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We are pleased to present the May 2020 edition of Milliman's Indonesia Life Insurance Newsletter. This edition covers developments during the period from 1 January 2020 to 31 March 2020.

We trust you find this edition informative. As always, we look forward to receiving your feedback, questions or comments.



Brian Colgan  
*Head of Life Insurance  
Consulting, Indonesia*



David Kong  
*Consulting Actuary  
Singapore, Life*



Halim Gunawan  
*Country Manager  
Indonesia*



Richard Holloway  
*Managing Director, South  
East Asia & India, Life*

## Market performance

### INDUSTRY PERFORMANCE AT Q4 2019

According to the Indonesia Insurance Statistics published by the Financial Services Authority (OJK), the Indonesian life insurance industry made a larger after-tax loss in Q4 2019 compared to Q4 2018. The change over the period is summarised below:

FINANCIALS (IN IDR TRILLION)	Q4 2018	Q4 2019	% CHANGE
NET PREMIUM INCOME	180.60	179.35	-(1)%
INVESTMENT AND OTHER INCOME	5.64	3.43	-(39)%
TOTAL INCOME	186.25	182.78	(2)%
TOTAL CLAIMS AND BENEFITS	142.58	145.95	2%
COMMISSION AND ACQUISITION COSTS	18.96	19.90	5%
OPERATING EXPENSES	24.51	23.51	(4)%
TOTAL EXPENSES	186.05	189.37	2%
PROFIT / (LOSS) BEFORE TAX AND OCI	0.19	(6.59)	(3496)%
TAX	2.37	2.06	(13)%
NET PROFIT / (LOSS) BEFORE OCI	(2.17)	(8.65)	298%
TOTAL ASSETS*	520.63	553.21	6%
PREMIUM RESERVE	401.29	425.52	6%
UNEARNED PREMIUM RESERVE	2.92	3.12	7%
CLAIM RESERVE	5.23	5.40	3%
CATASTROPHIC RESERVE	0.11	0.10	(3)%
TOTAL TECHNICAL RESERVE	409.55	434.15	6%

Note: OCI = other comprehensive income.

\* As at 31 December 2018 and 31 December 2019

Source: OJK's Indonesia Insurance Statistics: December 2018 and December 2019.

Over Q4 2019, the net profit before OCI decreased compared to Q4 2018, caused mainly by a 39% decrease in investment income and a 2% increase in total expenses.

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

Total claims and benefits increased mainly due to significant unit redemption claims. In addition, total expenses increased as a result of higher marketing expenses and employee/management expenses.

## Market news

### NEW PRODUCTS

The following new life insurance products were reported to have been launched during Q1 2020:

- PT Prudential Life Assurance (Prudential)** launched **PRUTotal Critical Protection**, an innovative critical illness rider for both conventional and Syariah business. The rider offers protection against an unlimited number of critical illnesses, including undiscovered ones. The rider comes bundled with Prudential's other rider benefits, **PruCrisis Cover Benefit 34/Plus61** with **PruTotal Critical Protection** and **PRUEarly Stage Crisis Cover/Plus** with **PRUTotal Critical Protection**, covering major critical illnesses-only and both major and minor critical illnesses with death cover, respectively.
- Prudential** also launched a 20-year Syariah term life product called **PRUcinta** that provides life cover plus a further three times sum assured for accidental death, guaranteed cash benefits on maturity and additional accidental death benefit during Ramadhan and the *mudik* period when policyholders travel to celebrate Eid al-Fitr.
- PT FWD Life Indonesia (FWD Life)** launched **Critical Armor** covering multiple critical illnesses. Policyholders are allowed to make three claims against 50 different major critical illnesses plus one claim against 15 minor critical illnesses. A similar product, **FWD Multiple Protection**, was launched through **PT Bank Commonwealth** with the same critical illness benefits of up to 420% of sum assured.
- PT Asuransi Jiwasraya (Persero) (Jiwasraya)** launched two microinsurance products, namely **JS Asuransi Mikro Sahabat** and **JS Demam Berdarah**. The first product provides death cover up to IDR 30 million with premiums starting from IDR 50,000. The second product provides protection against dengue fever with in-patient benefits amounting to IDR 500,000 per day with a premium of IDR 17,500 for three months' cover.
- PT AIA Financial Asuransi (AIA)** launched a traditional life product, **AIA Protection Income Plan**, with a choice of four premium payment terms: 5, 10, 15 and 20 years with premiums starting from IDR 24 million per year. The product offers a death benefit, with a guaranteed cash benefit every year during the guaranteed period. Additionally, a non-guaranteed cash benefit will be paid every year after the guaranteed period until maturity. On maturity, the policyholder will be given a maturity benefit with a non-guaranteed bonus.
- PT Asuransi Jiwa Manulife Indonesia (Manulife)** released a new unit-linked product named **MiSmart Insurance Solution (Mission)** with a minimum premium of IDR 4 million per year. The product offers 100% allocation to investment funds from the second year and comes with a choice of three riders: **MiSmart Health Care**, **MiSmart Critical Care** and **MiSmart Waiver of Premium**.

