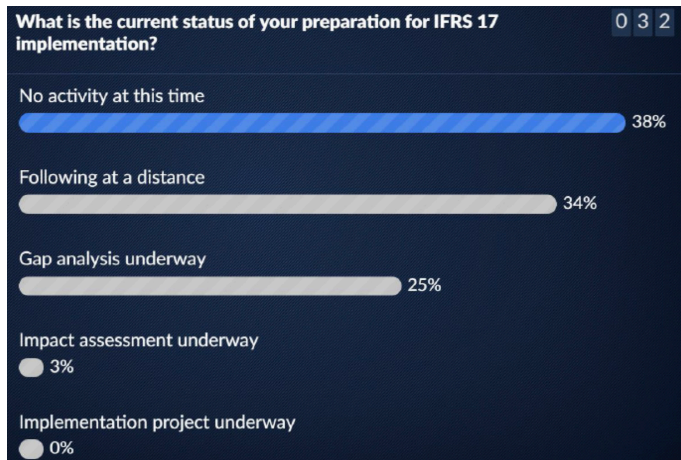
Almost all of the respondents consider the establishment of additional capital levels above the regulatory minimum of 120% to be of value from a management perspective. Two-thirds appreciated the use of additional capital levels as an active management tool.

The concept of setting target internal capital levels (based on each company's risk profile) is a common practice amongst many multinationals and a regulatory requirement in some countries (e.g., Malaysia). The different capital levels are actively used for management purposes, for example managing balance sheet volatility, formulating management responses in stressed conditions and for performance management.

OJK has recently issued regulations that require internal target capital levels to be set according to each company's risk profile. Companies can take advantage of this change in regulation to define capital levels that can be value adding from a management perspective.



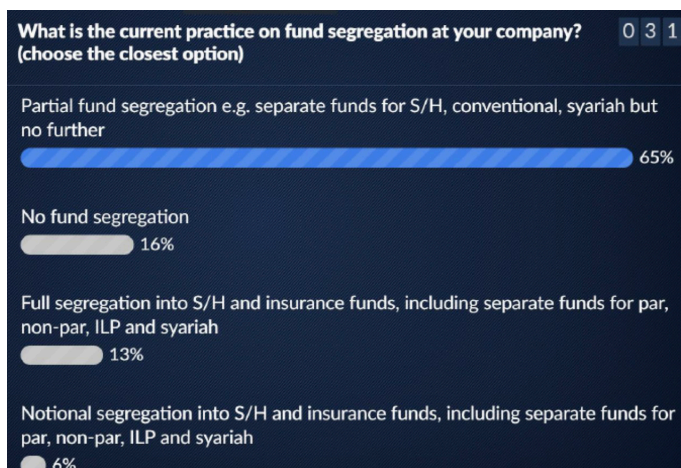
## B. IFRS 17 implementation



Most participants in the Indonesia survey have no International Financial Reporting Standard (IFRS) 17 activity (38%) or are following at a distance (34%). Only a minority of participants has an impact assessment underway while none of the participants has an implementation project underway.

Based on a Milliman global survey produced in June 2017, most participants (almost 90%) were carrying out some form of IFRS 17 activity, and only a few survey participants (around 15%) had an implementation project underway.

## C. Fund segregation



It appears most companies have voluntarily implemented some form of fund segregation, which would satisfy the OJK requirements of segregating shareholder and policyholder assets. These companies could consider further fund segregation (e.g., if a participating portfolio exists).

It is possible that companies are awaiting further details from the OJK on fund segregation requirements before making any further decisions.

A small but significant number of respondents indicated that they are yet to perform any fund segregation.

For further information, please contact your local Milliman office or:

**Richard Holloway**  
[richard.holloway@milliman.com](mailto:richard.holloway@milliman.com)

**Halim Gunawan**  
[halim.gunawan@milliman.com](mailto:halim.gunawan@milliman.com)

**David Kong**  
[david.kong@milliman.com](mailto:david.kong@milliman.com)