Indonesia in focus

What's new in Non-Life

JULY 2023 EDITION

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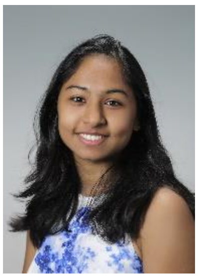
We are pleased to share our half-yearly newsletter focused on the Non-Life insurance market in Indonesia. This edition covers developments during the period from 1 January 2023 to 30 June 2023.

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

Pang Chye

Principal and Consulting Actuary



Renuka Subramaniam

Actuarial Associate

Tharan Ganesan

Actuarial Associate

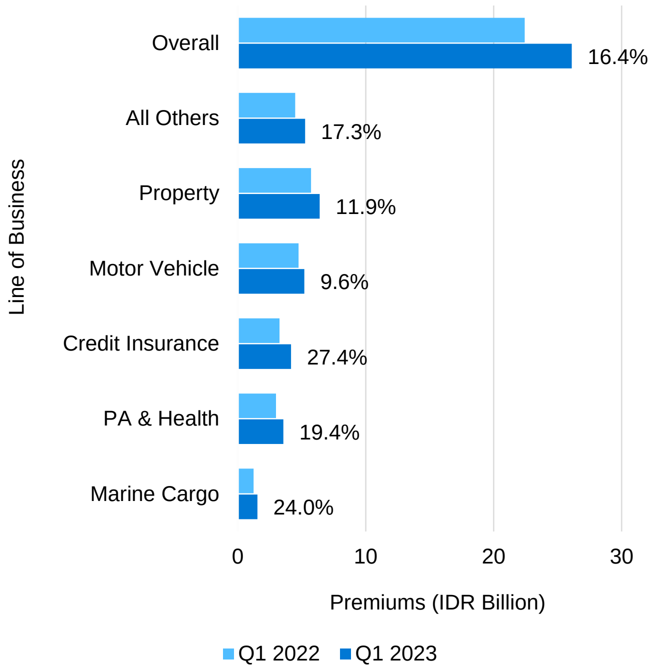
Ham Victoria Janice Hartono

Actuarial Analyst

Market performance

CONVENTIONAL INDUSTRY GROWTH AT Q1 2023

Premium (IDR billion) and Percentage Growth (%)



Notes: (1) PA – Personal Accident. (2) Data is limited to Q1 2023. (3) Only the top five lines of business are shown individually in the chart above.
Source: General Insurance Association of Indonesia (AAUI).

- Premiums in 2023's first quarter have seen an increase of c. 16.4% when compared against the same period in 2022. This was driven by strong growth in Credit, Property, Motor Vehicle, Health and Liability.
- Motor Vehicle experienced notable growth as motor vehicle sales grew by 13.7% year-over-year (Y-O-Y) between Q1 2023 and Q1 2022 with the continued economic recovery.
- Credit has also continued its growth momentum from 2022 with a high Y-O-Y growth rate of 27.4%. However, looming global economic uncertainties and a high interest rate environment casts doubt on whether this trend will continue.
- Based on the Y-O-Y conventional general insurance performance table, we notice that the total expenses have increased at a higher pace than the total income over the same period for the industry. Consequently, underwriting profit has fallen by close to 20% while the net combined ratio has deteriorated by around 6%.
- Diving deeper, we observe that the deterioration is mainly driven by an increase in the industry-wide loss ratio.

Y-O-Y CONVENTIONAL GENERAL INSURANCE PERFORMANCE

FINANCIALS (IN IDR BILLION)	APR 2022	APR 2023	% CHANGE
GROSS WRITTEN PREMIUM	28,601	33,475	17.0%
NET EARNED PREMIUM	13,294	17,947	35.0%
OTHER UNDERWRITING INCOME	19	23	19.8%
INVESTMENT INCOME	1,291	1,455	12.7%
TOTAL INCOME	14,604	19,425	33.0%
NET LOSS INCURRED	5,949	9,811	64.9%
OTHER UNDERWRITING EXPENSE	-123	23	-118.7%
OPERATIONAL EXPENSE	4,460	5,026	12.7%
NET COMMISSION	1,415	2,239	58.3%
TOTAL EXPENSE	11,701	17,100	46.1%
UNDERWRITING PROFIT	2,903	2,325	-19.9%

RATIO (%)	APR 2022	APR 2023	DIFFERENCE
NET LOSS RATIO	**44.8%**	**54.7%**	**9.9%**
EXPENSE RATIO (INCLUDING COMMISSION)	**44.2%**	**40.5%**	**-3.7%**
EXPENSE RATIO	33.5%	28.0%	**-5.5%**
NET COMMISSION RATIO	10.6%	12.5%	**1.8%**
NET COMBINED RATIO	**88.9%**	**95.2%**	**6.2%**

Note: Data is limited to April 2023.
Source: Financial Services Authority (OJK).

