

# INDONESIA LIFE INSURANCE NEWSLETTER

JUNE 2016

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WE ARE PLEASED TO PRESENT THE SEVENTH EDITION OF MILLIMAN'S INDONESIA LIFE INSURANCE NEWSLETTER. THIS EDITION COVERS THE DEVELOPMENTS DURING THE PERIOD FROM 1 JANUARY 2016 TO 30 APRIL 2016.

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



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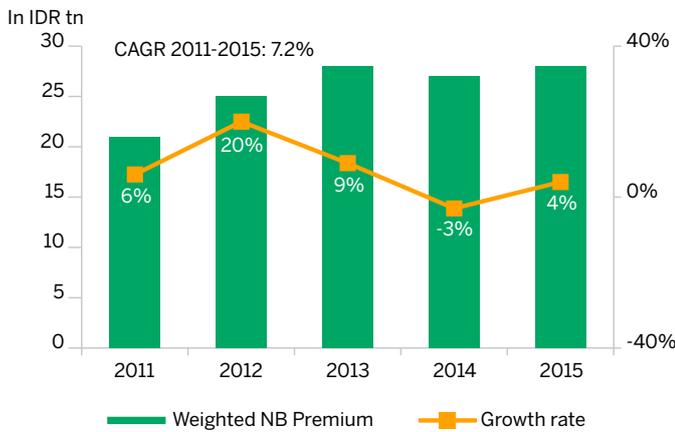
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## Market performance

### Industry performance for 2015

According to the 2015 market statistics recently released by the Indonesia Life Insurance Association (AAJI), the life insurance market in Indonesia experienced a modest growth in weighted new business premium of 4% in 2015, after a decline of 3% in 2014. Over the five-year period from 2011 to 2015, the industry experienced a compounded growth of weighted new business premium of 7.2%.

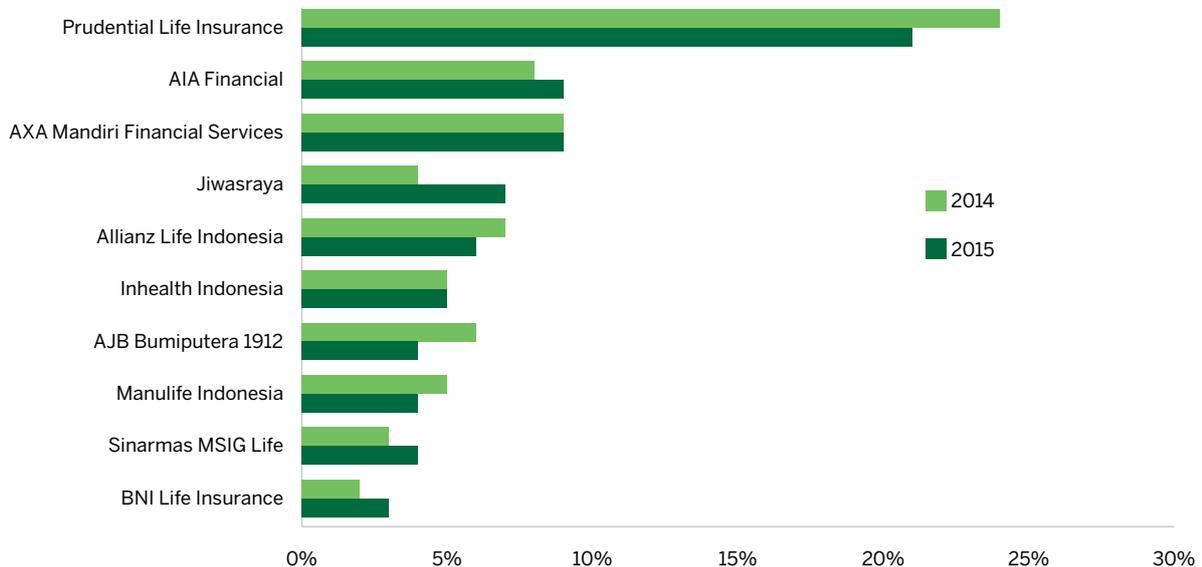
**FIGURE 1: WEIGHTED NEW BUSINESS PREMIUM OF INDONESIAN LIFE INSURERS**



Source: AAJI

In terms of market share, Prudential Life Assurance remains the leading player with a market share of 21% of weighted new business premium in 2015, despite falling from the level of 24% in 2014. AIA Financial took over second place, with a market share of slightly over 9%, overtaking AXA Mandiri, which had the second-highest market share in 2014. The market shares of the top 10 and top five players currently account for 72% and 52% of the total weighted new business premium in 2015, respectively.

