

# INDONESIA LIFE INSURANCE NEWSLETTER

MARCH 2017

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WE ARE PLEASED TO PRESENT THE NINTH EDITION OF MILLIMAN'S INDONESIA LIFE INSURANCE NEWSLETTER. THIS EDITION COVERS DEVELOPMENTS DURING THE PERIOD FROM 1 SEPTEMBER 2016 TO 31 DECEMBER 2016.

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 Q3 2016

According to Bisnis.com, the Asosiasi Asuransi Jiwa Indonesia (AAJI) reported a 78.1% growth in total revenue in Q3 2016 compared with Q3 2015, with total revenue of IDR 158.65 trillion.

Hendrisman Rahim, Chairman of AAJI, stated that the largest contributor for the increase in revenue is the increase in premium income, reported to be IDR 106 trillion in Q3 2016, or 73.2% of the total revenue. The growth in business from bancassurance has been a contributory factor to the overall growth in revenue.

Furthermore, an increase in investment income has also contributed to the revenue growth. The contribution from investment income rose by 329.1% relative to the equivalent period in Q3 2015.

## Market news

### Mergers and acquisitions

It is reported that the Indonesian state-owned enterprise minister, Rini Soemarno, formally announced **PT. Indonesia Re** as a new state-owned enterprise reinsurer, which is a merger between PT Reasuransi Internasional Indonesia and PT Reasuransi Indonesia Utama. According to Frans Sahusilawane, Director of PT. Indonesia Re, the company expects to achieve IDR 9 trillion of premium in 2017, which is a 50% growth compared with its expected premium of IDR 6 trillion in 2016.

The Jakarta Post reported that a consortium led by Erick Thohir (a local business tycoon), has agreed to inject IDR 2 trillion of capital into **PT Bumiputera Life Insurance (BLI)**, a new life insurance company established to write new business that was previously written in **Asuransi Jiwa Bersama Bumiputera 1912 (Bumiputra 1912)**. According to Bumiputera 1912 statutory management coordinator Didi Achdijat, BLI—which was granted a new insurance license in November 2016—is expected to start its operations in early 2017.

### Key company news

It is reported that **Maskapai Reinsurance Indonesia (Marein)** is planning to launch a rights issue, of about 130 million new shares, by June 2017. This capital-raising initiative is in line with the request by the Financial Services Authority (OJK) for local reinsurance companies to increase their coverage capacities.

In recent months, there have been several initiatives from life insurance companies in Indonesia to increase people's awareness and knowledge of insurance. **BRI Life**, in cooperation with the Indonesian Ministry of Education and Culture, has provided microinsurance policies to 2,996 teachers in rural areas. Similarly, **Avrist** offered 1,000 free personal accident insurance policies during its roadshow, Avrist Spektakuler.

## Key appointments

- Henry Then has been appointed as chief financial officer (CFO) in **Ciputra Life**, a new life insurance company. Previously, he was the CFO of AXA Mandiri General Insurance.
- Henky Djojasantoso has moved from AXA Life Indonesia to become the CEO of **Ciputra Life**.
- Fransisca M. Roeswita has been named the Appointed Actuary of **Hanhwa Life**. Previously, she was the Appointed Actuary of **Zurich Topas Life**.
- Chin Tze How has been appointed as chief product officer (CPO) in **Prudential Life Assurance**. Previously, he was the CPO of **Allianz Malaysia**.

## Regulatory developments

### New regulations in Q4 2016

The new regulations released in the last quarter of 2016 provide more detailed explanation of various Articles in UU RI No. 40 Year 2014. Some highlights of the various regulations are summarised below.