Market news

NEW PRODUCTS

- PT Sompo Insurance Indonesia (Sompo) has partnered with BMW to provide five years of extended warranty for BMW customers. The partnership has been in place since 2019, with the original coverage only being up to three years. Sompo has a similar partnership with Mazda as well.
- PT Asuransi MSIG Indonesia (MSIG) has launched MSIG FlexPro U-Drive for Personal, a Motor Vehicle insurance plan equipped with telematics services. Customers can track the location of their vehicle and the accompanying app will provide insights into driving behaviours which customers can use to improve driving habits and vehicle maintenance. The product will also include a nonfinancial reward system to policyholders who exhibit better driving practices. A similar product for MSIG's fleet business has been in the market since 2021.

- PT Asuransi Central Asia (ACA) will soon launch a Motor Vehicle insurance product equipped with telematics service to offer competitive prices. To encourage safe driving practices, customers who exhibit good driving behaviour will receive special rewards.
- PT BRI Asuransi Indonesia (BRINS) has launched a Motor Vehicle insurance product specifically for the priority customers of its parent company, PT Bank Rakyat Indonesia (Persero) Tbk, BRI. The product, called Oto Proteksi Maksima, will include Comprehensive and Total Loss Only (TLO) protection for non-truck four-wheeled vehicles. The product will offer coverage up to a vehicle age of 15 years for TLO and 10 years for Comprehensive.
- PT Great Eastern General Insurance Indonesia (GEGI) has introduced a new protection product for Micro, Small and Medium Enterprises (MSMEs). The Shop Package Insurance plan provides up to seven guarantees with various coverages including work accident protection, theft, riot, floods, storms, landslide, earthquakes, temporary accommodation costs, rebuilding costs and furniture replacement.
- PT JBA Indonesia, an automotive auction house, has partnered with PT Asuransi Umum Mega (Mega Insurance) to provide TLO Motor Vehicle insurance to car auction winners. The provision is limited to a maximum of 500 vehicles per month with the condition that the car won has grades A to C for its engine, interior and exterior. The protection offered will be valid for six months and will cover losses up to IDR 25 million, with an additional coverage of IDR 500,000 for towing.
- PT Astra Kreasi Digital, under the brand name Moxa, has partnered with Asuransi Astra (Astra Insurance) to gift Moxa app users a Personal Accident protection policy. The plan will provide protection up to IDR 2.75 million. Moxa app users would be able to obtain the policy directly through the app.
- PT Asuransi Perisai Listrik Nasional (PLN) Insurance has launched a new Public Liability insurance product in collaboration with Bank Mandiri, Bank OCBC and other banks. The product will provide coverage for damages from fire, injuries and death caused by electrical shocks. For a premium of IDR 500 under each electrical bill payment done through the bank partners, customers will be receiving a coverage of IDR 15 million for death and IDR 12.5 million for property damages and medical reimbursement up to 10% of the death benefit.

DISTRIBUTION CHANNEL

- PT Bank Resona Perdania has entered into a bancassurance partnership with PT Asuransi Tokio Marine Indonesia, MSIG and Sompo. The partnership provides the bank's debtors with insurance such as Fire and Industrial All Risk (IAR) insurance for credit guarantees.
- PT Bank Oke Indonesia has collaborated with PT Asuransi Raksa Pratikara in a bancassurance partnership to offer Fire insurance coverage to the bank's customers. The purpose of the partnership is to provide the bank's customers with a choice of products to cover the credit guarantees and to increase the bank's fee-based income from the insurers.
- Insurtech company Qoala has collaborated with NICEPAY, an online payment solution provider. Through this partnership, Qoala together with PT Mitra Jasa Pratama will market insurance products through the NICEPAY platform, whereby an option to purchase the product will be available through the payment gateway when the customers check out. As a start, a Personal Accident product will be launched offering death, permanent and temporary disability and hospital reimbursement cover.