- **PT Asuransi Jiwa Generali Indonesia (Generali)** launched **i-PRO 100**. The 15-year term life product offers a death benefit starting from IDR 50 million until age 99 and is sold through the bancassurance arrangement with **PT Bank Mestika Dharma Tbk (Bank Mestika)**.
- **PT Asuransi Allianz Life (Allianz Life)** launched a new product, **Joint Life Care**, sold by **PT Bank HSBC Indonesia (HSBC Indonesia)**. The product is a joint life term insurance for married couples with a sum assured up to IDR 1.5 billion and with premiums starting from IDR 500,000 per month. Allianz Life also launched a credit life product called **Smart Protection** for customers of **PT Bank Maybank Indonesia (Maybank)**. Similar products are also offered through Bank Mestika specific to mortgage loans.
- **PT Astra Aviva Life (Astra Life)** and **PT Bank Permata Tbk (Bank Permata)** launched **AVA iPro Prima Plus** through Bank Permata's telemarketing channel. The product offers death, critical illness and cash benefit upon hospitalisation with premiums starting from IDR 100,000 per month.
- **PT Avrist Life Assurance (Avrist)** released two new Syariah unit-linked products, namely **Hijrah Ahsan Proteksi** and **Hijrah Safa Syariah** that provide 200% sum assured upon accidental death or death during the hajj pilgrimage. The products are sold through **PT Bank Muamalat Indonesia**.

#### INDUSTRY RESPONSE TO THE COVID-19 PANDEMIC

Although COVID-19 is categorised as a pandemic by the World Health Organization (WHO), the companies below are reported to provide cover and additional benefits for policyholders diagnosed with the virus:

- **PT AXA Mandiri Financial Services (AXA Mandiri)** confirmed its policyholders will be covered by death caused by COVID-19.
- **PT Tokio Marine Life Insurance Indonesia (Tokio Marine)** includes COVID-19 on the list of illnesses covered by its health product.
- **Prudential** provides a free hospitalisation benefit of IDR 1 million per day—limited to 30 days' cover—to its policyholders diagnosed with the virus.
- **AIA** also provides an additional hospitalisation cash benefit of IDR 1.5 million per day—limited to 30 days' cover—at no cost to its policyholders diagnosed with COVID-19.
- Free additional cover provided by **FWD Life** includes a IDR 10 million lump sum cash benefit, IDR 1 million per day (maximum 30 days) hospitalisation benefit and a quarantine benefit of IDR 5 million and IDR 2.5 million for the insured and each family member, respectively. In addition, **FWD Life** also provides a death benefit of IDR 50 million.

- **Generali** provides an extra 10% of sum assured, which is limited to IDR 500 million for death from COVID-19.
- **PT Asuransi Jiwa Sequis Life (Sequis Life)** provides 10% and 20% cashback (up to IDR 5 million and IDR 10 million, respectively) of total claims paid upon diagnosis of COVID-19 covered by its health products.
- **PT Sun Life Financial Indonesia (Sun Life)** covers its policyholders with an additional IDR 10 million lump sum if infected by the virus.
- **PT MNC Life Assurance (MNC Life)** launched **Hario Diamond** and **Hario Platinum** in response to the COVID-19 pandemic. **Hario Diamond** provides a IDR 50 million death benefit due to COVID-19, IDR 120 million accidental death benefit and IDR 12 million hospitalisation cash due to accidents. **Hario Platinum** provides IDR 20 million, IDR 60 million and IDR 6 million for death due to COVID-19, accidental death and hospitalisation cash due to accidents, respectively.

In response to the COVID-19 pandemic, the Indonesian government also promised to cover Indonesians through the national **BPJS Kesehatan** social insurance scheme despite BPJS Kesehatan's code of conduct excluding pandemic-related claims. The cover includes in-patient benefit, ambulance, blood tests, medicine and other costs during hospitalisation. The Indonesian government made a clear statement that the cover is not sourced from premium payment but from the national budget.

#### KEY APPOINTMENTS

- Suahasil Nazara was appointed to the OJK's Board of Commissioners by the Chief of the Supreme Court of Indonesia, Hatta Ali. Mr Nazara is currently a Deputy Finance Minister.
- The Minister of State-Owned Enterprises made the following appointments to Jiwasurya's Board of Directors:
  - Technical Director: Angger P Yuwono
  - Finance and Investment Director: Farid Azhar Nasution
  - Compliance and Human Resources Director: R. Mahelan Proboantarikso

#### MERGERS AND ACQUISITIONS

- The Minister of State-Owned Enterprises appointed **PT Bahana Pembinaan Usaha Indonesia (BPUI)** as the parent company of the newly established State-Owned Enterprises insurance holding company. The holding company consists of **PT Asuransi Kredit Indonesia (Askrindo)**, **PT Asuransi Kerugian Jasa Raharja (Jasa Raharja)**, **PT Asuransi Jasa Indonesia (Jasindo)** and **PT Jaminan Kredit Indonesia (Jamkrindo)** as subsidiaries.
- **Aviva Plc** announced it is fully disinvesting its shareholding in **PT Astra Aviva Life (Astra Life)**.

