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We are pleased to present the August 2019 edition of Milliman's Indonesia Life Insurance Newsletter. This edition covers developments during the period from 1 April 2019 to 30 June 2019.

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 Q1 2019

According to the Indonesia Insurance Statistics published by the Financial Services Authority (OJK), the Indonesian life insurance industry slowed down in Q1 2019 compared to Q1 2018. The change over the period is summarised below:

FINANCIALS (IN IDR TRILLION)	Q1 2018	Q1 2019	% CHANGE
NET PREMIUM INCOME	47.39	41.67	(12)%
INVESTMENT AND OTHER INCOME	2.99	2.48	(17)%
TOTAL INCOME	50.38	44.15	(12)%
TOTAL CLAIMS AND BENEFITS	37.23	32.83	(12)%
COMMISSION AND ACQUISITION COSTS	5.03	4.49	(11)%
OPERATING EXPENSES	5.91	6.64	12%
TOTAL EXPENSES	48.18	43.97	(9)%
PROFIT BEFORE TAX AND OCI	2.20	0.18	(92)%
TAX	0.52	0.61	18%
NET PROFIT BEFORE OCI	1.68	(0.43)	(126)%
TOTAL ASSETS	516.27	534.75	4%
PREMIUM RESERVE	391.10	409.97	5%
UNEARNED PREMIUM RESERVE	3.55	3.97	12%
CLAIM RESERVE	3.88	4.70	21%
CATASTROPHIC RESERVE	0.01	0.04	324%
TOTAL TECHNICAL RESERVE	398.54	418.68	5%

Note OCI = other comprehensive income. Source: OJK's Indonesia Insurance Statistics: March 2018 and March 2019.

Over Q1 2019, the life insurance industry remained profitable before tax and other comprehensive income (OCI). However, profit before tax and OCI in Q1 2019 was significantly lower than Q1 2018. This appears to be driven by a decline in gross premium income despite a decrease in total expenses.

It was reported that the decrease in total expenses was mostly attributed to a decline in total claims and benefits.

Similarly, commission and acquisition costs also declined due to a reduction in the first-year commission and other expenses. In contrast, operating expenses, driven by mortality-related expenses and employee/management expenses, experienced an increase in Q1 2019.

Market news

NEW PRODUCTS

The following new life insurance products were reported to have been launched in Q2 2019:

- **PT Prudential Life Assurance (Prudential)** launched two new products: **PRUPrime Healthcare Plus** and **PRUPrime Healthcare Plus Syariah**.
- **PT Asuransi BRI Life (BRI Life)** launched two new unit-linked products: **Dana investasi dan Proteksi** and **Asuransi Dana Sejahtera Optima Syariah**.
- **PT AXA Mandiri (AXA Mandiri)** launched a new critical illness product named **Asuransi Mandiri Perlindungan Sejahtera**.
- **PT Sun Life Financial Indonesia (Sun Life)** launched a new product named **Salam Proteksi Amanah**. In collaboration with Dompot Dhuafa, the product allows policyholders to make donations by giving insurance protection to disadvantaged people.

UPDATE ON JIWASRAYA

According to local media in Q2 2019, **PT Asuransi Jiwasraya (Jiwasraya)** issued medium-term notes worth IDR 500 billion to fund policyholders' maturity payments. Jiwasraya is attempting to persuade the remaining policyholders to roll over their policies in order to delay paying their maturity payments until Q4 2020. Previously, Jiwasraya promised to make the maturity payments in Q2 2020.

Local media reported Budi Satria, Director of **PT Bank Tabungan Negara Tbk (BTN)**, as stating that the delay in paying claims from Jiwasraya's Savings Plan product has directly impacted BTN's reputation as a banking partner. Local media have also reported that BTN is assessing its intention to take a stake in Jiwasraya Putra, the proposed new subsidiary of Jiwasraya.

Meanwhile, the Ministry of State-Owned Enterprises (SOEs) mandated SOEs to establish an insurance holding company to help Jiwasraya address its solvency issue. The main aim of the holding company is to strengthen the insurance industry in Indonesia. One way of doing this is to provide a capital injection to Jiwasraya. Local media reported that **PT Jasa Raharja (Jasa Raharja)** will be appointed as the parent company and other SOE insurers such as Jiwasraya, **PT Asuransi Kredit Indonesia (Askrindo)**, **Perusahaan Umum Jaminan Kredit (Jamkrindo)**, **PT Asuransi Jasa Indonesia (Jasindo)**, **PT Reasuransi Nasional Indonesia**, **PT Reasuransi Indonesia Utama** and **PT Asuransi Asei Indonesia (Asuransi Asei)** will be members.

