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We are pleased to present the October 2018 edition of Milliman's Indonesia Life Insurance Newsletter. This edition covers developments during the period from 1 July 2018 to 30 September 2018.

We trust you find this edition informative. As always, we look forward to receiving your feedback, questions or comments.



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## Market performance

### INDUSTRY PERFORMANCE AT Q2 2018

According to the Indonesia Insurance Statistics published by the Financial Services Authority (OJK), the Indonesian life insurance industry has continued to grow. The growth between Q2 2017 and Q2 2018 is summarised in the figure below:

FINANCIALS (IN IDR TRILLION)	Q2 2017	Q2 2018	% CHANGE
NET PREMIUM INCOME	70.35	92.21	31%
INVESTMENT AND OTHER INCOME	16.91	6.56	-61%
TOTAL INCOME	87.26	98.78	13%
CLAIMS AND BENEFITS	63.37	76.20	20%
COMMISSION AND ACQUISITION COSTS	8.64	9.50	10%
OPERATING EXPENSES	8.19	11.87	45%
TOTAL EXPENSES	80.20	97.57	22%
PROFIT BEFORE TAX AND OCI	7.07	1.20	-83%
TAX AND OCI	2.76	-7.15	-359%
NET PROFIT BEFORE OCI	9.83	-5.95	-161%
TOTAL ASSETS	434.76	509.37	17%
PREMIUM RESERVE	320.63	390.98	22%
UNEARNED PREMIUM RESERVE	3.31	3.50	6%
CLAIM RESERVE	3.49	3.99	14%
CATASTROPHIC RESERVE	0.00	0.01	0%
TOTAL TECHNICAL RESERVE	327.43	398.48	22%

Note: OCI = Other Comprehensive Income. Source: OJK's Indonesia Insurance Statistics, June 2017 and June 2018.

In Q2 2018 the life insurance industry remained profitable before tax and other comprehensive income (OCI). This profit was driven by higher net premium income despite higher commission and acquisition costs, lower investment income and higher expenses. The higher net premium income arose from higher gross premiums and lower premiums ceded to reinsurers. The Indonesian Life Insurance Association (AAJI) attributed the decrease in investment income to the poor performance of the Composite Stock Price Index, which may also be one of the contributing factors to the increase in claims and benefits from surrenders on unit-linked policies.

## Market news

### MERGER AND ACQUISITIONS (M&A)

**PT Bank Rakyat Indonesia (BRI)** denied reports that it planned to sell a minority stake in its life insurance subsidiary. A similar plan commenced two years ago, only to stall towards the end of the process.

Reuters reported that five companies submitted bids to **Commonwealth Bank of Australia (CBA)** as part of the **PT Commonwealth Life (Commonwealth Life)** M&A process. The five companies were reported to be Prudential, Sun Life, FWD Group, Great Eastern Holdings and Sequis Life, with the latter three companies reported to have submitted second bids. The sale was reported to be worth between USD 250 million and USD 300 million.

### NEW ENTRANTS

China Life Insurance (Overseas) Company Limited (China Life) launched its operations in Indonesia on 15 August 2018. China Life is the first Chinese life insurer to enter the Indonesia market.

### UPDATE ON RESTRUCTURING OF ASURANSI JIWA BERSAMA BUMIPUTERA 1912 (AJBB 1912)

The OJK provided the following updates in connection with AJBB 1912:

- The OJK aims for AJBB 1912 to have a new board of management to replace the current statutory managers by the end of December 2018. The OJK will choose names from a list of candidates provided to it by the Members Representative Body (BPA). Candidates will also need to pass the fit and proper test.
- The current statutory managers have prohibited policyholders from redeeming their policies before the end of their policy terms due to liquidity issues. Maturity claims, death claims and education products' coupons payments would be prioritised. This new policy has been in-force since 10 September 2018 and is expected to remain in-force until AJBB 1912's financial condition improves.

### KEY APPOINTMENTS

**Hendrisman Rahim** resigned from his role as **Chair of the AAJI** as he no longer meets the criterion of holding a CEO position within the insurance industry. **Edy Tuhirman** (CEO of PT Asuransi Jiwa Generali Indonesia), **Maryoso Sumaryono** (CEO of PT Asuransi Jiwa Taspen), **Budi Tampubolon** (CEO of AXA Financial Indonesia) and **Wiroyo Karsono** (CEO of Bhinneka Life) have been appointed as joint Chairs of the AAJI. In January 2018, the Ministry of State Owned Enterprises appointed **Asmawi Syam** as Hendrisman Rahim's replacement as CEO of Jiwasraya.

