

**Australia Indonesia Partnership
for Economic Governance**

**Insurance Sector
Development in Indonesia
12 January 2016**

Outline

- Role of the insurance sector in economic development
- The state of Indonesia's insurance industry and its implications for the economy
- Factors behind current performance of Indonesia's insurance industry
- Policy implications

Insurance sector for economic development

- Manage risk and mitigate the impact of unforeseen events
- Mobilize savings and public funds for economic development
- Improve efficiency of other segments of the financial sector (e.g. banking & bond markets)

Insurance industry is mainly operated by the private sector

Number of Insurance Companies by type of ownership

| Type of ownership | 2001 | 2009 | 2014 |
|-----------------------------|-------------|-------------|-------------|
| National and Private | 121 | 97 | 95 |
| <i>Life</i> | <i>40</i> | <i>28</i> | <i>31</i> |
| <i>Non-Life</i> | <i>81</i> | <i>69</i> | <i>64</i> |
| Joint venture | 46 | 38 | 36 |
| <i>Life</i> | <i>22</i> | <i>18</i> | <i>19</i> |
| <i>Non-life</i> | <i>24</i> | <i>20</i> | <i>17</i> |

Notes: Excluding reinsurance (4) since no data on ownership and Social and Civil servants insurance (5)

Source: Milo (2003), and Insurance Statistics (2013), OJK

Numbers of firm decline but less concentrated

Degree of Concentration in Indonesia's Insurance Industry

| Year | No. of firm | | Share of top 5 | | CR-4 | |
|------|-------------|----------|----------------|----------|-------|----------|
| | Life | Non-life | Life | Non-life | Life | Non-life |
| 2000 | 62 | 105 | 65.8% | 33.2% | 59.3% | 28.0% |
| 2005 | n.a | n.a | 51.1% | 38.3% | 44.9% | 32.3% |
| 2013 | 49 | 82 | 36.2% | 27.7% | 30.5% | 23.7% |

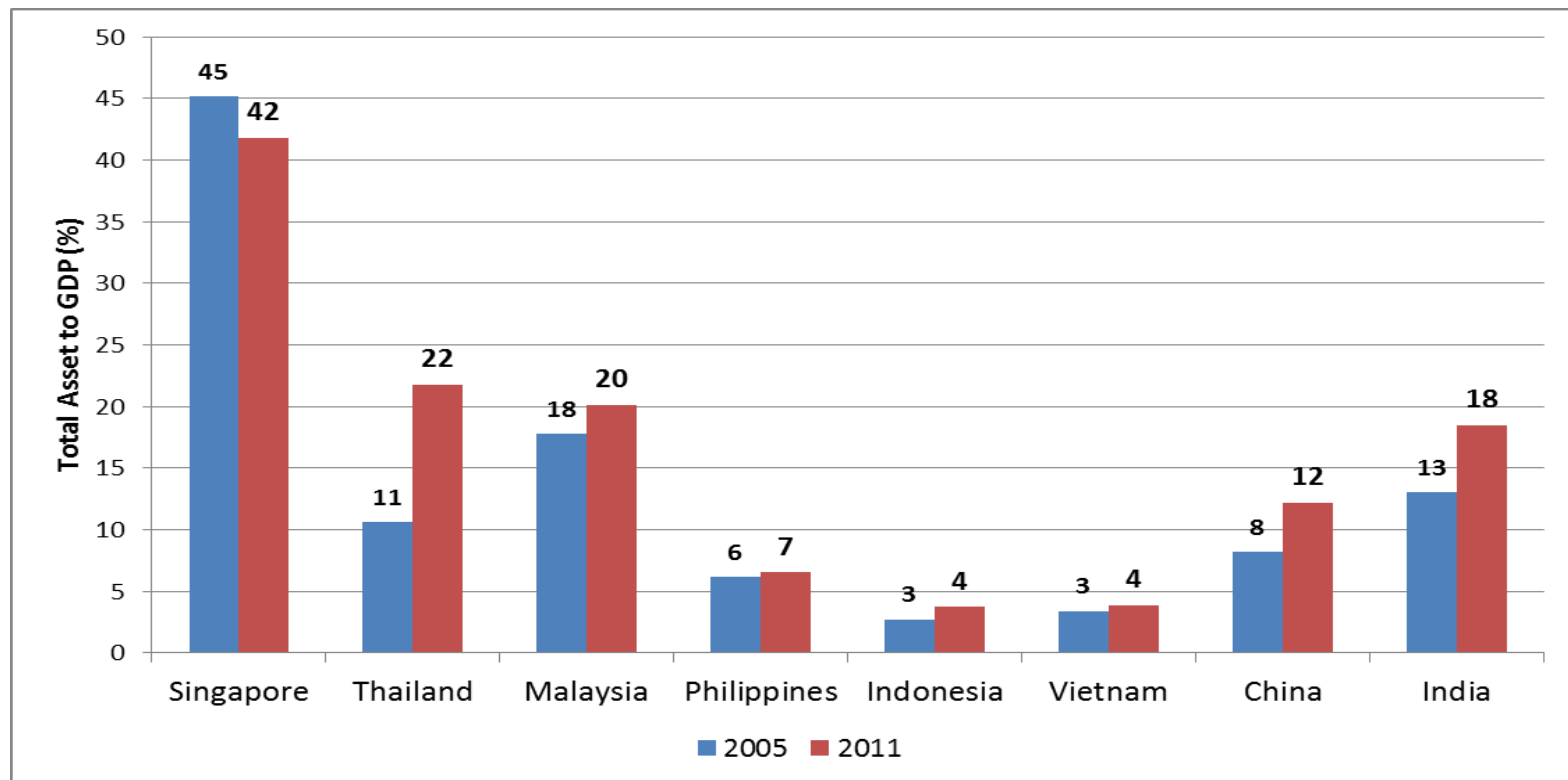
Note: *=use 2001 data; **=measured in term of gross direct premium