UPDATE ON BUMIPUTERA

It is reported that Sutikno Widodo Sjarif was recently removed from his position as President Director of Bumiputera by the Board of Commissioners and Directors. Mr Sjarif was appointed as President Director in November 2018. The reason for his removal has not been made public. The OJK has been

informed of Mr Sjarif's departure and is awaiting an updated business plan from the company.

The OJK requires Bumiputera to pay claims within six months after they are reported. However, local media have reported claims have not been paid within this period, citing examples of maturity claims from August 2018 that had not been paid by June 2019.

The government's Commission XI reported Bumiputera as making a IDR 20 trillion loss since 2018. However, the Chairman of the OJK's Financial Commissioner Board clarified this IDR 20 trillion represented a liquidity mismatch rather than a financial loss to Bumiputera. The OJK further explained that the liquidity mismatch is attributed to the fact that the company's premium income and investment return are not sufficient to meet claim payments.

INITIAL PUBLIC OFFERING

On 9 July 2019, **PT Asuransi Jiwa Sinarmas MSIG (Sinarmas MSIG Life)** officially went for an initial public offering (IPO), listing on the Indonesia Stock Exchange (IDX) and releasing 393.75 million shares for IDR 12,100 per share. The IPO was held to support the divestment strategy for **PT Sinar Mas Multiartha (Sinar Mas)**, which owned 50% of **Sinarmas MSIG Life** before the offering. Post-IPO, **Sinar Mas** now holds 12.5% with **Mitsui Sumitomo Insurance Co, Ltd** having the majority share of 80% and the public owning the residual 7.5% of shares.

CSR: MICROINSURANCE

In April 2019 **Sinarmas MSIG Life** distributed 1,399 microinsurance policies to teachers, students and farmers in Bukittinggi, West Sumatra, as part of its Financial Literacy and Inclusion Program.

PT Hanwha Life Indonesia (Hanwha) distributed 10,000 free insurance policies - with up to IDR 20 million sum assured per policy - to travellers during the seasonal 'Pulang Kampung' holiday in June 2019 as part of its Teman Mudik Hanwha program.

KEY APPOINTMENTS

According to local news, the following key appointments were made:

- Sainthan Satyamoorthy was appointed as the new President Director of **PT AIA Financial (AIA Indonesia)**.
- Anna Leonita was appointed as the new President Director of **PT Avrist Assurance (Avrist Assurance)**. She is the first female leader in the company.
- Bianto Surodjo was appointed as the new Chief of Partnership Distribution Officer of **PT Asuransi Allianz Life Indonesia (Allianz Life)**.

Regulatory developments

NEW REGULATIONS OVER Q2 2019

There were no government regulations (PP) or OJK regulations (POJK) released during the period.

FORTHCOMING REGULATIONS/IMPLEMENTATION

- **Syariah spin-off:** The OJK stated that the Syariah spin-off program is impeded by difficulties in finding a local joint venture partner. Effective 18 April 2018, government regulation PP No. 14/2018 mandates the need for a local joint venture partner and limits foreign ownership of local insurance companies to 80%. In May 2019, the OJK has proposed changing PP No. 14/2018 by relaxing the limit on foreign ownership (refer to the next point below on 'strong grandfathering') if sufficient companies have not spun off before October 2024.
- **Strong grandfathering:** The OJK is reportedly assessing a possible change to the current requirement of PP No. 14/2018 by proposing the concept of 'strong grandfathering,' which allows an existing foreign shareholder who is grandfathered (i.e., those with foreign ownership above 80%) to participate in future increases in paid-up capital at a proportion higher than 80%. We understand the proposal is currently being debated in Parliament.
- **Financial service advertisement:** The OJK will impose stricter advertising guidelines for banks and financial service companies in order to improve market conduct and strengthen customer protection. The proposed legislation will cover statements that are allowed or prohibited in advertisements. One example of the prohibited statements is the use of superlatives, such as 'the best' or 'the biggest'.
- **Compliance director:** Based on POJK No 73/POJK.05/2016 regarding good governance for insurance companies, each insurance company is required to appoint a compliance director by December 2019 at the latest. However, it has been reported that, by April 2019, only three life insurance companies had filled the position.

Distribution updates

BANCASSURANCE CHANNEL

The following new bancassurance partnerships have been announced:

- **Sun Life** established a partnership with **PT Bank Muamalat Indonesia (Bank Muamalat)** to increase the contribution from Syariah business.
- **PT Asuransi Jiwa Taspen (Taspen Life)** signed a memorandum of understanding with **PT Bank Pembangunan Daerah Jawa Barat dan Banten (Bank BJB)** and **PT Telekomunikasi Indonesia Tbk. (Telkom)** to offer premium discounts to civil servants who receive their salaries through Bank BJB.

