

INDONESIA LIFE INSURANCE NEWSLETTER

OCTOBER 2016

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WE ARE PLEASED TO PRESENT THE EIGHTH EDITION OF MILLIMAN'S INDONESIA LIFE INSURANCE NEWSLETTER. THIS EDITION COVERS THE DEVELOPMENTS DURING THE PERIOD FROM 1 MAY 2016 TO 31 AUGUST 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 Q1 2016

According to the Indonesia Life Insurance Association (AAJI), the Indonesian life insurance industry experienced a year-on-year increase of 9.2% in total gross income over the first quarter of 2016, driven primarily by:

- Growth of 2.2% in new business premiums to IDR 19.13 trillion, and a 7.3% year-on-year growth in renewal premium to IDR 15.28 trillion, with premium income accounting for 70.3% of overall industry gross income
- Growth of 24.6% of investment income during the same period

Other highlights include:

- Total invested assets grew by 4.7%, with a general growth across almost all asset classes, except for a decline of 5.7% in equity investment.
- Total claims paid by the industry dropped by 4.8% compared with Q1 2015.
- A significant improvement in the level of partial withdrawals from investment-linked policies, declining from IDR 6.41 trillion in Q1 2015 to IDR 3.31 trillion during the same period this year.

Market news

A. Mergers and acquisitions, distribution agreements

- In August 2016, **Allianz** and **Maybank** announced a 10-year bancassurance agreement. The partnership plans to protect more than 4 million Maybank consumers.
- **FWD Indonesia** and **KEB Hana Bank** announced a bancassurance distribution agreement, with initial plans to launch FWD Infinite Link, a single-premium unit-linked product.

B. New licenses

There were no new life insurance licenses in the four-month period ending 31 August 2016.

C. Key company news

- **FWD Indonesia** announced plans to invest IDR 500 billion in IT infrastructure.
- **ACE Life** recently changed its name to **Chubb Life** following ACE being acquired by Chubb Limited. Business activities are not expected to alter following this re-branding.
- According to Indopos, **Prudential Indonesia** finalised its partnership with Permata Bank and Pegadaian to facilitate premium payments for more than 2.5 million customers. With this agreement, customers can also pay premiums in Pegadaian branches.

- **Manulife** launched a back-end-loaded unit-linked product, MiWealth Assurance, which also includes a loyalty program. Through its partnership with DBS, Manulife aims to take advantage of repatriated funds from the recently announced and ongoing tax amnesty, which is targeted by Indonesian government to reach IDR 12.9 trillion. The tax program provides opportunities for Indonesian taxpayers to pay a defined amount in exchange for a government pardon on the tax liability in the previous period. Further information on the tax amnesty program is discussed later in this newsletter.
- According to Bisnis.com, **AIA Indonesia** intends to expand its premier agency force. AIA General Agency Manager Aang Tian Kit targets to have 10,000 agents by the end of this year.
- **Hanwha Life** announced that it will invest US\$132 million, planning to expand from its current 10 branches to 44 in 2025.

D. Key appointments

- Jens Reisch has been appointed president director of Prudential Indonesia. Mr. Reisch was previously the former vice president director of FWD Life Indonesia.
- Jeremy Tay has become the new chief actuary of AIA Indonesia, starting in September 2016. Before joining AIA, he was chief actuary of AXA Singapore.
- Sua Me Chin has been appointed as chief financial officer of Chubb Indonesia.
- Mahlani Chandra has been appointed chief actuary of Sun Life Indonesia following its acquisition of CIMB Life.
- Yusman Kusuma has been appointed the new chief actuary of Tokio Marine Indonesia.

Regulatory developments

OJK regulation on bancassurance distribution

Following regulation no. 23/POJK/05/2015, OJK has recently published a circular letter no. 32/SEOJK.05/2016 to further clarify the workings of bancassurance agreements in Indonesia. In the letter, the OJK explains the three business models that can be categorized as 'bancassurance,' namely, the referral model, the distribution agreement model, and the integrated model.