INSURTECH

- Telkomsel has collaborated with Sunday Indonesia Insurance to provide protection for loyal Telkomsel customers who purchase the Entertainment Package. The protection will include coverage for accidental medical expenses up to IDR 500,000, protection for total permanent disability with a maximum value of IDR 5 million, and accidental death protection with a coverage of IDR 5 million.
- Igloo has launched Ignite, a one-stop insurance platform powered by artificial intelligence (AI). Ignite will allow customers to compare different insurance plans from different companies and provide real-time updates on claims, settlements and policy renewals. With its FastQuote feature, companies will be able to calculate premiums, issue quotes and analyse their sales data through the app.
- MAPCLUB, an e-commerce platform by Mitra Adiperkasa, has collaborated with insurtech company Fuse and insurance companies PT Asuransi Artarindo (Artarindo Insurance) and MSIG to offer a product damage and a shipment/freight insurance product to MAPCLUB customers. The products will cover any damages to the products purchased from and delivered by MAPCLUB. Premiums for product damage insurance will start from as low as IDR 100.

- PasarPolis, an insurtech firm, is now able to distribute and underwrite its own products via a strategic partnership with Tap Insurance. With this, the company has become one of Indonesia's first official full-stack insurtechs. PasarPolis aims to reduce the cost of insurance and increase penetration in Indonesia by utilising machine learning and data analytics to make the underwriting and claims processes faster and more cost-effective, including an automated claims approval process. With distribution partners including Shopee, Tokopedia and Xiaomi, customers would be able to add micro insurance policies to their purchases on the respective platforms with a starting premium of IDR 5,000 to IDR 20,000.

OTHER INSURER INITIATIVES

- PT Jasa Raharja Putera (JRP) Insurance has launched a call center service to improve its customer service. Customers can access the call center service anytime and anywhere via a dedicated hotline. Customers will be able to obtain insurance quotes, product information and initiate claims via the call center.
- PT Zurich General Takaful Indonesia (Zurich Syariah) in cooperation with PT Kita Indonesia Plus (WE+) has launched a new digital service, the Direktori Halal Trip. The digital Syariah directory provides travel guides to Muslim tourists such as halal restaurants, nearest mosques, hospitals, the Indonesian Embassy and emergency contact services via the app, along with a free medical teleconsultation feature by KlikDokter. Zurich Syariah Travel Insurance can cover medical expenses up to IDR 2.5 billion for international trips and up to IDR 150 million for domestic trips where claims payments could be cashless, i.e., Zurich Syariah would pay the medical provider directly.
- PT Zurich Asuransi Indonesia Tbk (ZAI) has collaborated with CamCom Technology Pvt Ltd (CamCom), a visual inspection AI-powered platform, to help process vehicle surveys and generate Motor Vehicle insurance policies for secondhand cars. Surveys will be processed automatically using AI, helping to minimise human error and to issue the insurance policies faster.
- PT Asuransi Kredit Indonesia (Askrindo) has established a Credit insurance cooperation with Bank Pembangunan Daerah Sumatera Utara Tbk, effective for the next three years. A counter bank guarantee arrangement is also in the picture. Askrindo plans to have more collaborations with regional banks to carry out its mandate of helping to build a healthy and competitive State-Owned Enterprise (SOE) ecosystem.
- Fuse has opened an office in Palembang, Sumatera. With a new representative office, it hopes to improve its service quality and strengthen its relationships with its business partners in the South Sumatra region. Fuse will be developing an agent partner network and expanding its product offerings via the new office.
- PT Reasuransi Indonesia Utama (Indo Re) is focusing on analysing its portfolio risks to deal with rising insurance claims. The COVID-19 pandemic is believed to be one of the reasons for the deterioration in experience. Part of the effort involves imposing a moratorium on Credit insurance business to preempt an increase in claims and improving its treaty portfolio quality.

MERGERS AND ACQUISITIONS (M&A)

- Hanwha Group, via its subsidiaries, PT Hanwha Life Indonesia and Hanwha General Insurance Co., Ltd, have completed the acquisition of a 62.6% stake in PT Lippo General Insurance Tbk (Lippo). Hanwha hopes that this strategic partnership with Lippo will help with Hanwha Life Indonesia's growth.
- PT Asuransi Multi Artha Guna Tbk (MAG) has prepared a maximum budget of IDR 85.4 billion to buy back as many as 237.19 million shares or 4.74% of the total shares issued. The share repurchase will be carried out within 18 months beginning from June this year. The buyback is an effort to increase the trading liquidity of the company's share and to subsequently increase the value of the shares.
- Following the recent acquisitions, the following companies are now known as:
  - PT Asuransi Digital Bersama, previously known as PT Sarana Lindung Upaya
  - PT Sunday Insurance Indonesia, previously known as PT KSK Insurance Indonesia
  - Oona Insurance Indonesia, previously known as PT Asuransi Bina Dana Arta Tbk (ABDA)