Source: Milo (2003), International Insurance factbook (2003, 2007, 2016), Swiss Re Sigma Database (accessed 2015)

**INDONESIA'S INSURANCE
INDUSTRY PERFORMANCE IS
LAGGING BEHIND OTHER
COUNTRIES IN THE REGION**

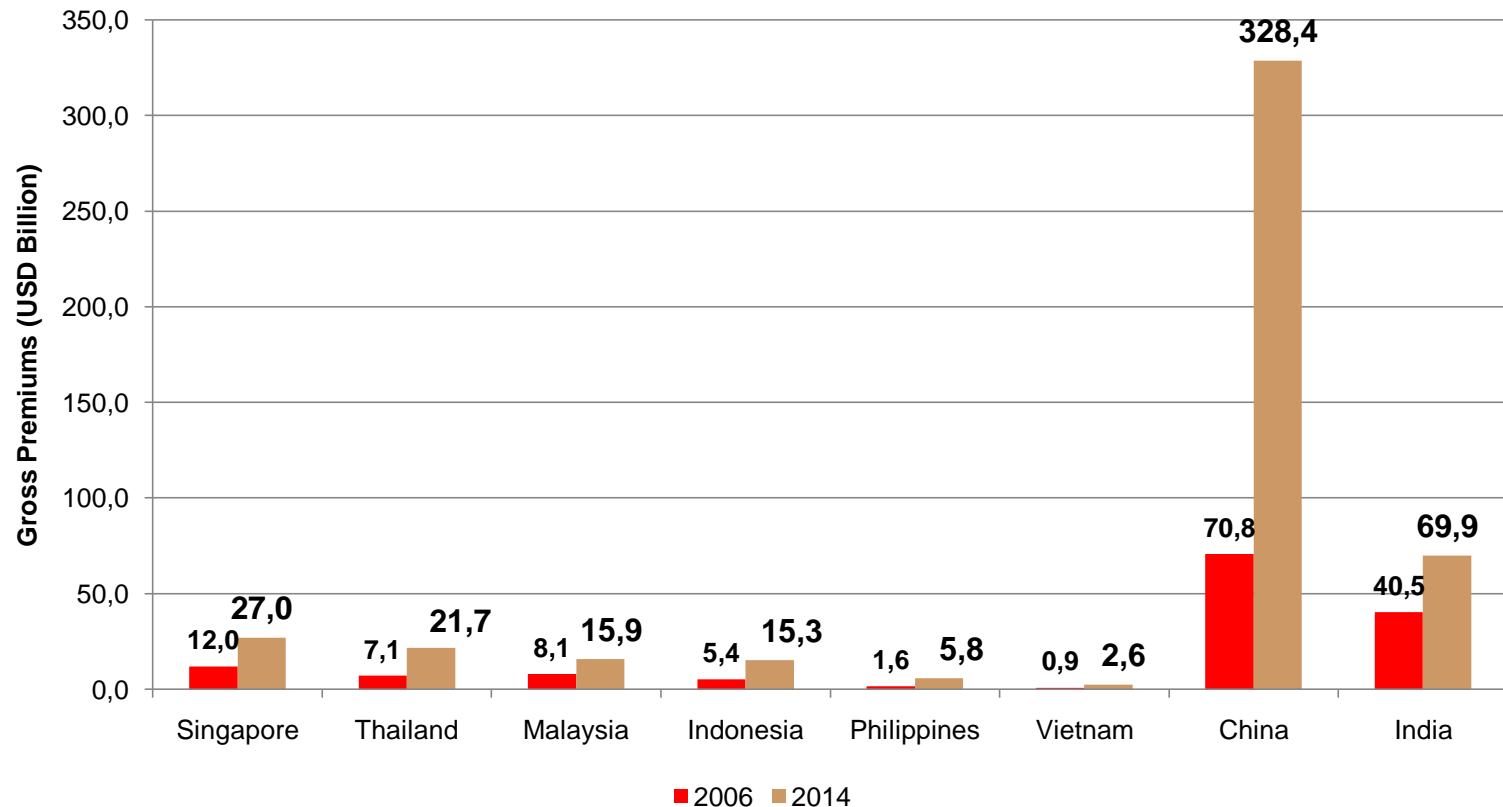
Lowest assets among ASEAN countries

Total Insurance Company Assets to GDP (% to GDP)