**POJK no. 67/POJK.05/2016** covers the licensing and institution of insurance and reinsurance companies (Shariah and conventional), specifically:

- The notification of formalised deadlines for the implementation and submission of business plans for:
  1. Divestment of Shariah units, to be implemented as and when the Shariah funds (Tabarru and participant investment funds) have reached 50% of all funds (conventional and Shariah insurance funds), or by 17 October 2024 (if less than 50% of all funds). All companies with Shariah business have to prepare and submit a business plan for divestment by 17 October 2020 (if not already divested).
  2. Compliance of single presence policy requirements, to be implemented by 17 October 2017, with business plans submitted by 8 June 2017.
  3. Compliance of minimum local Indonesian shareholding requirement of 20%, to be met by 17 October 2019, with business and implementation plans submitted by 28 June 2017.
- The notification of increased paid-up capital requirements for newly set-up entities, or existing companies upon a change in ownership via takeover or the addition of new shareholders is as follows:

TYPES OF INSURERS	MINIMUM PAID UP CAPITAL (IDR BILLIONS)
Conventional life insurers	150
Conventional life reinsurers	300
Stand-alone Shariah insurers	100
Shariah windows	50

- The requirement for the appointment of a controller, specified to be a party who, directly or indirectly, has the power to appoint and influence the actions of the board of directors/ commissioners and is responsible for the continuity of the company, by 28 June 2017.
- Other areas covered within this regulation include requirements for a company's organisation structure, restrictions on hiring of foreign talent, requirements for appointment of actuary and internal audit functions, etc.

**POJK no. 69/POJK.05/2016** covers the business implementation of insurance and reinsurance companies (Shariah and conventional):

- Introduces the concept of business expansion, i.e., an insurance company could expand its business scope selling other financial services institutions' non-insurance products. For example, life and general insurers are allowed by the regulator to sell mutual funds and manage other companies' employee pension programs. General insurers are also allowed to operate unit-linked business (restricted to personal accident policies). Further regulations will be released via a circular letter at a later date.
- Stipulates minimum provisions for an agency agreement between the insurance company and its agents.
- Requires an insurance company to store its data in a company data center and disaster recovery center in Indonesia.
- Other areas covered within this regulation include requirements for the minimum content for a company's website, marketing materials, outsourcing of services, claims processing, etc.

**POJK no. 71/POJK.05/2016** covers the financial health of an insurance or reinsurance company and:

- Introduces an internal target solvency level of at least 120% of risk-based capital (RBC) for insurers. Such internal target solvency levels are to be determined based on each company's risk profile and stress testing results. In the event of a breach of such internal target solvency levels, companies are required to submit a financial restructuring plan to the regulator. Dividend payments or any form of compensation to shareholders are prohibited should they result in a breach of the internal target.
- Introduces the concept of the separation of funds, namely the insurance fund and the shareholders' fund, effective 31 December 2017. The actual requirements will be announced at a later date via a circular letter.
- Specifies the requirement for a guarantee fund, which should grow in accordance with the scale of the business. For life insurance, this is determined as the higher of 2% of investment-linked reserves and 5% of premium reserves, or 20% of minimum paid-up capital.

**POJK no. 72/POJK.05/2016** covers the financial health of insurance and reinsurance companies with Shariah principles,

is similar to POJK no.71/POJK.05/2016 but with application of Shariah principles:

- A phased implementation of the minimum solvency ratio and internal target solvency ratio, which is applicable to the shareholders' fund and also Tabarru and Tanahud funds.

	MINIMUM SOLVENCY RATIO	INTERNAL TARGET SOLVENCY RATIO
By 31 Dec 2017	60%	80%
By 31 Dec 2018	80%	100%
By 31 Dec 2019	100%	120%

**POJK no. 73/POJK.05/2016** covers the good corporate governance for insurance companies and sets out the OJK's requirements for good corporate governance. Insurers are required to submit strategic plans to the OJK by the latest date of 31 October each year.

## Distribution updates

### Bancassurance

Since September 2016, several new bancassurance agreements have been signed.

**Prudential Life** and **BCA Syariah** signed a new bancassurance agreement in November 2016. The agreement covers marketing, distribution, promotion, and the sales process for the distribution of Shariah products in all BCA Syariah branches. In addition, in December 2016 **Prudential Life** also entered into another bancassurance agreement with **Bank Mestika** to sell PRUlink sejahtera, a unit-linked product.

**Panin Dai-ichi Life** and **JTrust Bank Indonesia** signed a bancassurance agreement early in November, although there is currently no announcement of specific bancassurance products that will be launched in the near future.

