

TABLE OF CONTENTS

Market performance	2
Market news	2
Regulatory developments	4
Distribution updates	4
Other recent developments	5

We are pleased to present the March 2021 edition of Milliman's Indonesia Life Insurance Newsletter. This edition covers developments during the period from 1 October 2020 to 31 December 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 Q3 YTD 2020

According to the Indonesia Insurance Statistics published by the Financial Services Authority (OJK), the Indonesian life insurance industry made a profit (before tax and other comprehensive income (OCI)) in Q3 YTD 2020, turning around a loss in the equivalent period in Q3 YTD 2019. The change over the period is summarised below:

Financials (in IDR trillion)	Q3 YTD 2019	Q3 YTD 2020	Change
Net Premium Income	131.69	115.65	(16.04)
Investment and Other Income	1.32	15.07	13.74
Total Income	133.01	130.71	(2.30)
Total Claims and Benefits	106.51	99.15	(7.35)
Commission and Acquisition Costs	14.25	12.96	(1.28)
Operating Expenses	17.07	14.67	(2.39)
Total Expenses	137.82	126.79	(11.03)
Profit / (Loss) Before Tax and OCI	(4.81)	3.92	8.73
Tax	1.55	2.30	0.75
Net Profit / (Loss) Before OCI	(6.36)	1.63	7.98
Total Assets*	539.32	510.40	(28.92)
Premium Reserve	412.91	393.91	(19.00)
Unearned Premium Reserve	3.76	4.04	0.28
Claim Reserve	4.81	6.43	1.63
Catastrophic Reserve	0.05	0.11	0.07
Total Technical Reserve	421.52	404.50	(17.02)

Note: OCI = other comprehensive income.

* As at 30 September 2019 and 30 September 2020.

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

Between Q3 YTD 2019 and Q3 YTD 2020, the profit before tax and OCI increased by IDR 8.73 trillion, mainly driven by an increase of IDR 13.74 trillion in investment and other income and a decrease of IDR 11.03 trillion in total expenses, which was offset by a decrease of IDR 16.04 trillion in net premium income. The decrease in net premium income is primarily attributed to the slow down as a result of the on-going COVID-19 pandemic. During this period insurers had difficulties in meeting the requirements of a face-to-face meeting and wet signature from customers to sell unit-linked business, while maintaining social distancing requirements. . The industry has also experienced higher levels of lapses, premium holidays and extended grace periods, which may evidence customers' difficulties in continuing to pay insurance premiums.

The Indonesia Life Insurance Association (AAJI) reported that new business premium was IDR 80.13 trillion as at Q3 YTD 2020 with new business and renewal premiums contracting by 11.5% and 1.9% respectively compared to Q3 YTD 2019. Furthermore, the AAJI stated that the largest portion of claims paid as at 30 September 2020 were from surrender claims amounting to IDR 67.45 trillion.

Market news

NEW PRODUCTS

The following new life insurance products were reported to have been launched over Q4 2020:

Traditional products:

- **PT AXA Financial Indonesia (AXA Financial)** made its existing product targeted at affluent customers, **Maestro Infinite Protection**, available in US dollars. With premium starting from USD 3,600 per annum, policyholders are entitled to a sum assured of at least USD 100,000 on death (with an additional 50% of sum assured on accidental death). The product provides cover up to age 100 with premium payment terms of five or 10 years. Cash benefits amounting to 20% and 80% of the sum assured are paid on survival to age 65 and 100 respectively.
- **PT PFI Mega Life (PFI Mega)** launched **Mega Loan Protection**, a credit life product for sale through its bancassurance partner **PT Bank Permata Tbk (Bank Permata)**. **Mega Loan Protection** is offered to customers aged between 20 and 64 years old on loans with a term of up to 25 years.