Source: World Bank Global Financial Development Database (accessed in 2015)

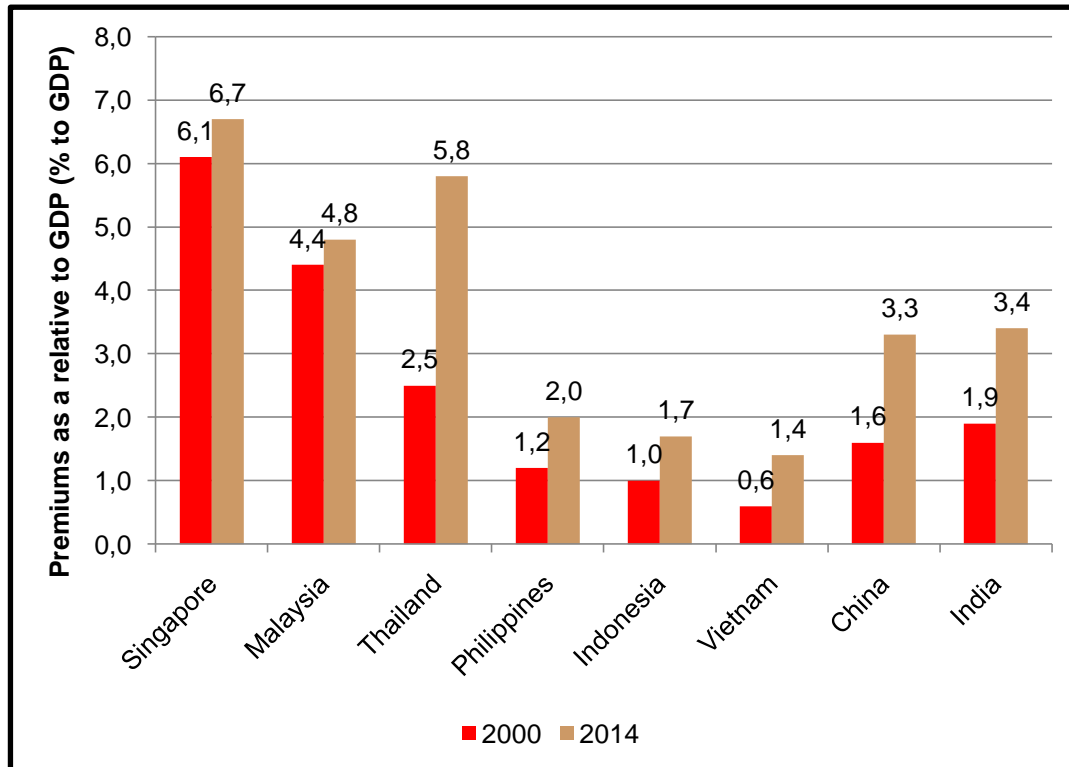
Insurance premiums is relatively low compared to ASEAN countries



Source: Swiss Re, Sigma Database (accessed in 2015)

Penetration and Density are low

Insurance Penetration (Premiums per GDP, %)



Source: Swiss Re, Sigma Explorer (accessed in 2016)