## Regulatory developments

### NEW REGULATIONS OVER Q3 2018

Relevant regulations (POJK) released during the period 1 July 2018 to 30 September 2018 are summarised below:

- POJK No. 13/POJK.02/2018 relates to digital financial innovation, which is defined as 'a new activity involving a business process, business model, and financial instruments that provide value added to financial services involving a digital ecosystem.' The POJK not only formalises the regulation of financial technology ('fintech') entities in peer-to-peer lending, robo-advisory and equity crowdfunding but also covers insurance companies with a digital distribution channel. Key highlights of the regulations are:
  - The introduction of 'a regulatory sandbox,' which is a testing mechanism conducted by the OJK to evaluate the reliability of business models, processes, financial instruments and operating procedures. The assessment in the regulatory sandbox will last for up to one year but is extendable for a further six months if necessary.
  - Entities are required to locate their data centers and disaster recovery centers in Indonesia.
  - Fintech entities are prohibited from providing consumers' data to third parties without the consent of the consumer.

There were no government regulations (PP) or circular letters (SEOJK) released during the period.

### OJK FINTECH CENTER

OJK had established a new fintech center—the OJK Innovation Centre for Digital Financial Technology (OJK Infinity)—to facilitate discussion and collaboration between companies in the industry, the regulator, government and professional academics in order to improve digital financing. Through OJK Infinity, the OJK will facilitate the regulatory sandbox to balance consumer protection, digital innovation and the need to grow digital fintech.

### IFRS 17

The International Financial Reporting Standard (IFRS) 17 working group in Indonesia, consisting of the Financial Accounting Standards Board of the Indonesian Accountants Association (DSAK IAI), the OJK and the Indonesian Actuarial Association (PAI), targets early next year for the regulation for IFRS 17 to be completed. Indonesia is following a slower adoption than other markets such as Hong Kong, Singapore and Malaysia. The plan is for IFRS 17 to become mandatory in Indonesia in 2021.

### OTHER REGULATORY DEVELOPMENTS

The Indonesian Sharia Insurance Association (AASI) is researching how to prepare the blueprint for insurers spinning off their Syariah windows to become full-fledged Syariah insurers. The finished blueprint is expected by 2020, while the regulatory timeframe for the Syariah spin-off is by 2024.

The AAJI has asked the OJK to revise the minimum investment in government bonds. POJK No. 56/POJK.05/2017 stipulates that at least 30% of total investments should be in government bonds. The AAJI has proposed a lower requirement of between 15% and 20%.

## Distribution updates

AAJI had noted that 44.9% of total premium income comes from the bancassurance channel. The bancassurance channel contribution is reported to have increased by 9.5% year-on-year.

### BANCASSURANCE CHANNEL

The following new bancassurance partnerships have been announced:

- **PT Capital Life Indonesia (Capital Life)** will provide credit life protection products to **PT Bank Bukopin Tbk (Bank Bukopin)** customers. Through this collaboration, Bank Bukopin is expected to protect debtors with protection in the form of credit life insurance provided by Capital Life Indonesia.
- **PT Asuransi Jiwa Manulife (Manulife)** will offer unit-linked products to high-net-worth customers of **PT Bank DBS (DBS)**.
- **PT Asuransi Jiwa Sequis Financial (Sequis Financial)** will provide unit-linked products to customers of **PT Bank Mayapada International Tbk (Bank Mayapada)** in addition to developing its bancassurance distribution channels.
- **Sequis Financial** will provide whole life products to customers of **PT Bank CTBC Indonesia (Bank CTBC)**.
- **PT Tokio Marine Life Insurance Life Insurance Indonesia (TMLII)** will provide unit-linked products to customers of **PT Bank Index Selindo (Bank Index)**.

### AGENCY CHANNEL

According to local news, suara.com, the number of life insurance agents in Indonesia who became members of the Million Dollar Round Table (MDRT) increased by 49% to 2,048 in 2018. According to Hendrisman Rahim, when he was Chair of the AAJI, AAJI supports MDRT for two reasons—to create 10 million certified agents and to develop the competency of those agents. Currently, only 1% of the industry's 600,000 agents in Indonesia are members of the MDRT. In 2017, the agency sales channel contributed 37.1% of the total premium of IDR 195.72 billion collected by the life industry.

### DIGITAL CHANNEL

The following new digital partnerships have been announced:

- PT Asuransi Allianz Life Indonesia (Allianz Life) entered into a partnership with Truemoney, an electronic payment service provider. Truemoney will sell Allianz Life's microinsurance product Sekoci.
- PT MNC Life (MNC Life) and PT BNI Life (BNI Life) entered into partnership with Futuready.com, an online insurance brokerage, to sell term return-of-premium and term life products provided by MNC Life and BNI Life, respectively.