The banks' role in the referral model is to refer, or recommend, insurance products to potential policyholders. In the distribution agreement model, the role of the banks includes marketing the insurance product by way of explaining the insurance products directly to potential policyholders. For the integrated model, banks are permitted to modify or combine insurance products with bank contracts (to be sold as bundled products). The banks' role is not only to market and explain directly to potential policyholders but also to handle the completion of the insurance product application.

The new regulation also clarifies several additional requirements:

- Each bancassurance agreement can only cover one business model for one type of marketed insurance product or bundled product.
- There will be a minimum requirement for the financial condition of insurance companies who enter into a bancassurance agreement.
- There will be consumer disclosure requirements around the benefits, cost, and commissions paid by the insurance company to the banking partner.

OJK repeals temporary relaxations on insurance companies

Following the rebound in the macroeconomic outlook, the OJK has repealed previous temporary relaxations, including:

- The revocation of minimum risk-based capital requirements through circular letters no. 21/SEOJK.05/2016 and no. 22/SEOJK.05/2016. As a result of the market volatility in 2015, these regulations had initially cut by up to 50% the minimum capital requirements for life insurance companies. According to Yusman, head of the Non-Bank Financial Institutions Supervision department of the OJK, the repeal was not expected to be significant, as only 10% of the players in the industry were utilizing the relaxation.
- A repeal of regulation around the valuation of Syariah securities through circular letter no. 22/SEOJK/05/2016. Circular letter no. 25/SEOJK.05/2016 had allowed insurance companies to temporarily use an amortised acquisition value to value Syariah debt securities.

Fit and proper test for the first party of non-bank financial institution

Through regulation no. 27/POJK.03/2016, the OJK sets out conditions on the fit and proper test to the 'first party' of banks and non-bank financial institutions. For insurance companies, the 'first party' includes insurance companies' controllers, directors, boards of commissioners, supervisors of the Syariah board, internal auditor, and the appointed actuary. In general, the regulation explains how the OJK sets the requirements and the procedures to pass the fit and proper test. This regulation is further elaborated through circular letter no. 31/SEOJK.05/2016.

Other recent developments

AAJI submits request for life insurance industry to participate in national tax amnesty program

The recently introduced tax amnesty program (aimed primarily at reducing the underground economy and inducing funds placed in offshore centres to return to Indonesia) is expected to inject new funds into the Indonesian financial sector. Under the program, overseas funds declared from 1 July 2016 to 31 March 2017 will

attract tax rates of between 4% and 10%, while domestic funds declared and funds repatriated within the same period will attract tax rates of between 2% and 5%.

Funds that are repatriated through the tax amnesty program will be required to stay in the country for a minimum of three years. Insurance is currently not an eligible investment vehicle for the repatriated funds, which are limited mostly to deposits, bonds, mutual funds and property-related securities.

According to Indren S. Naidoo, the CEO of Manulife Indonesia, AAJI has lodged a request to the Indonesia Ministry of Finance for the insurance industry to be given a prominent role in the tax amnesty program in addition to banks. Since the repatriated funds must be invested in Indonesia for a minimum period of three years, Mr Naidoo asserts that insurance products may be the best option because they are longer-term in nature.

Indonesia Fisheries and Marine Minister enforces insurance for fishermen

Since August 2016, 1 million fishermen in Indonesia have been granted comprehensive insurance coverage by the Indonesian Ministry of Fisheries and Marine Resources. The coverage includes death benefits and permanent disability benefits, as well as ongoing medical costs due to fishery activities. The Ministry is understood to have allocated a total fund of almost IDR 175 billion to enforce this scheme, which is expected to help increase the penetration of insurance in Indonesia.

AAJI targets number of agents to reach 650,000

As at June 2016, the number of certified agents in Indonesia has already reached 513,000. This is compared with the 650,000 certified agents targeted by AAJI at the end of 2016.

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