Revolving Around a Slow Growth: A Snapshot of Indonesia’s Insurance Services”

The 10th ISD Dialogue Series and Aftech Expert Gym

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The Journey Starts Now...

**Regulations, laws and accounting standards**
- The Government increased its efforts to prepare a framework for Indonesian insurance industry development
- Compliance with stringent tax regulations
- Regulation related to limitations of foreign ownerships
- Alignment of insurance accounting standards and current regulations which have various interpretations due to unclear implementation guidance

**Trend towards auto insurance and unit-link products**
- Auto insurance cover and unit-link products have become more popular and are preferred by consumers in Indonesia.
- Companies not offering auto insurance through multi finance/bancassurance and unit-link products appear to grow at a slower pace.

**Financial market**
- Interest rate - volatile interest rates will create challenges to the financial performance
- Volatility of exchange rates
- Limited availability of investment portfolios

**Competitive landscape**
- Attractive and potential for growth in the future (low market penetration, large numbers of people who are underinsured/uninsured, the emergence of a middle class)
- The insurance industry in Indonesia is fragmented considering the large number of players
- Strength of local insurers’ capacity

**Distribution network and talent**
- Traditional ways versus bancassurance.
- Distribution channel competition.
- Bancassurance becomes more common and popular in the recent trend. Strategic initiatives is one of the key factors in growing the customer base.
- Scarcity of talent and insurance expertise

Challenges in the Indonesian Insurance Industry
Quick Facts of the Indonesian Insurance Market

**Rp 411,709 billion**
Total assets combined of life insurance companies as of 31 December 2016

**Rp 141,512 billion**
Total assets of general insurance and reinsurance companies as of 31 December 2016

**74% and 51% (assets)**
Top ten life insurers hold 74% of the total market and the top ten general insurers hold 51% of the total market share without any single domination

**75% and 28%**
Joint venture companies hold market shares based on assets (life insurance and general insurance, respectively)

**52 and 76 entities**
Number of general insurance company and life insurance company, respectively.

**40 entities & 90 UUS**
A number of entities operate on the sharia principle and there are a number of sharia business units.

**-4% and +26%**
1st semester 2017 performance on the premium on general and life insurance, respectively.

**40%**
Bancassurance as distribution channel contributed 40% to the total premiums.

**± 2%**
Indonesia Insurance Penetration as of 31 December 2016
Market Condition: Slow Growth Factors

Market Condition - What’s Going On?

- Dynamic macro economy and capital market
- High costs in the distribution channels
- Competition on the distribution channels
- Limited investment instruments and compliance with investment regulations
- Multiple and simultaneous regulations: compliance?
- Unit-linked as the main driver of the life insurance business
- Scarcity of talent and increase on turnover
- Digitalisation & challenges in the business process
- Market awareness: insurance as the important one
- InsurTech edge? A disruptive innovation or a new collaboration type?
Highlight Some Key Factors

Negative growth on premiums (non-life)
- Negative performance in some lines of business despite the fact that macro economy is recovering.
- Tight competition especially in the corporate sector
- Some delays on booking from major customers (renewals)

Pressure on tariffs and high commission schemes
- Regulations on tariffs
- High commissions charges by agent/brokers through various expenses
- Excessive commission rates charged

Mix of underwriting and financial performance indicators
- Acceptable loss ratio as the compensating for the negative growth of premium
- Investment performance

Product and distribution channels
- Unit-linked as the market driven
- Continuous growth in bancassurance as the effective distribution channel
- High costs for upfront fees
- Growing presence of Financial Technology

Limited investment instruments
- Compliance with regulations with limited alternative investment instruments
- Investment performance not as high as expected
- Managing insurance risk through investment portfolios

Market coverage and penetration
- Joint effort from OJK and market expansion from insurance players
- Digitalisation of insurance transaction
- Distribution of economy throughout archipelago as a result of the opportunity of insurance companies to expand their area
- Shariah insurance is growing

General insurance

Life insurance
How the Market Evolves

Life Insurance

**Insurance Risk & Product**
- Pricing and assumptions used
- Attractiveness of the products
- Diversification: Unit-linked, traditional products, health
- Assessment on shifting customer preferences
- Investment performance

**Distribution Channels**
- Bancassurance as the distribution channel
- Alternative distribution channels
- Lower cost for the distribution
- Insurtech as a penetration strategy?

