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We are pleased to present the May 2019 edition of Milliman's Indonesia Life Insurance Newsletter. This edition covers developments during the period from 1 January 2019 to 31 March 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 Q4 2018

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

FINANCIALS (IN IDR TRILLION)	2017	2018	% CHANGE
NET PREMIUM INCOME	178.43	180.60	1%
INVESTMENT AND OTHER INCOME	29.25	5.64	(81)%
TOTAL INCOME	207.69	186.25	(10)%
CLAIMS AND BENEFITS	142.64	142.58	0%
COMMISSION AND ACQUISITION COSTS	19.10	18.96	(1)%
OPERATING EXPENSES	32.87	24.51	(25)%
TOTAL EXPENSES	194.60	186.05	(4)%
PROFIT BEFORE TAX AND OCI	13.08	0.19	(99)%
TAX	1.96	2.37	21%
NET PROFIT BEFORE OCI	11.12	(2.17)	(120)%
TOTAL ASSETS	512.95	520.63	1%
PREMIUM RESERVE	390.98	401.29	3%
UNEARNED PREMIUM RESERVE	2.58	2.92	13%
CLAIM RESERVE	3.83	5.23	36%
CATASTROPHIC RESERVE	0.02	0.11	536%
TOTAL TECHNICAL RESERVE	397.41	409.55	3%

Note: OCI = other comprehensive income. Source: OJK's Indonesia Insurance Statistics: December 2017 and December 2018.

Over 2018 the life insurance industry remained profitable before tax and other comprehensive income (OCI). However, profit before tax and OCI decreased significantly compared to 2017. The decrease in profit before tax and OCI was mainly driven by a large drop in investment income despite a decrease in operating expenses. According to the Indonesian Life Insurance Association (AAJI), the decrease in investment income is due to a decline in the Composite Stock Price Index. While claims, commission and acquisition costs remained largely unchanged, operational expenses decreased by 25%, driven by a decrease in mortality-related claims. In addition, the increase in premium and reinsurance income was offset by an increase in unearned premium reserves, resulting in an increase in total net premium income.

Market news

NEW PRODUCTS

The following new life insurance products were launched over Q1 2019:

- **PT Prudential Life Assurance (Prudential Indonesia)** launched a new critical illness product named **Pru Critical Benefit 88**.
- **PT Asuransi Jiwasraya (Jiwasraya)** launched two new microinsurance products: **JS Asuransi Mikro Sahabat** and **JS Demam Berdarah**.
- **PT AIA Financial Indonesia (AIA)** launched a new product named **Proteksi Edukasi Maksima (EduPlan)** to provide funds to pay for children's education. EduPlan will be distributed exclusively through **PT Bank Central Asia (BCA)**.

UPDATE ON JIWARAYA

In October 2018, Jiwasraya announced that it would defer paying maturity benefits from its savings plan product because of the company's solvency position. The Ministry of State-Owned Enterprises and Jiwasraya encouraged savings plan policyholders to roll over their policies, offering them an interest rate of 7% per annum (p.a.). However, local media reported that there is a lack of confidence amongst policyholders that Jiwasraya will be able to pay its obligations.

According to local media, in Q1 2019, both Jiwasraya and the Indonesian government implemented several actions to assist Jiwasraya's solvency issues, including the following:

- Jiwasraya will shift its business focus from savings plan products to traditional insurance and unit-linked investment products.
- Four state-owned enterprises were named to assist Jiwasraya's solvency issues, with the formation of a subsidiary named Jiwasraya Putra, which would assist the process of corporate financial restructuring. The four state-owned enterprises are: PT Bank Tabungan Negara, PT Pegadaian, PT Kereta Api Indonesia and PT Telekomunikasi Seluler. Jiwasraya Putra is expected to be launched this year.
- Jiwasraya will issue medium-term notes to improve its solvency position.
- The Ministry of State-Owned Enterprises granted Jiwasraya a 1% bonus shareholding in Finarya, a financial technology company newly formed by the Ministry of State-Owned Enterprises.

