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We are pleased to present the August 2020 edition of Milliman's Indonesia Life Insurance Newsletter. This edition covers developments during the period from 1 April 2020 to 30 June 2020.

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 2020

According to the Indonesia Insurance Statistics published by the Financial Services Authority (OJK), the Indonesian life insurance industry moved from making a profit (before tax and other comprehensive income (OCI)) at Q1 2019 to making a loss at Q1 2020. The change over the period is summarised below:

Financials (in IDR trillion)	Q1 2019	Q1 2020	% Change
Net Premium Income	41.67	38.06	(9)%
Investment and Other Income	2.48	7.08	185%
Total Income	44.15	45.15	2%
Total Claims and Benefits	32.83	36.95	13%
Commission and Acquisition Costs	4.49	4.62	3%
Operating Expenses	6.64	4.00	(40)%
Total Expenses	43.97	45.57	4%
Profit / (Loss) Before Tax and OCI	0.18	(0.42)	(333)%
Tax	0.61	0.42	(31)%
Net Profit / (Loss) Before OCI	(0.43)	(0.84)	(96)%
Total Assets*	534.75	496.23	(7)%
Premium Reserve	409.97	379.79	(7)%
Unearned Premium Reserve	3.97	4.31	9%
Claim Reserve	4.70	5.35	14%
Catastrophic Reserve	0.04	0.05	22%
Total Technical Reserve	418.68	389.50	(7)%

Note: OCI = other comprehensive income.

* As at 31 March 2019 and 31 March 2020.

Source: OJK's Indonesia Insurance Statistics: March 2019 and March 2020.

Between Q1 2019 and Q1 2020, the net profit before tax and OCI decreased by IDR 0.60 trillion, mainly caused by an IDR 3.61 trillion decrease in net premium income and an IDR 1.60 trillion increase in total expenses, despite an increase of IDR 4.60 in investment and other income.

The decrease in net premium income was driven by lower gross written premium and higher reinsurance premiums ceded.

In addition, total expenses increased as a result of higher total claims and benefits, commission and acquisition costs, despite slightly lower operating expenses.

Market news

NEW PRODUCTS

The following new life insurance products were reported to have been launched during Q2 2020:

- PT Asuransi Allianz Life (Allianz)** introduced a new unit-linked product designed for affluent customers. Premiums start from IDR 25 million or USD 2,500 per year and provide cover up to age 100. Benefits include life cover, accelerated critical illness, a non-guaranteed investment return and a loyalty bonus of up to 70% of annualised basic premium in year 5. The accelerated critical illness benefit is the higher of 20% of life cover or 500% of annualised basic premium and paid on diagnosis of a heart attack, cancer or stroke. The product is marketed under the names **MyProtection Infinite, Premium Wealth Assurance** and **Guardia Signature** through Allianz's existing bancassurance partners **PT Maybank Indonesia (Maybank), PT Bank HSBC Indonesia (HSBC)** and **PT Bank Tabungan Pensiunan Nasional (BTPN)**, respectively.
- PT Asuransi Jiwa Manulife Indonesia (Manulife)** released **MiTreasure Flexi Assurance**, a new unit-linked product. The product offers life cover up to age 110, 100% allocation of premium from year 2 and an additional 2% allocation from year 11 onwards. A loyalty benefit of 200% of annualised basic premium is also paid on the policy's 15th anniversary. MiTreasure Flexi Assurance is sold through Manulife's existing bancassurance partner **PT Bank DBS Indonesia (DBS)**.
- PT Prudential Life Assurance (Prudential)** launched a new standalone health product, named **PRUSolusi Sehat**, available in both conventional and Syariah versions. The product offers a no-claim bonus of up to 50% of the annual claim limit and one month's free cover if customers pay premiums annually.
- PT Asuransi Jiwa Sinarmas MSIG Tbk (Sinarmas MSIG Life)** released a new health cover rider named **SMiLe Medical Extra (SMEX)**. The rider covers medical expenses and provides customers with their own private rooms during hospitalisation in Indonesia or worldwide (excluding the US) with cashless payment of claims.

INDUSTRY RESPONSE TO THE COVID-19 PANDEMIC

Several companies provide cover and offer additional benefits to policyholders diagnosed with COVID-19 despite the World Health Organization (WHO) categorising the virus as a pandemic (which would normally lead to such an incidence being excluded).

- Prudential** offered free cover of IDR 1 million per day hospitalisation benefit (maximum 30 days) and IDR 10 million life cover for death from COVID-19 to all residents in Indonesia in return for registering on Prudential's Pulse mobile app. Cover was offered regardless of whether or not the person was an existing Prudential customer.