**Regulations**
- Alignment of business strategy and regulations (i.e. investments)
- Compliance

**Infrastructure**
- Information technology to support the business and its strategy
- Talent Management
- Risk management system
- Market penetration through existing distribution channel or build a new one?

**Sustainability**
How the Market Evolves

General Insurance

- Relatively high potential margin
- Emerging on line of business motor vehicle, fire and travel insurance
- Distribution channel through agency system
- Sustainability of premium growth in the future

- Awareness of the importance of insurance from “potential customers”
- A lot of opportunities with fintech companies as the “distribution arm”
- Impact from regulations

- Maintain loss ratio at favourable level
- Strengthen underwriting including reinsurance optimisation
- Maximising the investment income

- Market penetration strategy
- Alignment with new business focus, i.e. the retail business
- Lower cost of commission
## Risk - Comparison with Global Industry Views

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Risks and Perspective on Regulations

**Perspective on Regulations**

### Political & Legal
- Market protection through various regulations, i.e. local reinsurance portion, commission, tariff.
- There is development of limiting single shareholder’s ownership, similar to the banking industry.
- Minimum Capital Requirement
- Need to strengthen the enforcement, especially the bankruptcy law
- Need to continuously improve agency regulations and relations
- Minority interest (local families and associated business culture)

### Accounting & Tax
- Alignment between (new) regulations and current accounting standards framework
- Market diversity on the interpretation of regulations
- Some differences in GAAP (valuation of assets, goodwill, others) and its impact on the deal value from a buyer’s perspective
- Compliance with stringent tax regulations, including related party transactions
- Tax audits and associated exposures
- Extensive tax withholding requirements
- Increasing attention to transfer pricing issues
**Is Insurance Tech a Disruptive Innovation?**

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<th>+</th>
<th>AirBnB</th>
<th>=</th>
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<td>Unused Cars (and drivers)</td>
<td>+</td>
<td>UBER</td>
<td>=</td>
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<td>Untapped market, low penetration, more educated policy holders</td>
<td>+</td>
<td>Insur-Tech</td>
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Unused Supply | Aggregators | Victims
Collaboration Between InsurTech and Insurance Companies

Synergy and Collaboration
- Alternative distribution channels for insurers
- Enhance market penetration strategy
- Efficiency in underwriting, claims and other related insurance activities
- The solution for insurers in relation to the commission burden

Key Challenges
- Regulations for legal basis or framework
- Digitalisation of insurance documents
- Data security and its risk
- Market education
- Improper use of policyholders’ data
Disruptive innovations radically change the market. Businesses that have traditionally dominated the market need to adapt and many new businesses have the opportunity to develop, grow and prosper as a consequence of the disruptive innovation. Identifying these opportunities and implementing them is key.

But,
“Disruption is not a very meaningful term in a sector that is still young and growing rapidly”.
**Conclusion: Some Key Takeaways**

- **Managing insurance risks**
  - Strengthen underwriting process, assessment of impact of macro economy, portfolio diversification and maintain a favourable loss ratio level

- **Clarity and compliance with regulations**
  - Clarity on new regulations and the time-frame for the industry to comply with such regulations

- **Distribution channel strategy**
  - Distribution channel with reasonable costs and build alternative channels

- **Collaboration strategy**
  - Insurance Tech as the partner to expand market coverage/penetration

- **Sustainability of business**
  - Shifting market preferences to insurance products
  - Digitalisation process
  - Retail vs. Corporate business