Unit-linked products:

- **PT AIA Financial (AIA)** launched **Maxi Protection Plus**, with a choice of health riders, for sale through **PT Bank Central Asia (BCA)**. The account value is paid on either surrender (net of charges), maturity at age 99, or on death. An additional benefit (juvenile clause applies) of up to 100% of the sum assured is also paid on death. In addition, policyholders will be entitled to a loyalty bonus at the 10th policy anniversary, 5% extra allocation on each policy anniversary in years 11 to 20 and 10% extra allocation from the 21st policy anniversary onwards. The loyalty bonus and extra allocation are based on the first year's basic premium or the smallest annualised basic premium paid if premiums have been reduced. Annual premiums start from IDR 3.6 million.
- **PT Asuransi Jiwa Generali Indonesia (Generali)** released **GenSMART** offering a sum assured and policy value on death, with an additional amount paid on accidental death. The product includes the "GenSMART Allocation" and "Bonus 85" product features—namely a 5% extra allocation of the regular basic premium every year and a bonus of 100% of sum assured paid at age 85 if premiums have been paid for at least 20 years. Annual premiums start from IDR 3.6 million.

Microinsurance products:

- PT Allianz Life Indonesia (Allianz) launched a group microinsurance product, **Proteksi Mikro Santunan Duka**, marketed to communities such as neighbourhood units, school staffs or religious communities. Monthly premiums range between IDR 1,500 and IDR 15,000 per member for a death benefit of between IDR 2 million and IDR 20 million.

COVID-19-related products:

- Allianz launched **Proteksi Cuma-Cuma**, offering one month's free death cover of IDR 1 million against accidents and diseases (including COVID-19) for sale through the GoPay mobile wallet. **Proteksi Cuma-Cuma** is offered to all GoPay users who update to GoPay Plus, not just existing customers of Allianz. The campaign runs from 28 October 2020 until 28 April 2021.

Other features:

- PT Prudential Life Assurance (Prudential)** added additional plans to its existing **PRUPrime Healthcare Plus** and **PRUPrime Healthcare Plus Syariah** rider benefits. These additional plans, collectively named **Plan Cermat**, provide affordability and flexibility in term of room and board, coverage area and annual limits. Three plan options are available: **Cermat 1**, **Cermat 2** and **Cermat 3** with room and board payments of IDR 300,000, IDR 550,000 and IDR 650,000 per day and annual limits of IDR 300 million, IDR 550 million and IDR 650 million, respectively.

NEW UNIT FUNDS

- PT Asuransi Jiwa Manulife Indonesia (Manulife)** launched the **Manulife Asia Pacific Dollar Real Estate Investment Fund** on its **MiTreasre Optimax Protection** product sold through **PT Bank DBS Indonesia (Bank DBS Indonesia)**.
- Prudential launched the **PRULink Syariah Rupiah Multi Asset Fund**, which can be accessed through the **PRULink Syariah Generasi Baru** product. The fund is denominated in Indonesian rupiah and invests in both domestic and foreign Syariah-compliant stocks offering customers a diversification benefit.

OJK ANNOUNCEMENTS

- The OJK approved the rebranding of **PT FWD Life Indonesia** to **PT FWD Insurance Indonesia (FWD)**, effective from 1 December 2020, following the merger with PT Commonwealth Life. At the same time the OJK revoked the business license of PT FWD Life Indonesia.
- The OJK imposed a second sanction on **PT Asuransi Jiwa Kresna (Kresna Life)**, restricting its new business activities due to its failure to comply with the OJK's previous recommendations obliging Kresna Life to reduce the investment allocation to its parent company, **Kresna Group**, and to pay the claims of all policyholders. The first sanction was issued in August 2020 and was revoked in November 2020 prior to the second sanction being imposed.

