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We are pleased to present the February 2019 edition of Milliman's Indonesia Life Insurance Newsletter. This edition covers developments during the period from 1 October 2018 to 31 December 2018.

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 Q3 2018

According to the Indonesia Insurance Statistics published by the Financial Services Authority (OJK), the Indonesian life insurance industry has continued to grow. The growth between Q3 2017 and Q3 2018 is summarized below:

FINANCIALS (IN IDR TRILLION)	Q3 2017	Q3 2018	% CHANGE
NET PREMIUM INCOME	127.07	136.71	8%
INVESTMENT AND OTHER INCOME	14.06	7.51	(47)%
TOTAL INCOME	141.13	144.22	2%
CLAIMS AND BENEFITS	99.70	110.20	11%
COMMISSION AND ACQUISITION COSTS	13.99	14.09	1%
OPERATING EXPENSES	23.97	18.15	(24)%
TOTAL EXPENSES	137.66	142.44	3%
PROFIT BEFORE TAX AND OCI	3.46	1.78	(49)%
TAX AND OCI	1.61	1.66	3%
NET PROFIT BEFORE OCI	1.85	0.12	(94)%
TOTAL ASSET	486.66	516.34	6%
PREMIUM RESERVE	365.48	396.25	8%
UNEARNED PREMIUM RESERVE	3.17	3.34	5%
CLAIM RESERVE	3.58	4.14	15%
CATASTROPHIC RESERVE	0.01	0.01	(22)%
TOTAL TECHNICAL RESERVE	372.25	403.73	8%

Note: OCI = Other Comprehensive Income. Source: OJK's Indonesia Insurance Statistics: September 2017 and September 2018.

The life insurance industry remained profitable before tax and other comprehensive income (OCI) during Q3 2018. The profit was mainly driven by higher net premium income and a decrease in operating expenses but is offset by higher claims and benefits and lower investment income. The increase in net premium was mainly driven by higher premium income received by insurance companies. The increase in commission and acquisition costs was driven by an increase in distribution expenses and overriding commission but offset by a decrease in first-year commission.

Market news

MERGER AND ACQUISITIONS (M&A)

Commonwealth Bank of Australia (CBA) agreed to sell its controlling stake in PT Commonwealth Life to the FWD Group for AUD 426 million (USD 300 million). From reports, CBA stated that the transaction aligns its strategy to focus on its core

banking businesses. In addition, PT Bank Commonwealth will enter into a 15-year distribution partnership with FWD Group.

UPDATE ON JIWASRAYA

According to Kontan, Jiwasraya delayed claim payments on its bancassurance product, JS Proteksi Plan, due to an issue with liquidity. As at October 2018, it was reported that Jiwasraya had outstanding claim amounts of IDR 802 billion arising from 711 policies. It is stated that Jiwasraya targets paying the maturity benefit of all its savings products by Q2 2020 at the latest.

UPDATE ON RESTRUCTURING OF ASURANSI JIWA BERSAMA BUMIPUTERA 1912 (AJBB 1912)

The new management of AJBB 1912 stated that claim payments are its top priority. From January to mid-October 2018, AJBB 1912 had paid claims totalling IDR 3.3 trillion (USD 229 million).

KEY APPOINTMENTS

According to local news, AJBB 1912 appointed a new management team officially effective from November 2018. The new management team comprises:

- President Director: Sutikno Sjarif
- Technical Director: Sri Rahayu
- Corporate Director: Yusuf Budi Baik
- Human Resources (HR) Director: Dena Chaerudin

Dena Chaerudin is an internal candidate from AJBB 1912, while the other three candidates have moved from PT Zurich Topas Life.

Regulatory developments

NEW REGULATIONS OVER Q4 2018

Two circular letters (SEOJK) were released during the period 1 October 2018 to 31 December 2018 and are summarized below:

- SEOJK No. 15/2018 and SEOJK No. 16/2018 are guidelines for the purpose of preparing a Liquidity Temporary Balance Sheet following a company having its license revoked by the OJK. The guidelines apply to both conventional and Syariah companies.