Companies have continued to launch digital applications and platforms to support the digital sales channel:

- Manulife launched a new digital application called MiFathiya to support the sales team to provide Syariah digital microinsurance.
- Prudential officially launched a new digital platform called PRUuniversity. The new platform connects all Prudential's agents and serves as a collaborative forum to share experiences, success stories and best practices. Jens Reisch, CEO of Prudential, stated 'PRUuniversity was established to continuously improve the professionalism of our employees and marketers in an innovative, efficient and relevant manner, increasing their ability to be able to respond to the demands of businesses that continue to change rapidly, so that they can be more successful in their careers.'

**OTHERS**

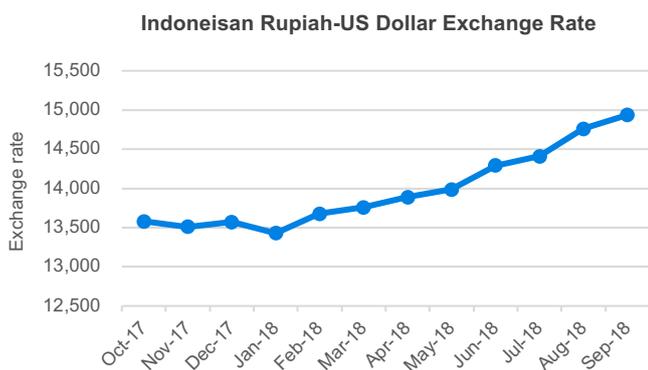
New nonbank partnerships that have been announced are:

- Capital Life entered into a partnership with PT MNC Finance (MNC Finance) to provide its credit life product to MNC Finance's customers.
- Manulife and PT Adira Dinamika Multi Finance Tbk (Adira Finance) entered into a partnership. Within this partnership, Manulife will provide return-of-premium products to Adira Finance's customers.

## Other Recent Developments

**MACROECONOMICS**

The rupiah has weakened every month during 2018 and over the first nine months of 2018 depreciated by 10% against the US dollar. At September month-end USD 1 was worth nearly IDR 15,000 for the first time since the Asian Financial Crisis in 1998. The graph below shows the IDR-USD exchange for the past 12 months.



Source: Mid-market rates on [www.xe.com](http://www.xe.com)

Bank Indonesia released USD 400 million of foreign exchange reserves to maintain the IDR-USD exchange rate and cover foreign debt repayments. In order to counter the downturn in conditions, the Central Bank of Indonesia increased the 7-day Reverse Repo interest rate—its benchmark interest rate—by

25 basis points in August and September. The rate stood at 5.75% at September month-end. Investors' confidence in the Indonesian economy increased in response and is reflected by the increase in the Jakarta Composite Index from July 2018 to September 2018.

As per SEOJK No. 27/2017 and SEOJK No. 28/2017, the maximum discount rate assumption allowed in determining the premium reserves is the Indonesia Bond Pricing Agency (IBPA) published average yield of securities issued by the Indonesian government for the prior 12 months, plus an additional 0.5%. The table below shows the derivation of the maximum discount rates as at 30 September 2018:

TENOR	IDR		TENOR	IDR	
	12-MONTH AVERAGE	12-MONTH AVERAGE + 0.5%		12-MONTH AVERAGE	12-MONTH AVERAGE + 0.5%
0.1	4.64%	5.14%	16	7.67%	8.17%
1	5.81%	6.31%	17	7.70%	8.20%
2	6.37%	6.87%	18	7.73%	8.23%
3	6.62%	7.12%	19	7.75%	8.25%
4	6.76%	7.26%	20	7.76%	8.26%
5	6.87%	7.37%	21	7.78%	8.28%
6	6.97%	7.47%	22	7.79%	8.29%
7	7.07%	7.57%	23	7.80%	8.30%
8	7.17%	7.67%	24	7.81%	8.31%
9	7.26%	7.76%	25	7.81%	8.31%
10	7.35%	7.85%	26	7.81%	8.32%
11	7.42%	7.92%	27	7.82%	8.32%
12	7.49%	7.99%	28	7.82%	8.32%
13	7.55%	8.05%	29	7.83%	8.33%
14	7.60%	8.10%	30	7.86%	8.36%
15	7.64%	8.14%			

Indonesia experienced deflation of 0.18% month-on-month in September 2018. As a result, Indonesia's annual inflation slowed to a two-year low of 2.88% year-on-year, down from 3.20% year-on-year in August 2018. Year-to-date inflation eased to 1.94% from January to September 2018.

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