UPDATE ON JIWasRAYA

- The Chief of the House of Representatives' special committee, **Aria Bima**, stated that **PT Asuransi Jiwasraya (Persero) (Jiwasraya)** had negative equity of IDR 38.5 trillion, as at 31 October 2020, resulting from IDR 15.4 trillion assets and IDR 52.74 trillion liabilities. This was a worsening of the negative equity position of IDR 30.3 trillion and IDR 34.6 trillion at year-ends 2018 and 2019 respectively.
- The House of Representatives stated that Jiwasraya will not be terminated because the termination would affect the public's trust in the insurance industry, especially in State-Owned Enterprises (SOEs). The Vice Minister of SOEs stated that Jiwasraya will still operate to accommodate policyholders who refuse to have their policies financially restructured.
- If customers refuse the restructuring, then their policies will remain in Jiwasraya as corporate debt but the claim value will be based on the market value of assets.
- Policyholders of Jiwasraya's Savings Plan, through the Jiwasraya Victims Forum, rejected the proposal to pay all outstanding benefits in instalments over 15 years and to restructure payments as a cut to the cash value without interest.
- Customers who choose to accept the financial restructuring will see their policies transferred to Indonesia Financial Group (IFG) by Q2 2021 as one of four new products:
 - Tata Masa Depan (JS Tampan)** for individual/retail policyholders with regular premium policies.
 - Manfaat Bertahap (JS Mantap)** for individual/retail policyholders with single premium policies.
 - Manfaat Bertahap Plus (JS Mantap Plus)** for policies sold through the bancassurance channel including the Savings Plan.
 - Pendanaan Hari Tua (JS PHT)** for group/corporate schemes.
- IFG will issue IDR 10 trillion in two-year term debt securities to strengthen its solvency position. Local media reported that **PT Taspen (Persero)** will purchase the securities.
- The OJK officially revoked **Jiwasraya Putra's** business license through letter KEP41/D.05/2020. The Ministry of SOEs, as the shareholder of Jiwasraya, discontinued the recovery plan of establishing a subsidiary company.

CAPITAL MANAGEMENT

- In November 2020, **PT Astra International Tbk (Astra)** acquired 49.99% of **PT Astra Aviva Life (Astra Life)** from **Aviva International Holdings Limited (Aviva)** through **PT Sedaya Multi Investama (SMI)**. After this transaction Astra holds 99.99% ownership of Astra Life.

- **PT Asuransi Jiwa Bersama (AJB) Bumiputera 1912 (Bumiputera)** has approached a strategic investor from the US in relation to the company's recovery plan. Local media reported that the prospective investor has a strong financial position and is running a banking business in the US. However, this process was hampered by the process of forming a committee for the General Meeting of Members to fill the vacant positions for commissioners and directors, because most of the current commissioners and directors refuse to hold the General Meeting of Members.

Regulatory developments

NEW REGULATIONS OVER Q4 2020

There were two OJK regulations (POJKs) and one OJK circular letter (SEOJK) issued during the period:

- **POJK NO 45/POJK.03/2020** redefines financial conglomerates as either:

Definition I: A group or set of entities with at least IDR 100 trillion total assets and having more than one line of business in the financial services sector.

Definition II: Two or more financial service institutions under the same group or set of entities due to ownership/control relationships, despite not satisfying the Definition I criteria.

The regulation aims to support the effectiveness of financial conglomerates' risk-based supervision in line with international best practice. The OJK requires financial conglomerates to have a corporate charter consisting of aim and scope, organisational structure and the rights and obligations between the parent entity and the subsidiaries.
- **SEOJK NO 19/SEOJK.05/2020** specifies the requirements for non-bank institutions to market insurance products through the direct marketing, agency and bancassurance sales channels. Insurance companies should implement an effective risk management framework that includes controls covering strategic, operational, regulation, compliance and reputational risk when marketing insurance products through those channels. The regulation also requires companies to register with the relevant authority, establish standard operational and information technology (IT) risk management procedures and fulfil the other criteria stipulated by the OJK when marketing using electronic systems.
- **POJK NO 58/POJK.05/2020** extends the countercyclical policies against the impact of COVID-19 for non-banking financial services (such as valuing investment assets at amortised value for solvency purposes, conducting fit and proper tests by video conference etc.) until 17 April 2022 and expands the coverage of the policies mentioned in POJK NO14/POJK.05/2020 by adding new articles and clauses, mainly the:

- Shareholders' General Meeting of a financial services company can now be conducted via video conference subject to proper documentation.
- Fourteen-day and one-month extension to the deadline for submitting non-annual and annual reports respectively have been shortened to five days.
- Requirement to have an appropriate IT infrastructure and operational system to sell unit-linked products online.