- Local media reported that **PT Bank Rakyat Indonesia Tbk (BBRI)** plans to release a minority shareholding in **PT Asuransi BRI Life (BRI Life)** worth about USD 500 million. Local media also reported that **FWD Group Ltd** and **BNP Paribas Cardif SA** are interested in acquiring BRI Life's minority shares.

#### INITIAL PUBLIC OFFERING

**PT Bhakti Multi Artha** released 40% of its shareholding to the public in an initial public offering (IPO) in April 2020. The new capital raised is planned to be invested in **PT Asuransi Jiwa Nasional (Jiwa Nasional)** through its parent company, **PT Nasional Investindo Perkasa**, which is 99.9% owned by PT Bhakti Multi Artha.

## Regulatory developments

#### NEW REGULATIONS OVER Q1 2020

One Government Regulation (PP) and one OJK regulation (POJK) were issued during Q1 2020:

- PP No. 3/2020** removes the requirement to have Indonesian nationals or entities fully owned by Indonesian nationals contribute at least 20% of the increase in issued share capital. As a result, foreign shareholders can maintain shareholdings above 80% when the relevant insurance company increases its issued share capital. However, foreign shareholders cannot exceed the existing percentage of foreign ownership from an increase in share capital. PP No. 3/2020 also removes the provision under PP No. 14/2018 that the grandfathering provisions apply only to increases in issued and paid-up capital involving cash subscriptions. Therefore, an increase in issued capital by means other than cash, such as a share dividend distribution and other equity reclassifications, is no longer excluded. PP No. 3/2020 clarifies that the cap applicable to the new standalone Syariah company spun off from a Syariah window will follow the foreign ownership cap of its parent company. This means that, where applicable, a spun-off company will be able to benefit from the same exemption from the 80% foreign ownership cap as its parent company.
- POJK NO. 14/POJK.05/2020** is effective from 14 April 2020, and is entitled "Countercyclical Policies against the Impact of the Coronavirus Disease 2019 for Non-banking Financial Services". This regulation aims to maintain the stability of the financial services sector and support economic growth during the COVID-19 pandemic, following a prudent based approach. The regulation allows an extension to the deadlines for submitting periodic reports, conducting fit and proper tests via video conference rather than face-to-face as well as finance restructuring for debtors affected by COVID-19. Additionally, for the insurance industry the regulation allows a relaxation on calculating allowable assets for solvency calculations. Specifically, investment assets may

be valued using an amortised value. The investment assets include corporate bonds, Syariah bonds, Indonesian government securities and Syariah Indonesian government securities. If a company gives a four-month extension to policyholders' premiums/contributions, then the restriction on non-investment assets for solvency calculation in the form of premiums/contributions receivable includes the maximum four-month term for premiums/contributions receivable.

## Distribution updates

#### BANCASSURANCE CHANNEL

The following new bancassurance partnerships were announced over Q1 2020:

- Allianz signed a 10-year partnership agreement with **PT Bank QNB Indonesia (QNB Bank)** to launch a regular premium and single premium unit-linked product: **First LifeShield** and **First InvestShield**, respectively.

#### INSURTECH

The following new digital applications or platforms were launched over Q1 2020:

- Manulife** released three digital apps so customers can make online premium payments and communicate with agents in real-time. The three digital apps are called Online Payment, e-POS and MiLearn. As the name of the first indicates, it aims to provide customers with an online payment portal. The second is for agent-related policy registration and the third is a digital learning platform for agents.
- Sequis Life** added the Go-Pay digital wallet payment feature to its Sequis Online Digital channel.
- Allianz Life** introduced the Allianz Discover digital app for life and health insurance products sold through its agency sales channel. The app enables interactive communication between costumers and agents.
- Prudential** launched "Pulse"—its medical mobile app. Supported by artificial intelligence (AI) technology, customers can check symptoms of particular diseases to be analysed by the app. The app also allows policyholders to check their policy information. Additionally, this medical app is connected to the Halodoc medical platform to enable customers to register for the COVID-19 rapid test.
- Generali** introduced a "Sleep and Stress" feature to its DNA Journal platform aiming to increase policyholders' productivity and improve their stress management. These features help policyholders to analyse their sleep patterns and resistance against stress.