KEY APPOINTMENTS

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

- Rini M. Soemarno, the Minister of State-Owned Enterprises, appointed a new management team for **Indonesia Re** comprising:
 - President Director: Frans Y. Sahusilawane
 - Operation Technical Director: Kocu Andre Hutagalung
 - Finance and Human Resource Director: Imam Bustomi
 - Risk Management and Legal Director: Putri Eka Sukmawati

NAME CHANGE

The OJK granted an operating license to **PT Asuransi Jiwa Recapital** after changing its business name to **PT Asuransi Jiwa Starinvestama**. The license was granted in January 2019.

OJK STOPS SALES OF SAVINGS PLAN PRODUCTS

The OJK stopped three (unnamed) life insurance companies from selling savings plan products with guaranteed investment returns. The OJK considered that the three companies do not have an adequate capital and risk management capacity.

Regulatory developments

NEW REGULATIONS OVER Q4 2018

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

IFRS 17

In February 2019, the OJK released a draft of International Financial Reporting Standard (IFRS) 17, the new accounting standard for insurance companies. In preparing the draft, the OJK worked together with the insurance industry by forming a working group to analyse the application of IFRS 17 in the insurance industry.

SYARIAH SPIN-OFF

PT Sun Life Financial Indonesia (Sun Life Financial) is preparing to spin off its Syariah window and planning to submit its Syariah business plan in 2020. According to Norman Nugraha, Chief Agency Syariah Officer of Sun Life Financial, the growth in Syariah business is driven by the large population of Muslims in Indonesia.

Distribution updates

BANCASSURANCE CHANNEL

The AAJI believes that the bancassurance sales channel will remain the main sales channel in 2019, as measured by premium income. Bancassurance premiums are expected to grow by between 15% and 25% over 2019. The following new bancassurance partnerships have been announced:

- **United Overseas Bank Limited (UOB) and Prudential Group** renewed their existing partnership by extending it for another 15 years until 2034. According to local news, Prudential spent SGD 1.15 billion renewing the regional partnership, with UOB distributing Prudential's products to retail banking customers in Singapore, Indonesia, Malaysia, Thailand and Vietnam.
- **PT Sinarmas MSIG Life (Sinarmas MSIG) and PT Bank Bukopin (Bank Bukopin)** entered into a bancassurance partnership to offer two new unit-linked products to Bank Bukopin's customers.
- **Sinarmas MSIG** further strengthened its bancassurance sales channel by entering a partnership with **PT Bank Pembangunan Daerah Jawa Timur (Bank Jatim)**, with plans to launch three telemarketing products, namely SMiLe Medical Care, SMiLe Hospital Cash Plan and Term ROP SMiLe. These products provide protection and investment specifically for Bank Jatim's customers.
- **PT Life Insurance BCA (BCA Life) and PT Mizuho Balimor Finance (Mizuho Balimor)** signed a joint venture to distribute a credit life insurance product. This product covers customers who take car loans at Mizuho Balimor.

DIGITAL CHANNEL

PT MNC Life Assurance (MNC Life) entered into a distribution agreement with **PT Yes Dok Indonesia (Yes Dok)**, an online healthcare service. MNC Life's term product, **MNC Max Pro**, will be distributed through the Yes Dok app.

OTHERS

MNC Life also entered a partnership with **PT Asia Trans Teknologi (Trans Jek)** to provide a personal accident benefit for Trans Jek's drivers.

INSURTECH

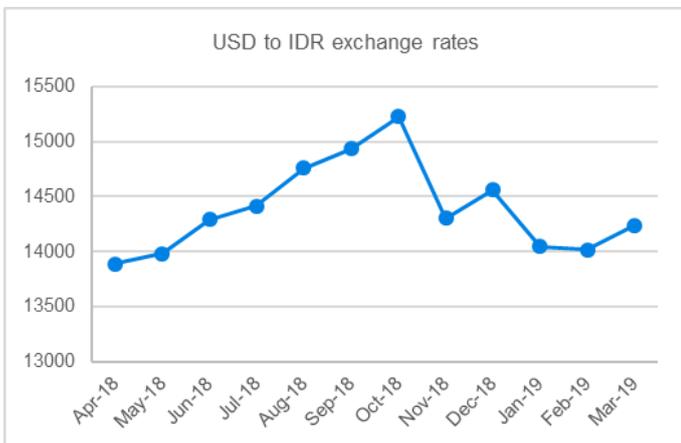
The following new digital applications were launched:

- **Jiwasraya** launched **Jiwasraya Mobile**. This application allows policyholders to check their policy status, the timing of premium payment and benefit payment.
- **PT Asuransi Allianz Life Indonesia (Allianz Life)** enhanced its digital application named **Allianz Discover**. This enhancement would enable customers to determine interactively the protection cover according to their needs.
- **PT Asuransi Jiwa Generali Indonesia (Generali)** launched **Generali I-Signature**. This service provides a free DNA test using samples of saliva. The results will provide accurate information to customers about their nutritional needs, sensitivity to vitamins and bodily health.

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

The Indonesian rupiah strengthened in the first two months of 2019 against the US dollar. However, it slightly weakened by 1.6% over March 2019. According to Perry Warjiyo, the Governor of Bank Indonesia, high foreign capital inflows contributed to the strengthening rupiah over Q1 2019. Foreign capital inflows into Indonesia reached IDR 45.9 trillion by February 2019, significantly larger than the foreign flows that entered during 2018, totalling IDR 13.9 trillion.

Indonesia's annual economic growth eased to 5.07% in Q1 2019, a drop from 5.18% in the previous three-month period and below the market consensus of 5.18%. This was the weakest quarterly growth rate over the last one year, as both private consumption and fixed investment increased at a slower pace. For 2019, the government is targeting economic growth at 5.3%, while the Central Bank of Indonesia has forecast a range of between 5.0% and 5.4%.

The Board of Governors of Bank Indonesia (BI) agreed to hold the BI 7-Day Reverse Repo Rate at 6.00%, while also maintaining the Deposit Facility and Lending Facility rates at 5.25% and 6.75%, respectively. The decision is consistent with ongoing efforts to strengthen the external stability of the Indonesian economy and to reduce the current account deficit to a manageable threshold, while maintaining the attractiveness of domestic financial assets.

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 31 March 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	6.17%	6.67%	16	7.99%	8.49%
2	6.77%	7.27%	17	8.02%	8.52%
3	7.06%	7.56%	18	8.05%	8.55%
4	7.22%	7.72%	19	8.08%	8.58%
5	7.33%	7.83%	20	8.10%	8.60%
6	7.42%	7.92%	21	8.12%	8.62%
7	7.50%	8.00%	22	8.14%	8.64%
8	7.57%	8.07%	23	8.16%	8.66%
9	7.64%	8.14%	24	8.18%	8.68%
10	7.71%	8.21%	25	8.19%	8.69%
11	7.77%	8.27%	26	8.20%	8.70%
12	7.82%	8.32%	27	8.21%	8.71%
13	7.87%	8.37%	28	8.22%	8.72%
14	7.91%	8.41%	29	8.23%	8.73%
15	7.95%	8.45%	30	8.24%	8.74%

Based on the latest data from Statistics Indonesia (BPS), consumer prices in Indonesia grew 2.57% year-on-year (y/y) in February 2019, a near-decade low, and below the forecast rate of 2.75% y/y. This is the lowest level of inflation observed in Indonesia for almost a decade. The inflation slowdown gives policy makers further reason to end the aggressive tightening of the monetary cycle. BI has kept its interest rate unchanged at 6% in the past three policy meetings. Enrico Tanuwidjaja, the Head of Economics and Research for PT Bank UOB Indonesia in Jakarta, believes that inflation may remain low for some time and the need for BI to begin lowering interest rates has strengthened. He was quoted as saying, 'We have indeed changed our forecast for BI to start normalising its policy rate in the fourth quarter of 2019 if conditions warrant,' adding that BI may lower interest rates by a cumulative 50 basis points (bps) in Q4 2019.

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