FORTHCOMING REGULATIONS

- Local media reported that forthcoming regulation on unit-linked products are intended to increase the governance around the sales process and introduce requirements on investment allocation, actuarial resources and infrastructure readiness as well as reporting to policyholders. The OJK confirmed the regulation aims to protect policyholders who often do not fully understand the risks associated with the investment part of unit-linked products.

PROPOSED UPDATES TO PSAK 74 IN RESPONSE TO AMENDMENTS TO IFRS 17

Brian Colgan and Philip Jackson authored a series of three e-Alerts discussing the changes to PSAK 74 proposed by the Financial Accounting Standard Board (DSAK). The discussion on the proposed changes to PSAK 74 is framed around the same criteria as the International Accounting Standard Boards (IASB) used when deciding to amend IFRS 17:

- Reducing implementation and system development costs ([LINK](#))
- Making results easier to explain ([LINK](#))
- Easing transition to IFRS 17 ([LINK](#))

The DSAK ratified PSAK 74 in November 2020, which covered the Amendments to IFRS 17 published in June 2019.

Distribution updates

AGENCY CHANNEL

By December 2020, the OJK had granted 12 companies a relaxation to temporarily sell unit-linked products online or through the digital sales channel due to the COVID-19 pandemic. The identities of only 9 of the 12 companies have been published. The nine companies are as follows:

- PT Prudential Life Assurance
- PT Asuransi Jiwa Manulife
- PT Asuransi Allianz Life Indonesia
- PT AIA Financial
- PT Asuransi Jiwa Astra (Astra Life)
- PT Panin Dai Ichi Life
- PT FWD Life Indonesia (merged with PT FWD Insurance Indonesia)
- PT Great Eastern Life Indonesia
- PT Sun Life Financial Indonesia.

BANCASSURANCE CHANNEL

There were no new bancassurance partnerships reported in the media over Q4 2020.

DIGITAL CHANNEL AND INSURTECH

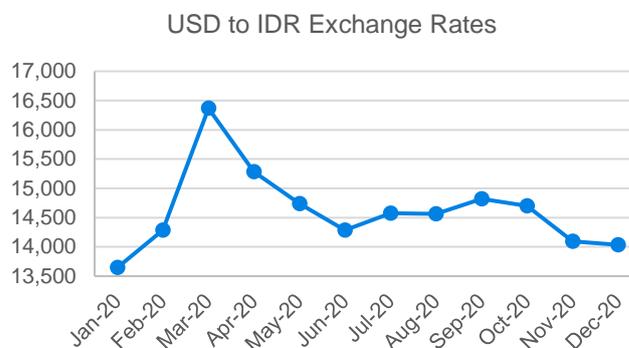
The following developments in the digital and insurtech sector have been reported:

- FWD and **PT Traveloka Indonesia (Traveloka)** established **Traveloka Protect**, a financial services business unit providing insurance products featured on the Traveloka app, with the support of insurance broker **PT Mitra Jasa Pratama (MJP)** and insurtech firm **Qoala**. This continues FWD and Traveloka's existing collaboration to simplify and digitise the customer's insurance experience. Customers can buy FWD's **Asuransi Bebas Handal** and **FWD Cancer Protection** products through the platform.
- **PT Asuransi Jiwa Astra (Astra Life)** developed **Traveloka Term-Life**, a product specifically designed for Traveloka. The product is available with a choice of four plans (Life Basic, Accident Basic, Life & Accident and Life & Accident Plus) with benefits up to IDR 500 million and premium starting from IDR 70,000 per annum. This product is available on Traveloka Protect. In addition, Astra Life launched **Hospital Cash Plan – Astra Life** on the platform. **Hospital Cash Plan – Astra Life** provides an in-patient benefit that includes intensive care unit (ICU), surgical, hospital cash, and critical illness benefits up to IDR 128 million.
- AXA Financial marked its partnership with **PT Espay Debit Indonesia Koe (DANA Indonesia)** by launching **AXA Sahabat Jiwa**, which provides death cover with premiums starting from IDR 25,000 per 3 months, for sale through **DANA Siaga programme** in the DANA mobile app.
- Allianz launched a hospital cash plan called **MartCare Protection** on **Gojek's GoSure** platform. Customers receive a hospitalisation cash benefit up to IDR 200,000 (silver plan) or IDR 300,000 (gold plan) for at most 30 days in return for premiums starting from IDR 1,000 per day. Policyholders can access the claim portal <https://gojek.pasarpolis.com/gosure> to submit claims.
- Generali launched **GoGREAT** (a web-based platform to sell products online) and **iPropose** (a mobile app) for customers to purchase products digitally.

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

Over 2020, the Indonesian rupiah was at its lowest against the US dollar in March 2020, having depreciated around 20% compared to January 2020. The rupiah exchange rate appreciated by 5.31% over Q4 2020 compared to September 2020.

The Central Bank of Indonesia (BI) stated that the Indonesian rupiah and US dollar exchange rate improved due to increased inflows of foreign capital to the domestic financial market, more certainty in global financial markets and investors' positive perceptions of the Indonesian economy's prospects for improvement. The improvement in the rupiah relative to the US dollar exchange rate was also followed by a decrease in the volatility of the exchange from 9.6% to 8.3%.

The COVID-19 pandemic had a negative impact on the domestic economy, according to Statistic Indonesia (BPS). As at Q3 2020, gross domestic product (GDP) had contracted by 3.49% year-on-year (y/y), resulting in Indonesia entering a period of recession. The completed vaccination trials and commencement of vaccine distribution are key to the positive outlook for the economy. BI predicted negative economic growth between -1% and -2% by year-end 2020 but positive economic growth of between 4.8 and 5.8% over 2021.

Consumer price index (CPI) inflation was recorded at 0.28% month-on-month (m/m), at November 2020, with a year-to-date increase of 1.23%. CPI inflation was kept at 1.59% y/y in November 2020, a slight increase from 1.44% y/y in October 2020. The inflation rate remained within BI's target range of 3.0% ± 1% y/y. BI attributed the low inflation rate to low core inflation despite higher demand for goods, food and transport fares.

In December 2020, the Board of Governors of BI agreed to maintain the BI 7-day Reverse Repo Rate, the Deposit Facility Rate and the Lending Facility Rate at 3.75%, 3.00% and 4.50%, respectively. BI stated that the decisions are consistent with the Indonesian government's strategy to maintain stability of the rupiah amidst low inflation and to support the recovery of the domestic economy from 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 31 December 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	4.44	4.94	16	8.00	8.50
2	5.19	5.69	17	8.04	8.54
3	5.70	6.20	18	8.08	8.58
4	6.07	6.57	19	8.11	8.61
5	6.37	6.87	20	8.13	8.63
6	6.63	7.13	21	8.14	8.64
7	6.86	7.36	22	8.15	8.65
8	7.07	7.57	23	8.16	8.66
9	7.25	7.75	24	8.16	8.66
10	7.41	7.91	25	8.16	8.66
11	7.56	8.06	26	8.16	8.66
12	7.68	8.18	27	8.16	8.66
13	7.78	8.28	28	8.15	8.65
14	7.87	8.37	29	8.15	8.65
15	7.94	8.44	30	8.14	8.64

Source: Indonesia Bond Pricing Agency (IBPA)



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