KEY APPOINTMENTS

- PT Tugu Reasuransi Indonesia (Tugu Re) has appointed Teguh Budiman as Tugu Re's new President Director.
- Asosiasi Asuransi Umum Indonesia (AAUI) has appointed Budi Herawan as its General Chair for the 2023-2026 period. Budi Herawan is also the President Director of PT Asuransi Candi Utama.
- PT Jaminan Pembiayaan Askrindo Syariah (Askrindo Syariah) has appointed Kokok Alun Akbar as its new President Director and has reappointed Subagio Istarno as the Finance Director.

REGULATORY UPDATES

- Eleven insurance companies have been put under special supervision by the Financial Services Authority (OJK), of which three are general insurance companies. OJK has refrained from naming any of the listed companies.
- OJK will start monitoring the investments made by insurance companies using its newly acquired tools in an effort to encourage more prudent investment management within the insurance industry. In addition to this, OJK intends to impose limitations on transactions with related companies or parties.
- OJK has granted an insurance brokerage license to PT Marine Insurance Broker, previously known as PT Pilar Mitra Proteksi.
- OJK will start classifying insurance companies based on their core capital. Companies will be placed in four different categories, similar to what has been done in the banking industry. Business activities of (re)insurers will depend on their classification once the regulation comes into place. In addition to that, a proposal to increase the minimum capital for conventional and Syariah (re)insurers has been circulated to obtain feedback from industry players. The new requirement would dramatically increase the minimum limit from its existing IDR 100 billion (IDR 50 billion for Syariah) to IDR 1 trillion for direct insurers and from the existing IDR 200 billion (IDR 100 billion for Syariah) to IDR 2 trillion for reinsurers.
- OJK has allowed the insurance industry to enact premium rate reductions for electric cars. This movement is in conjunction with the government's policy to encourage the use of electric vehicles.
- OJK published two new regulations related to the financial health of conventional and Syariah (re)insurance companies, POJK Nomor 5 Tahun 2023 and POJK Nomor 6 Tahun 2023, replacing the existing POJK Nomor 71/POJK.05/2016 and POJK Nomor 72/POJK.05/2016, respectively. One of the main intentions of the renewal is to reduce concentration risk with any one investment counterparty, especially with regard to Investment-linked products, and to synchronise the requirements with the banking sector.

IFRS 17 – Milliman Survey

BACKGROUND

- International Financial Reporting Standard (IFRS) 17 will be introduced in Indonesia as PSAK 74 and will require (re)insurers to overhaul their IT, accounting and actuarial models and systems to be compliant with the standard. OJK has set 1 January 2025 as the deadline for IFRS 17 implementation.
- In May 2023, Milliman conducted an industry-wide survey covering 30 Indonesian general insurers and reinsurers responding on their IFRS 17 implementation progress and challenges. We have outlined some key findings below.

PROGRESS

FIGURE 1: LEVEL OF PREPAREDNESS FOR IFRS 17

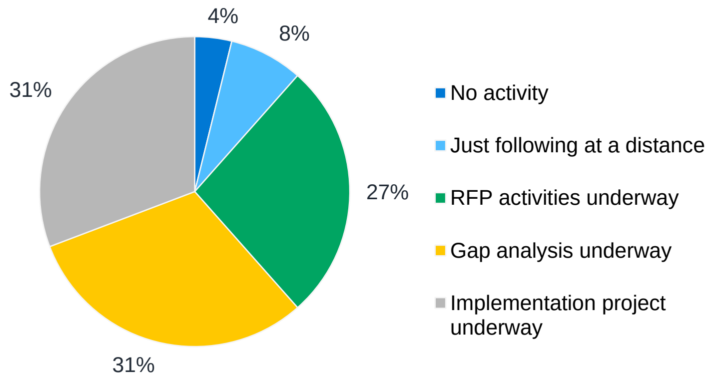
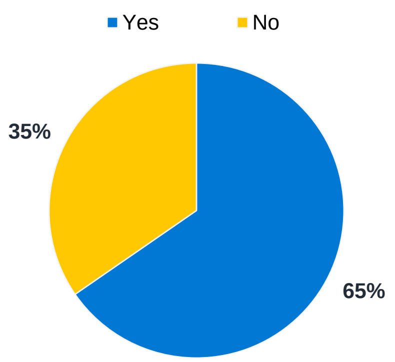