DIGITAL CHANNEL

Prudential announced a strategic partnership with PT Visionet Internasional (OVO). Through this cooperation, Prudential and OVO customers can carry out online transactions, including electronic payments, submitting claims and simplified underwriting.

OTHERS

Other partnerships reported by local media in Q2 2019:

- **PT AXA Financial Indonesia (AXA Financial)** announced its partnership with the Indonesian Muslim Clerical Body to launch a Waqf feature. This feature allows policyholders to donate part of their benefits to less fortunate Muslims.
- **PT BNI Life (BNI Life)** is now in collaboration with the Ministry of Villages, Disadvantaged Regions and Transmigration to provide extra life insurance benefits to civil servants working in villages.

INSURTECH

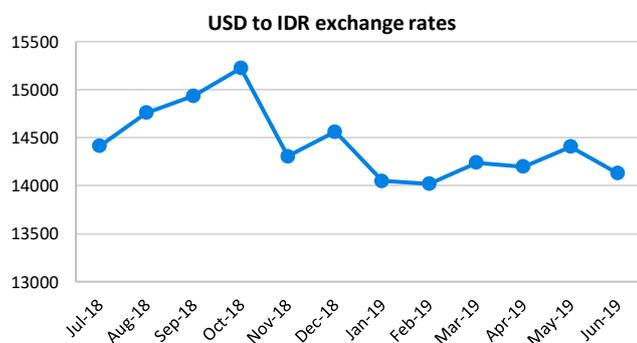
The following new digital applications were launched:

- **PT Equity Life (Equity Life)** launched My e-Life for individual customers to access information about their claims online. Information includes payment status, claim history and the location of the nearest hospital.
- **PT Asuransi Jiwa Generali Life Indonesia** launched ROBO Auto Risk Management System (ARMS) for its unit-linked products. It allows users to manage their investment risks by automatically changing asset allocations based on market conditions and the user's risk profile.

Other recent developments

MACROECONOMICS

The graph below shows the Indonesian rupiah and US dollar exchange rates for the past 12 months.



Source fx rate: www.xe.com

During Q2 2019, the Indonesian rupiah was at its lowest in May before strengthening in June against the US dollar. The rupiah depreciated by 1.48% against the US dollar during May 2019, which was attributed to the ongoing trade war between the US and China. In June the rupiah then appreciated by 1.92%. The Central Bank of Indonesia (BI) said it was due to a sign of international trust in Indonesian Economic Prospects, which was supported by an increase in the sovereign rating of Indonesia by Standard and Poor's (S&P) from BBB- to BBB.

In June 2019, the Board of Governors of BI held the BI 7-day reverse repo rate at 6.00%, while also maintaining deposit facility and lending facility rates at 5.25% and 6.75%, respectively. This policy is in line with low inflationary conditions and the need to promote domestic economic growth.

Data from BI revealed that domestic economic growth slowed down from 5.2% year-on-year (y/y) for Q4 2018 to 5.1% y/y for Q1 2019. The decrease was mainly attributed to the delay in new public investment, uncertainties during the Indonesian presidential election and weakened commodity prices.

Indonesia's inflation rate increased by 0.68% month-on-month (m/m) in May 2019 or 3.32% y/y, based on the latest data from BI. The inflation rate is still within the targeted range of the central government and central bank. Onny Widjanarko, Executive Director of BI, confirmed that inflation is under control. An increase in inflation is normal during the seasonal Ramadhan month or Idul Fitri. As 86% of Indonesians are Muslims, demand for raw foods and transportation is at its peak compared to the other times of the year.

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 June 2019:

TENOR	IDR		TENOR	IDR	
	AVERAGE OF LAST 1 YEAR	AVERAGE OF LAST 1 YEAR + 0.5%		AVERAGE OF LAST 1 YEAR	AVERAGE OF LAST 1 YEAR + 0.5%
1	6.57%	7.07%	16	8.27%	8.77%
2	7.14%	7.64%	17	8.30%	8.80%
3	7.43%	7.93%	18	8.34%	8.84%
4	7.58%	8.08%	19	8.36%	8.86%
5	7.69%	8.19%	20	8.39%	8.89%
6	7.77%	8.27%	21	8.42%	8.92%
7	7.84%	8.34%	22	8.44%	8.94%
8	7.90%	8.40%	23	8.46%	8.96%
9	7.96%	8.46%	24	8.48%	8.98%
10	8.01%	8.51%	25	8.50%	9.00%
11	8.06%	8.56%	26	8.51%	9.01%
12	8.11%	8.61%	27	8.53%	9.03%
13	8.15%	8.65%	28	8.54%	9.04%
14	8.19%	8.69%	29	8.55%	9.05%
15	8.23%	8.73%	30	8.56%	9.06%

Source: Indonesia Bond Pricing Agency (IBPA)

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