Insurance Density (premiums per population, USD)

| Country | 2000 | 2014 |
|-------------|------|------|
| Singapore | 1682 | 4936 |
| Malaysia | 184 | 531 |
| Thailand | 49 | 320 |
| Indonesia | 8 | 60 |
| Philippines | 13 | 58 |
| Vietnam | 3 | 28 |
| China | 15 | 241 |
| India | 9 | 54 |

Source: own calculation based on Swiss Re dan World Bank Data (accessed in 2016)

Market relatively underdeveloped

Total Policies per population (%)

| Countries | 2004 | 2013 |
|-------------|------|------|
| Singapore | 166% | 239% |
| Malaysia | 38% | 42% |
| Indonesia | 14% | 18% |
| Philippines | 5% | 3% |

Source: CEIC Database and World Bank (accessed 2015)

Market are relatively underserved

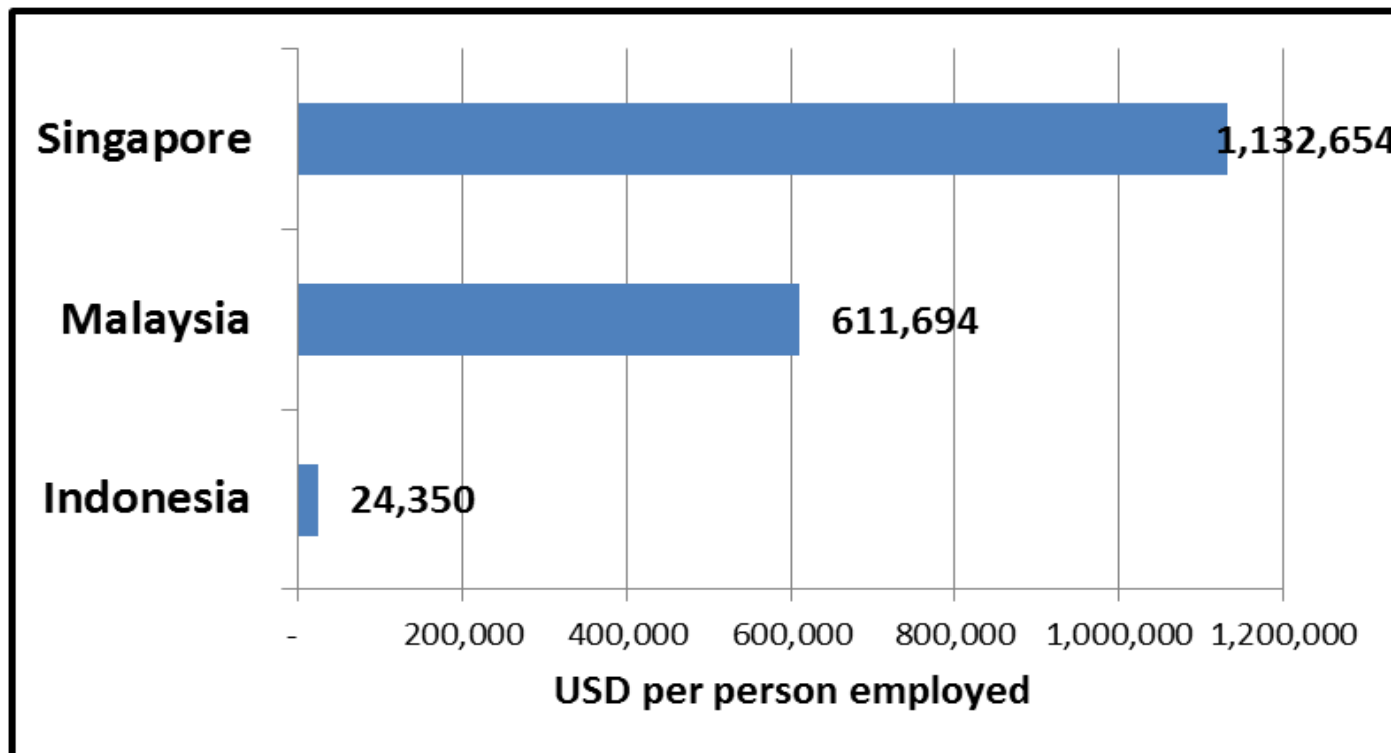
Regional comparison of financial sector (2006)

| | Indonesia | | Malaysia | | Singapore | |
|-----------------------------|-----------|-------|----------|-------|-----------|-------|
| | % Assets | % GDP | % Assets | % GDP | % Assets | % GDP |
| Banks | 79.2 | 53.9 | 54.4 | 159.8 | 58.8 | 233.4 |
| Insurance companies | 4.0 | 2.8 | 6.4 | 19.5 | 12.5 | 49.8 |
| Pension funds | 6.3 | 4.3 | 19 | 56.4 | 16.3 | 65.7 |
| Mutual funds | 1.6 | 1.1 | 6.9 | 20.1 | 4.9 | 20 |
| Outstanding corporate bonds | 3.4 | 2.3 | 13.1 | 38 | 8.2 | 32.4 |
| Others | 5.5 | 3.7 | - | - | - | - |