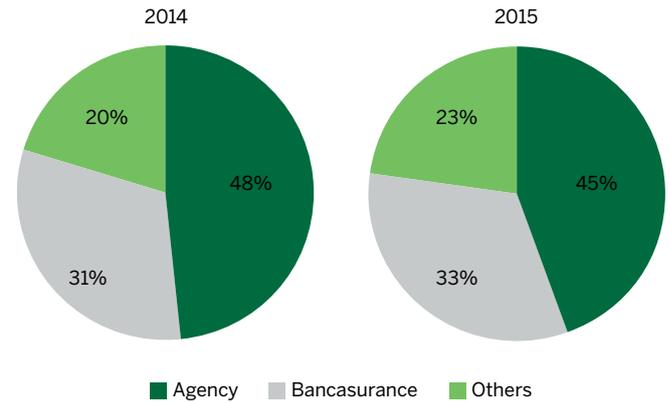
**FIGURE 2: MARKET SHARE OF TOP 10 LIFE INSURERS BY WEIGHTED NEW BUSINESS PREMIUM**



Source: AAJI

Distribution of life insurance in 2015 continued to be dominated by the agency channel and bancassurance. However, the proportion of new business sales through agency dropped slightly from 48% to 45% in 2015, while sales through bancassurance increased slightly from 31% to 33%, both in terms of weighted new business premium.

**FIGURE 3: DISTRIBUTION LANDSCAPE**



Source: AAJI

In terms of composition of new business sold in 2015, unit-linked business remains the most popular, accounting for more than 55% of weighted new business premium. In 2015, however, sales of unit-linked business grew at a slower rate than traditional business (0.3%, compared with 10%), possibly as a result of more volatile equity markets and weaker political sentiment.

## Market news

### A. Mergers and acquisitions, distribution agreements

- In March 2016, Sun Life Financial announced that it will acquire an additional 51% of CIMB Sun Life from CIMB Group, for approximately USD 51.67 million (IDR 550 billion). The expectation is that the businesses will then be merged to comply with the 'single presence' policy that was introduced in the Insurance Law 2014.

### B. New licenses

- PT Asuransi Syariah Keluarga Indonesia became the latest stand-alone Syariah life insurance company, with the Indonesia Financial Services Authority (OJK) approving its Syariah license in January 2016.
- In May 2016 the OJK also approved the Syariah window for PT FWD Life Indonesia.

### C. Key company news

- Bank Central Asia (BCA) is reportedly considering renegotiating the terms of its bancassurance arrangement with AIA Financial. According to Bloomberg, the bank is currently reviewing the 15-year strategic partnership that runs through to 2021, with the aim of strengthening the current partnership, and to reflect the terms of recent deals that have been executed in the region.
- Following its acquisition of around a 90% stake in BRIngin Life from BRI Pension Fund, in December 2015 PT Bank Rakyat Indonesia Tbk (BRI) decided to cancel its plan to sell a stake in BRIngin Life. Instead BRI plans to restructure the company, without further expanding on the steps it intends to take. The company has been renamed BRI Life and management was reported to say that it would reconsider whether to seek a partner after a period of at least two years.

### D. Key appointments

- Starting from April 2016, Auddie A. Wiranata has been appointed as the new president director of Astra Aviva Life. Auddie replaces the outgoing president director, Philip Willcock, who had been holding the top position at the company since the joint venture commenced in 2014.

## Regulatory developments

### OJK to set higher minimum amount of paid-in capital, define controlling shareholder for insurance company

The OJK is currently drafting a set of new regulations that could see an increase in the minimum paid-up capital requirement for insurance companies. Firdaus Djaelani, Chief Executive for Supervision of Non-Bank Financial Industry (IKNB) at OJK, disclosed that the preliminary draft of the new regulations has set the limit to be IDR 150 billion and IDR 100 billion for conventional and Syariah insurers, respectively. This is an increase from the current minimum paid-up capital levels of IDR 100 billion for conventional business and IDR 50 billion for Syariah business. Syariah windows require a minimum capital of IDR 25 billion.