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

IFRS 17

The International Accounting Standards Board (IASB) voted to propose a one-year delay to the global implementation of International Financial Reporting Standard (IFRS) 17, its new insurance contracts standard, from 2021 to 2022. However, the delay was less than had been hoped for. A group of insurance bodies, including associations from Korea, Australia and New Zealand, had written to the IASB in October asking them to consider a two-year delay to meet the significant challenges that insurers face in implementing the new standard, warning of 'serious operational constraints on insurers' ability to successfully implement IFRS 17 on the current timelines.' The Indonesian Accounting Standards Board has not officially commented on how Indonesia will be affected by the IASB's

one-year delay. However, anecdotal evidence suggests that a two- or three-year delay is expected.

In November, Philip Jackson and Brian Colgan hosted a Milliman webinar entitled 'IFRS 17: What lies beneath' for clients based in Jakarta. Philip is a consulting actuary in our Mumbai office and has been prominent in helping Indian life insurers understand the implications of IFRS 17. The content included:

- A basic introduction to the key components of IFRS 17
- Lessons learnt from more advanced markets
- Simple numerical examples of key metrics
- The potential impact of IFRS 17 on Syariah business

The majority of life insurers in Jakarta attended the webinar and many took the opportunity to have a face-to-face meeting with Philip and Brian afterwards.

An e-Alert detailing the challenges faced by insurers implementing IFRS 17 for Takaful companies is available [here](#).

SYARIAH SPIN-OFF

In November 2018, the OJK noted that 48 insurance companies have not yet spun-off their Syariah windows into separate standalone Syariah insurers. The 48 companies comprise 22 life insurers, 24 general insurers and two reinsurers. Ahmad Syahroni, Chairman of Indonesia Syariah Insurance, noted the main obstacles faced by Syariah windows is a difficulty in fulfilling the minimum paid up capital in addition to any other capital that may be required to fund the growth of the business.

Brian Colgan and Farzana Ismail have coauthored an e-Alert that explains issues faced by Syariah windows when spinning-off. Farzana Ismail is a principal and consulting actuary based in Kuala Lumpur and is Milliman's regional expert on Takaful and Syariah insurance. The e-Alert is available [here](#).

Distribution updates

BANCASSURANCE CHANNEL

The following new bancassurance partnerships have been announced:

- **PT Equity Life Indonesia (Equity Life)** signed a bancassurance partnership with **PT Bank Pembangunan Daerah Jawa Timur (Bank Jatim)** to sell two whole life insurance products to Bank Jatim's customers.
- **PT Sinarmas MSIG Life (Sinarmas MSIG)** and **PT Bank Pembangunan Daerah Jawa Timur Syariah (Bank Jatim Syariah)** entered into a bancassurance partnership, offering two Syariah unit-linked products to Bank Jatim Syariah's customers.
- **PT FWD Life Indonesia (FWD Life)** will now offer its term life insurance product to **PT Bank Mestika Dharma Tbk (Bank Mestika)** customers.

In October 2018, the International Monetary Fund (IMF) cut its outlook for Indonesia's gross domestic product (GDP) growth

- **FWD Life** also entered into a partnership with **PT Bank Tabungan Negara Tbk (Bank BTN)**, selling its unit-linked Syariah product to Bank BTN's customers.

DIGITAL CHANNEL

The following new digital partnerships have been announced:

- **PT AXA Financial Indonesia (AFI)** entered into partnership with **WE+**, a fintech company. WE+ will distribute **AFI's** personal accident products through Alfamart retail stores.
- **PT Tokio Marine Life Insurance Indonesia (TMLI)** announced a partnership with **PT Futuready Insurance Broker (Futuready.com)** to sell **TMLI's** insurance products.
- **PT Chubb Life Insurance Indonesia (Chubb Life)** has partnered with **Futuready.com** to sell extra cashback protection plans, a return-of-premium term life product.

PT Asuransi Jiwa BCA (BCA Life) launched a new mobile service app to provide prompt responses to customers. Through this app, customers can access their policy data and submit claim documents digitally.

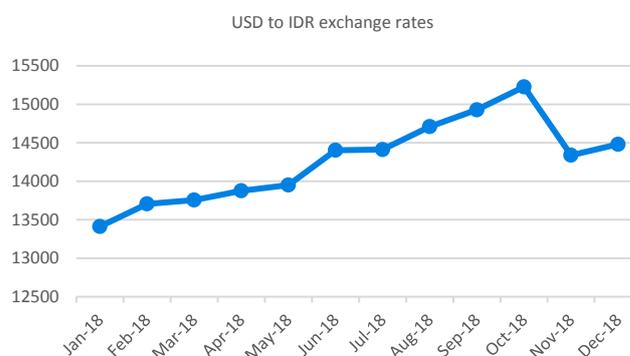
OTHERS

PT Asuransi Jiwa Cigna Indonesia (Cigna) and **Sampoerna Strategic (Sampoerna)** agreed on a partnership whereby Cigna will offer unit-linked and health insurance to Sampoerna's customers and employees.