- **Prudential** collaborated with **KoinWorks**—a financial services platform—to provide KoinWorks’ costumers the opportunity to donate cover against COVID-19 to less-fortunate Indonesians as part of its **KoinDonasi** campaign.
- **PT Asuransi Jiwa Sequis Life (Sequis Life)** launched the **SuperTogether** program to provide IDR 3 million death cover and IDR 5 million accidental death benefit if diagnosed with COVID-19 free of charge to all residents who register with the program.
- **Sinarmas MSIG Life** provides additional benefits for its policyholders diagnosed with COVID-19. The benefits offered are IDR 1 million per day hospitalisation cash benefit (maximum 30 days) and IDR 30 million death benefit on death from the virus.
- **PT PFI Mega Life Insurance (PFI Mega)** sold COVID-19 cover through **GRAB**. The product offers IDR 2 million cover on treatments while in intensive care units and IDR 10 million death cover for monthly premiums of IDR 10,000.
- **PT AXA Mandiri Financial Service (AXA Mandiri)** and **PT AXA Financial (AXA)** are working with **Halodoc** to provide telemedicine services for customers. The companies provide free consultations with general practitioners and psychologists for customers and employees.
- **PT Ciputra Life (Ciputra Life)** markets its **Asuransi Mikro Kesehatan Receh** microinsurance product through insurtech firm **Igloo**. Igloo launched this COVID-19 cover through e-commerce platforms **Blibli** and **Bhinneka**. With premium starting from IDR 24,000 annually, customers will be eligible for IDR 50,000 per day hospitalisation benefit (maximum 10 days).

KEY APPOINTMENTS

- **PT AJB Bumiputera 1912 (Bumiputera)** nominated Dirman Pardosi and Deddy Herupurnomo as candidates for the roles of President Director and Director of Finance and Investment, respectively. However, both candidates failed the OJK’s fit and proper test. As a result, the candidates’ appointments must be revoked within three months based on the OJK’s decision letter **No. S-2149/NB.111/2020**.

LIQUIDITY ISSUE

- In May 2020, the management of **PT Asuransi Jiwa Kresna (Kresna Life)** identified the economic and stock market crises caused by COVID-19 as a *force majeure* event and as affecting its liquidity to pay claims. Kresna Life suspended paying claims and benefits on its **Kresna Link Investa (K-LITA)** and **Protecto Investa Kresna (PIK)** products. However, the company has promised to pay policyholders’ claims by 11 February 2021 at the latest.

MERGER AND ACQUISITIONS

- **PT FWD Life Indonesia (FWD Life)** completed the acquisition of **PT Commonwealth Life (PTCL)** from **Commonwealth Bank of Australia**. After the deal, PTCL has officially rebranded to **PT FWD Insurance Indonesia**.

- In June 2020, **FWD Group** agreed to acquire a 30% minority stake in **PT Asuransi BRI Life (BRI Life)**, with local media reporting that it bid around USD 300 million. The transaction covers a 15-year life insurance distribution agreement allowing FWD Group to access half of Indonesia’s population through BRI Life’s network.
- It has been reported that **PT Asuransi Jiwa Taspen (Taspen Life)** won the bidding for **PT Jiwasraya Putra**, with Taspen Life reported to own 70% of Jiwasraya Putra’s shares and the remaining 30% to be owned by **PT Bank Tabungan Negara Persero (BTN)**.

Regulatory developments

NEW REGULATIONS OVER Q2 2020

There were six OJK regulations (POJKs) and one OJK press release (SP) issued during the period:

- **SP 39/DHMS/OJK/V/2020** was released as part of the OJK’s second phase of countercyclical policies against the impact of COVID-19. From May 2020, the OJK allows insurers to sell unit-linked products via video call or video conference, replacing the existing requirement of a mandatory face-to-face meeting for agents to explain the product’s benefits and risks. Additionally, customers’ wet signatures confirming that they have been advised about the product’s benefits, fees and risks can be replaced by digital signatures.
- **POJK NO 36/POJK.02/2020** amends the OJK’s procedure of imposing administrative sanctions under **POJK NO 4/POJK.04/2014**. The OJK may now postpone issuing warning letters and imposing interest on levies due to the impact of COVID-19. The postponement applies to sanctions or warning letters issued from 1 January 2020.
- **POJK No 28/POJK.05/2020**, effective from April 2020, requires non-bank financial institutions to self-assess and rank their business from “Healthy” to “Unhealthy” using a risk-based insurance rating by examining good corporate governance, risk profile, profitability and capital.
- **POJK NO 30/POJK.05/2020**, effective from April 2020, amends **POJK NO 11/POJK.05/2014** regarding the OJK’s authority to appoint a party to conduct an on-site examination of a financial services company. The amendment includes an increase in the frequency of on-site examinations from once every three years to once every year. The OJK can conduct an on-site examination if the shareholders, subsidiaries and other parties threaten the financial services institution’s risk level or cause a violation of prevailing laws and regulations.
- **POJK NO 38/POJK.05/2020** allows insurers and reinsurers to locate their data centers and disaster recovery centers outside of Indonesia, subject to the OJK’s approval. **POJK NO 38/POJK.05/2020** amends **POJK NO 69/POJK.05/2016** and is effective from June 2020.