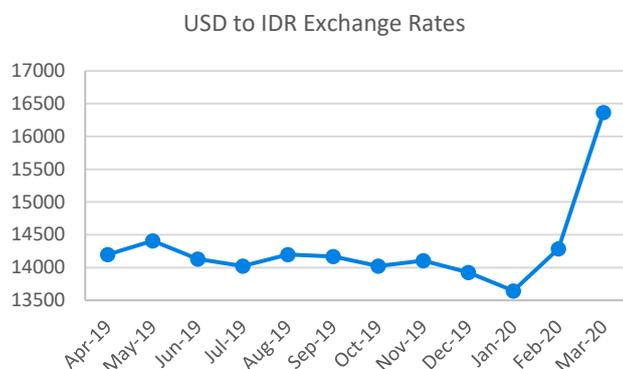
#### OTHERS

**Sun Life** signed a Memorandum of Understanding with two wakaf asset managers, Wakaf Al Azhar and Baitul Wakaf, to provide Syariah policyholders the option to allocate their benefits to religious, pious or charitable purposes.

## 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](http://www.xe.com)

Over the 12-month period April 2019 to March 2020, the Indonesian rupiah was at its lowest against the US dollar in March 2020, depreciating around 17.5% compared to 31 December 2019, driven by the COVID-19 pandemic. The Central Bank Indonesia (BI) stated that rupiah movements were influenced by demand dynamics for foreign exchange from non-residents as well as foreign capital outflows triggered by sentiment concerning the COVID-19 pandemic. Rupiah volatility has also increased due to the pandemic. However, the BI's monetary policy review reported that the depreciation in the Indonesian rupiah was in line with other peer currencies such as the Brazilian real and the South African rand.

BI has evaluated that COVID-19 is challenging the efforts to stimulate momentum in the growth of the domestic economy. Services, exports and the tourism sector have all been impacted by the restrictions imposed on cross-border mobility to stem the COVID-19 pandemic. Non-building investment related to communication and energy is at risk due to the downgraded outlook for exports of goods and services, coupled with disruptions in the production chain. BI revised its projection for domestic economic growth downwards, from a 5.0%-5.4% range to 4.2%-4.6% for 2020. However, BI projects economic growth of between 5.2% and 5.6% in 2021, when the COVID-19 pandemic is expected to have passed. The increase in projected economic growth is driven by the government's efforts to improve the investment climate by enacting the Omnibus Bill on Job Creation and Taxation.

Consistently controlled inflation is reinforcing economic stability. The consumer price index (CPI) inflation in March 2020 was recorded at 0.10% month-on-month (m/m), lower than February 2020 (0.28% m/m) and January 2020 (0.39% m/m). Headline inflation was influenced by low fundamental-related inflation (core inflation) such as supply-demand interaction, deflation in government-controlled prices and less volatility in food inflation. Low CPI inflation was maintained at 2.98% year-on-year (y/y)

despite increasing slightly from 2.68% y/y in January 2020. However, inflation remained within the government's target range of 3.0%  $\pm$  1% y/y.

In March 2020, the Board of Governors of BI agreed to lower the 7-day Reverse Repo Rate, the Deposit Facility rate and the Lending Facility rate by 25 basis points (bps) each to 4.50%, 3.75% and 5.25%, respectively. BI reinforced its commitment to monetary policies that mitigate the risk of transmitting COVID-19, while maintaining the stability of the financial system and catalysing economic growth.

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 at 31 March 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	5.79%	6.29%	16	7.92%	8.42%
2	6.21%	6.71%	17	7.96%	8.46%
3	6.49%	6.99%	18	8.00%	8.50%
4	6.71%	7.21%	19	8.03%	8.53%
5	6.88%	7.38%	20	8.05%	8.55%
6	7.03%	7.53%	21	8.07%	8.57%
7	7.17%	7.67%	22	8.08%	8.58%
8	7.29%	7.79%	23	8.10%	8.60%
9	7.41%	7.91%	24	8.11%	8.61%
10	7.51%	8.01%	25	8.11%	8.61%
11	7.60%	8.10%	26	8.12%	8.62%
12	7.68%	8.18%	27	8.13%	8.63%
13	7.76%	8.26%	28	8.13%	8.63%
14	7.82%	8.32%	29	8.13%	8.63%
15	7.88%	8.38%	30	8.13%	8.63%

Source: Indonesia Bond Pricing Agency (IBPA)

### CONTACT

Brian Colgan  
[brian.colgan@milliman.com](mailto:brian.colgan@milliman.com)

David Kong  
[david.kong@milliman.com](mailto:david.kong@milliman.com)

Halim Gunawan  
[halim.gunawan@milliman.com](mailto:halim.gunawan@milliman.com)

Richard Holloway  
[richard.holloway@milliman.com](mailto:richard.holloway@milliman.com)