Other Recent Developments

MACROECONOMICS

The Indonesian rupiah weakened every month during the first three quarters of 2018 and reached its lowest value against the U.S. dollar in October 2018. However, it strengthened by 5.8% over November before weakening again in December. According to Dody Budi Waluyo, Bank of Indonesia deputy governor, a higher capital inflow of IDR 24 trillion from stocks, Indonesian government securities and corporate bonds contributed to the appreciation in November 2018. The graph below shows the IDR-USD exchange for the past 12 months.



Source: Foreign Exchange Reference Rate rates on <https://www.bi.go.id/en/moneter/informasi-kurs/referensi-jisdor/Default.aspx>.

for 2018 and 2019 in line with the downward revision of the IMF's global economic outlook. The growth in GDP is now

expected to reach 5.1% year-on-year in both 2018 and 2019. This is a significant downward revision, relative to the IMF's original forecast of 5.3% year-on-year in 2018 and 5.5% year-on-year in 2019. Key reasons include monetary policy decisions in several of the top economies (such as a tightening of monetary policy in the United States and the European Union), and ongoing global concerns about trade and rising crude oil prices.

The seven-day reverse repo rate remained unchanged in October 2018 but increased by 25 basis points in November 2018 to 6%. However, the Reserve Bank of Indonesia decided to maintain the November rate at its December meeting. Overall, the seven-day reverse repo rate increased by 175 basis points since May 2018.

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 December 2018:

TENOR	IDR		TENOR	IDR	
	12-MONTH AVERAGE	12-MONTH AVERAGE + 0.5%		12-MONTH AVERAGE	12-MONTH AVERAGE + 0.5%
0.1	4.99%	5.49%	16	7.99%	8.49%
1	6.17%	6.67%	17	8.02%	8.52%
2	6.77%	7.27%	18	8.05%	8.55%
3	7.06%	7.56%	19	8.08%	8.58%
4	7.22%	7.72%	20	8.10%	8.60%
5	7.33%	7.83%	21	8.12%	8.62%
6	7.42%	7.92%	22	8.14%	8.64%
7	7.50%	8.00%	23	8.16%	8.66%
8	7.57%	8.07%	24	8.18%	8.68%
9	7.64%	8.14%	25	8.19%	8.69%
10	7.71%	8.21%	26	8.20%	8.70%
11	7.77%	8.27%	27	8.21%	8.71%
12	7.82%	8.32%	28	8.22%	8.72%
13	7.87%	8.37%	29	8.23%	8.73%
14	7.91%	8.41%	30	8.24%	8.74%
15	7.95%	8.45%			

Indonesia's annual inflation has increased since the last quarter to 3.23% year-on-year in November 2018, up from 3.16% year-on-year in October 2018.

Indonesia's annual inflation is 3.13% in December 2018. This is lower than the central government's original target of 3.5% and revised prediction of 3.25%.

MICROINSURANCE BRIEFING

In October 2018, Milliman Jakarta held a microinsurance briefing presented by Michael J. McCord, the managing director of the MicroInsurance Centre at Milliman. Key lessons and takeaways from the briefing included:

- Typically, insurers add microinsurance to their portfolios when the top end of the market becomes saturated and competition puts pressures on their top and bottom lines.
- Careful planning and development will help insurers gain multiple benefits. The direct benefits are monetary revenue received by insurers, while an indirect benefit is that the insurers can build their own captive markets.
- Insurers' biggest concern is the critical volume of policyholders required to make microinsurance commercially viable. Michael discredited this myth by discussing viable microinsurance in the Central American nation of Belize with a population of only 400,000 people.
- In order to be successful, microinsurance needs to be SUAVE: Simple, Understood, Accessible, Valuable and Efficient. This concept helps to better understand microinsurance customers and their needs in order to develop more suitable products.

An e-Alert with all the key takeaways from the briefing is available [here](#).

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