- **POJK NO 39/POJK.05/2020** now allows insurers to cede at most 50% of their simple risks to foreign reinsurers from 30 June 2020. The second amendment to **POJK NO 14/POJK.05/2016** aims to balance domestic reinsurers' competitiveness and good enterprise risk management. Previously, the OJK mandated 100% allocation of simple risks to domestic reinsurers.
- **POJK NO 40/POJK.05/2020** gives the OJK the authority to issue a written order to financially troubled non-bank institutions to merge, acquire or integrate. The written order will be issued to financially healthy companies which, based on the OJK's assessment, will not be able to survive the current economic situation or to insolvent companies with no ability to inject additional capital. The regulation aims to maintain economic stability during the COVID-19 pandemic and is effective from June 2020.

Distribution updates

BANCASSURANCE CHANNEL

The following new bancassurance partnerships were announced over Q2 2020:

- **Manulife** and **PT Bank Danamon Indonesia Tbk (Bank Danamon)** extended their existing bancassurance partnership until 2036.
- **PT Great Eastern Life Indonesia (Great Eastern)** and **PT Bank Muamalat Indonesia Tbk (Bank Muamalat)** entered a bancassurance partnership by launching a credit life product called **Asuransi Great Hasanah Pembiayaan**.
- **PT Capital Life Indonesia (Capital Life)** and **PT Bank Rakyat Indonesia Agroniaga Tbk (BRI Agro)** signed a bancassurance agreement by launching a credit life product designed for BRI Agro's costumers.

DIGITAL CHANNEL

Several companies below are reported to have launched digital channels in response to the OJK's approval to sell unit-linked products online:

- **PT AIA Financial (AIA)** launched **AIA DigiBuy** to remove the need to meet face-to-face when selling traditional and unit-linked products through the agency and bancassurance channels.
- **Allianz** launched **Allianz Eazy Cover** to sell unit-linked products online. Customers can access information and get explanations of products sold by agents through this platform.
- **PT Sun Life Financial Indonesian (Sun Life)** launched **Sun Connect** to sell unit-linked products online in the period of social distancing due to COVID-19.
- **Prudential** now sells unit-linked products online through its **PRUCekatan** platform.
- **PT Astra Aviva Life (Astra Aviva)** started selling unit-linked products via video calls.

INSURTECH

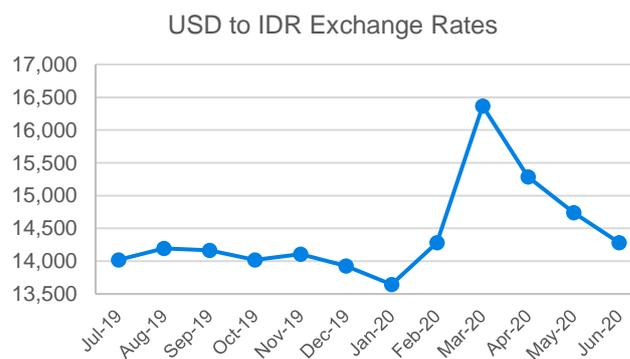
The following new digital applications or platforms were launched:

- **PT Asuransi Generali Indonesia (Generali)** launched the **Dokter Leo** service on its digital platform **Gen iClick**. The service aims to help policyholders access medical services online due to social distancing.
- **PT PasarPolis Indonesia (PasarPolis)** with **PT Espay Debit Indonesia Koe (DANA)** now provide the **DANA Siaga** feature on the DANA e-wallet mobile application. The DANA Siaga feature allows customers to buy microinsurance products offered by PasarPolis, namely Asuransi Jiwa by **PT Asuransi Jiwa Starinvestama (Starinvestama)** and **Asuransi Rawat Inap Rumah Sakit** by **PT Lippo General Insurance Tbk**. The first product offers death cover of IDR 10 million (premium start from IDR 8,000 per month) and the latter provides in-patient benefit (IDR 50,000 per day) and surgical benefit (IDR 100,000 per day) with premium starting from IDR 9,900 per month.
- **FWD Life** now allows **PT Trinusa Travelindo (Traveloka)** app users to access FWD Life's e-commerce platform www.ifwd.co.id.
- **PFI Mega** works with **Halodoc** to provide access to Halodoc's telemedicine service to policyholders of **Mega Kesehatan**, an employee benefit product sold by PFI Mega.