In addition, the new set of regulations is also expected to define 'controlling shareholder' as any party with at least 25% of ownership in an insurance company. According to the new Insurance Law 2014, any party is not allowed to be the controlling shareholder for more than one entity in any of the six categories of insurance companies, namely, life insurance, general insurance, reinsurance, Syariah life insurance, Syariah general insurance, and Syariah reinsurance.

### Request for tax incentives on government securities

As the industry struggles to acquire high-yielding assets, the AAJI has submitted a proposal to the OJK and the Ministry of State-Owned Enterprise, for the withholding tax on government securities to be removed, from the current level of 15% (or 5% if held in a mutual fund). According to Hendrisman Rahim, a director at Jiwasraya, eliminating the withholding tax for such securities could bring relief to many industry players. Once the proposal gets its blessings from the two authorities, it is expected to be then submitted to the Ministry of Finance.

The increase in demand for government bonds (as insurers are required to invest at least 20% of their assets in Indonesian government bonds, increasing to 30% by 31 December 2017), coupled with the limited supply of such securities, proves to be a challenge for many industry players, who also have to face competition from foreign investors bidding for the same assets.

In addition, the chairman of OJK is reported as saying that the insurance industry will soon be also encouraged to invest in government infrastructure bonds.

### OJK to ban bancassurance business monopoly starting in June 2016

In an attempt to promote healthy competition within the bancassurance space, the OJK is set to control the 'monopolistic practices embedded within the majority of the exclusive partnership arrangements between insurance companies and banks.' According to Edi Setiadi, Commissioner of Supervision of IKNB at the OJK, rules relating to the marketing restrictions for bancassurance players are expected to be published in June, adding further that customers should be given an option when choosing bancassurance products.

In response, the AAJI urged the OJK to 'maintain fairness' as it considers any further regulation of bancassurance practice. Acting Executive Director of AAJI, Togar Pasaribu, commented that the proposed regulation around bancassurance practices should be considered from the perspectives of protecting both customers and bancassurance players. The AAJI also stressed that it is important to ensure that any new regulations should not weaken or even threaten bancassurance business and suggested that a comprehensive discussion be held with OJK to ensure that new rules would not adversely impact the industry.

## Other recent developments

### Bank BTN and Jasindo target establishment of life insurance company in mid-2016

Bank Tabungan Negara Tbk (BTN) reported that its application to establish a life insurance company has been submitted to the OJK and is in its final stage of approval. Earlier, BTN announced that Bank BTN and Asuransi Jasa Indonesia (Jasindo) would own 70% and 30% of the shares in the new company, respectively. BTN expects the subsidiary to launch in June or July of 2016 if everything goes according to plan.

### Insurance companies to prepare a master plan to spin off Syariah business unit (UUS)

The Indonesian Association of Syariah Insurance (locally known as "AASI") has called for insurance companies with Syariah windows to prepare a master plan for submission to the OJK, covering the process of spinning off Syariah windows. The industry association expects two Syariah windows to be spun off from their existing parent entities in the near future. The AASI notes that, as all Syariah windows are required to complete the spin-off by 2024, they would all need to strengthen their institutional structures and human resources before the end of 2023. The AASI is also examining and discussing with the OJK possible incentives that could be provided to the Syariah industry in order to accelerate the implementation of the spin-off.

### Life insurance companies aim for strategic partnership

A number of life insurance companies, including PT Asuransi Jiwa Taspen (Taspen Life) and PT AJS Amanahjiwa Giri Artha (Amanah Githa) are reportedly seeking strategic partners.

### Sales of unit-linked products to show strong growth

According to Christine Setyabudhi, Communications Director of AAJI, sales of unit-linked products are expected to grow by 10% to 15% in 2016. She cited marketing efforts that have been made by several insurance companies to increase the sales of unit-linked products, such as lowering the monthly premiums to enter the middle and lower markets. She further commented that the 10% to 15% growth target for unit-linked products is lower than the 18% to 20% growth target set for traditional insurance products, citing the results of a survey showing that unit-linked policyholders prefer to buy traditional insurance products once they have purchased one or two unit-linked products.

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