Source: WorldBank, Unlocking Indonesia Domestic Financial Resources, 2006

Firms are relatively inefficient

Premiums per Employee, 2012 (relative Efficiency)



Source: OECD Statistics (accessed in 2015)

Generally low performance compared to other countries

Income level and Insurance Performance (2014)

| Country | GDP per cap | Assets* (% to GDP) | Penetration Ratio (% to GDP) | Insurance Spending Per capita/Density (USD) | Gross Premium (USD Billion) |
|------------------|-------------|--------------------|------------------------------|---|-----------------------------|
| Singapore | 38088 | 41.8 | 6.7 | 4936 | 27.0 |
| Malaysia | 7365 | 20.1 | 4.8 | 531 | 15.9 |
| Thailand | 3769 | 21.8 | 5.8 | 320 | 21.7 |
| Indonesia | 1854 | 3.7 | 1.7 | 60 | 15.3 |
| Philippines | 1662 | 6.5 | 2 | 58 | 5.8 |
| Vietnam | 1078 | 3.8 | 1.4 | 28 | 2.6 |
| China | 3863 | 12.2 | 3.3 | 241 | 328.4 |
| India | 1234 | 18.5 | 3.4 | 54 | 69.9 |

IMPORTANT ISSUES IN THE INDONESIAN INSURANCE INDUSTRY

Structural issue - small & inefficient

Insurance firm size (2012)

| Country | Life Insurance | | | Non-Life Insurance | | |
|-----------|-----------------|----------------------|---------------------------|--------------------|----------------------|---------------------------|
| | Number of Firms | Assets (Billion USD) | Assets/firm (Billion USD) | Number of Firms | Assets (Billion USD) | Assets/firm (Billion USD) |
| Singapore | 15 | 54.1 | 3.6 | 109 | 11.5 | 0.1 |
| Malaysia | 13 | 46.8 | 3.6 | 20 | 7 | 0.3 |
| Indonesia | 47 | 27.2 | 0.6 | 84 | 7.8 | 0.1 |

Notes: Data on assets is 2011 value due to unavailability of data
Source: OECD Stats and Swiss Re Sigma (accessed in 2015)

Source of issues/problems

- Limited capital - large numbers of firm (mostly domestic) with small capital
- Shortage of domestic insurance professionals and specialist
- Technology

Regulatory issues – PP 37/1992

Minimum asset requirements under PP 37/1992

| Type | Domestic | Joint venture ^{*)} |
|-------------|-----------------|-----------------------------|
| Non-life | IDR 3 millions | IDR 15 millions |
| Life | IDR 2 millions | IDR 4.5 millions |
| Reinsurance | IDR 10 millions | IDR 45 millions |

Regulatory issues

- Foreign ownership limited to 80%
- From 1992 to 2008 :
 - Minimum asset requirement was increased
 - Less discriminatory to FDI – distinction between JV and domestic removed

Other restrictive regulations

- Strict restrictions and complicated process for the use of foreign professionals
- Insurance companies must use local reinsurance to place all (100%) of its simple (basic) risk

Regional comparison

| Country | Branch Licenses | Minimum paid-up capital requirement |
|-------------|--|-------------------------------------|
| Indonesia | No | USD 8 Mn (minimum 20% must be held) |
| Malaysia | No | USD 29 Mn |
| Philippines | Yes | USD 22 Mn |
| Singapore | Yes (w/ minimum level of contracted premium) | |
| Thailand | No | USD 15 Mn |
| Vietnam | Yes | USD 28 Mn |

Source: Milliman Research Report (2015)

Is the new Law (UU 40/2014) less restrictive?

- Fundamental change on foreign ownership – “Indonesianization” of joint ventures
- Regulation (PP) on foreign ownership still in process – what are the implications on the new DNI?
- Process for foreign ownership more complex but an opportunity for reform.
- Less likely to increase investment and supply

THANK YOU