Other recent developments

MACROECONOMICS

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



Source fx rate: www.xe.com

From Q2 2019 to Q2 2020, the Indonesian rupiah was at its lowest against the US dollar in March 2020, depreciating around 17.5% compared to 31 December 2019 triggered by the COVID-19 pandemic. However, the rupiah exchange rate has slowly recovered, approaching a position similar to August 2019 by the end of June 2020. The Central Bank of Indonesia (BI) attributed the appreciation over Q2 2020 to an influx of foreign capital to domestic financial markets after various policies were implemented around the world to mitigate the economic impact of COVID-19.

Indonesia sold a number of US dollar-denominated bonds as part of its policy to ease the impact of COVID-19, including selling its first 50-year term bond. The bonds were sold in maturities of 10.5 years, 30.5 years and 50 years. The tranches covering 10.5 years and 30.5 years raised USD 1.65 billion each, while the 50-year term tranche raised USD 1 billion.

BI estimated domestic economic growth in 2020 will decrease by between 0.9% and 1.9% but will increase in 2021 by around 5.0% to 6.0%, supported by global economic recovery from COVID-19 and from stimulus by the Indonesian government.

The consumer price index (CPI) inflation in May 2020 was recorded at 0.08% month-on-month (m/m), slightly increasing from 0.07% m/m in April 2020. BI stated that the lower inflation rate was attributed to lower core inflation from goods such as commodities and gold prices and to deflation on food prices despite an increase in government-controlled prices such as transport, cigarettes and household petrol. The CPI inflation was maintained at 2.19% year-on-year (y/y) in May 2020, a slight decrease from 2.67% y/y in April 2020, and remained within the government's target range of 3.0% \pm 1% y/y.

In June 2020, the board of governors of BI agreed to lower the BI 7-day reverse repo rate, the deposit facility rate and the lending facility rate by 25 basis points (bps) each to 4.25%, 3.50% and 5.00%, respectively. BI stated that the decisions are consistent with the government's strategy to maintain domestic economic stability during the COVID-19 pandemic.

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 rate as at 30 June 2020:

IDR			IDR		
Tenor	Average of last 1 year	Average of last 1 year + 0.5%	Tenor	Average of last 1 year	Average of last 1 year + 0.5%
1	5.49	5.99	16	7.96	8.46
2	6.04	6.54	17	7.99	8.49
3	6.39	6.89	18	8.02	8.52
4	6.64	7.14	19	8.05	8.55
5	6.83	7.33	20	8.07	8.57
6	7.00	7.50	21	8.08	8.58
7	7.15	7.65	22	8.09	8.59
8	7.29	7.79	23	8.10	8.60
9	7.41	7.91	24	8.11	8.61
10	7.52	8.02	25	8.11	8.61
11	7.62	8.12	26	8.11	8.61
12	7.71	8.21	27	8.11	8.61
13	7.79	8.29	28	8.11	8.61

IDR			IDR		
Tenor	Average of last 1 year	Average of last 1 year + 0.5%	Tenor	Average of last 1 year	Average of last 1 year + 0.5%
14	7.85	8.35	29	8.11	8.61
15	7.91	8.41	30	8.11	8.61

Source: Indonesia Bond Pricing Agency (IBPA)

ASIA MICROINSURANCE SUPPLY-SIDE STUDY

In April 2020, the Microinsurance Centre @ Milliman (MIC@M) hosted a webinar entitled "Asia Microinsurance Supply-side Study 2020," which highlighted insurers' perspectives of the microinsurance market and challenges faced by microinsurance providers in Bangladesh, China, India, Indonesia and the Philippines.

Key lessons and takeaways included:

- Personal accident, term life and credit life products are the most prevalent types of microinsurance products offered.
- Banks and financial institutions, microfinance banks and microinsurance agents are the top three distribution channels for microinsurance in Indonesia.
- Each country's study, including Indonesia, remains reliant on technology in physical forms. However, there was also a rise in the use of mobile phones (smartphones), particularly in the enrollment, premiums and claim-related processes.
- Indonesia had relatively low levels of internal support for developing microinsurance compared to the other countries. The study identified the lack of access to appropriate distribution channels as the key challenge faced.

The country analysis for Indonesia is available [here](#).

SYARIAH SPIN-OFF UPDATE

In June 2020, Milliman published an e-Alert entitled "Indonesia: Companies to Reassess the Impact of Spinning-off Syariah Windows Following a Recent Regulatory Update" and co-authored by Brian Colgan and Farzana Ismail. The article discusses how the draft OJK regulation to amend **POJK No. 67/POJK.05/2016** and government regulation **PP No. 3/2020** provide clarity on areas including limits on foreign shareholding, capital requirements, the spin-off process and shared services.

The full e-Alert is available [here](#).

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