**BCA Life** has entered into an agreement with its parent company, **Bank Central Asia (BCA)**, to expand and strengthen its telemarketing distribution. According to Christine Setyabudhi, president director and CEO of BCA Life, the telemarketing business will offer two major insurance products, Hospital 100% Refundable and b-SAVE Accident Protection.

### Agency

On the agency front, Shariah business has been getting increasing focus from some companies.

**FWD Life** is targeting to boost the number of agents licensed to sell Shariah business to about 70% of its total agents in 2017. According to Rudi Kamdani, president director of FWD Life, FWD Life expects, along with the launching of the new Shariah product, that its Shariah business unit will contribute around 20% to 30% of the total premium next year.

On a similar note, **Sun Life** has also announced plans to expand its Shariah operations, aiming to increase its Shariah agents from 1,700 to 2,000 by the end of 2016.

## Product updates

The table below sets out selected new product launches as announced by various companies during the four-month period up to 31 December 2016.

### Recent product launches

COMPANY NAME	PRODUCT NAME	PRODUCT DESCRIPTION
Zurich Topas Life	Zurich Pro Fit 8	A combination of an anticipated endowment and a unit-linked product (both 8-pay-20); 40% of the premium paid is allocated to ZurichLink Rupiah Equity Fund, with the remaining premium allocated to cover the anticipated endowment component paying a guaranteed cashback up to 120% of sum assured and a maturity benefit of 150% of sum assured.
Sinarmas MSIG	Simas Prime Link	Single premium unit-linked with death benefit of 125% single premium and accidental death benefit up to a maximum of 200% single premium.
	Simas Magna Link	Regular premium unit-linked with sum assured equivalent to at least 500% of the basic annual premium.
Prudential Life	PRUcrisis Cover Benefit Plus 61	Unit deducting rider attachable to unit-linked base policy covering 61 critical illnesses.
	PRUlink Sejahtera	Regular premium unit-linked product with coverage for death and total and permanent disablement (TPD), and with attachable riders.
Sun Life	X-tra Jaga	Single premium five-year traditional product covering death, critical illness, TPD, and hospitalisation benefits, with guaranteed 50% premium refund at the end of policy.
FWD Life	Bebas Ikhtiar	Regular premium Shariah unit-linked product covering death and accidental death benefit, with up to a 25% loyalty bonus starting from the 7th policy year and potential for additional profit sharing attributed to underwriting surplus.
	Bebas Aksi Flash	Single premium personal accident insurance with policy term ranging between one week and three months, sold through online channels.

### ASEAN Economic Community

According to Evelina Pietruschka, Secretary General of ASEAN Insurance Council (AIC), Indonesia is well-positioned for the integration of insurance markets within Southeast Asia and will play a key role throughout the implementation phase of the ASEAN Economic Community blueprint. Ms. Pietruschka says that the insurance industry has been a vital contributor to macroeconomic growth in Indonesia and across the ASEAN region, explaining that the long-term nature of insurance can become one of the best sources for providing long-term financing needs. Ms. Pietruschka cited the trend for increasing investment in bonds related to infrastructure projects.

### Growth in Shariah assets

According to Erwin Noekman, executive director of Asosiasi Asuransi Syariah Indonesia (AASI), Shariah assets are expected to grow by 30% in 2017, with Shariah contributions estimated to increase by 15% to 20% over the same period.

### IT is the backbone of future insurance business

Togar Pasaribu, executive director of AAJI, explained that innovation in information technology (IT) will be crucial to the growth of the insurance industry. With the AAJI expecting a 15% to 30% growth in premiums in 2017 (compared with 10% to 20% in 2016), he cited that innovation in technology can assist in achieving the targeted growth.

In line with this sentiment, several players have recently demonstrated an increased focus and effort on expanding their IT capabilities. **FWD Life** has launched products to be sold through its online distribution channels. **MNC Life** has penetrated the digital world through the Integrated Mobile Application System (i-Maps), which helps improve the end-to-end customer experience with faster turnaround times from policy application to issuance. **Allianz**, on the other hand, has collaborated with HaloDoc, an online health application, to launch Allianz Eazy Med. With this application, policyholders can digitally order medicine and claim the fees from Allianz.

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