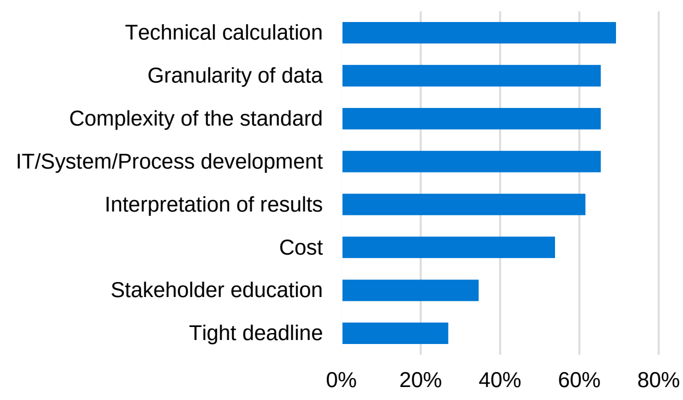
FIGURE 2: GO-LIVE DATE OF 1/1/2025 FEASIBLE?



- 65% of respondents think they will be able to go live on 1 January 2025, even those that had only just started the request for proposal (RFP) process.
- Time is running out for those that are still observing and have not done anything. From our experience they would need to start immediately and the overall project would need to go according to plan for them to meet the deadline.

CHALLENGES

FIGURE 3: MAIN CHALLENGES ON IFRS 17 IMPLEMENTATION



- Around two-thirds of the companies find themselves struggling to deal with new IT/system/process development, which is driven by the additional data granularity necessitated by IFRS 17 (see Figure 3). Many companies also find the technical calculations to be challenging, perhaps driven by the lack of adequate internal or external IFRS 17 expertise. More than 60% are struggling or expect to struggle with the interpretation of results.
- Separately, close to 60% of the survey respondents agree that the treatment for reinsurance will be a significant issue for them.

TRAINING AND EDUCATION

FIGURE 4: STAKEHOLDERS WITH GREATER UNDERSTANDING IN IFRS 17

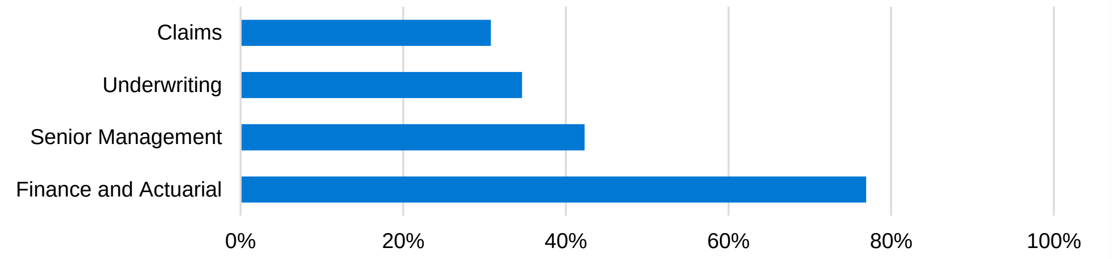
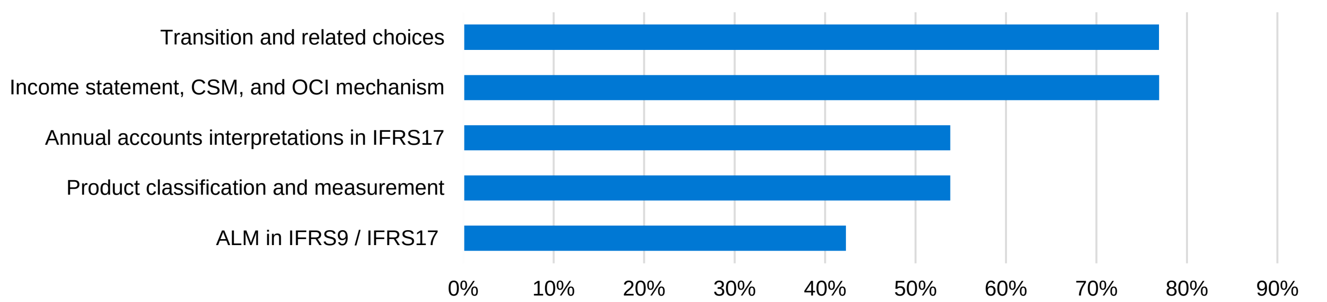


FIGURE 5: AREAS OF ADDITIONAL TRAINING REQUIRED



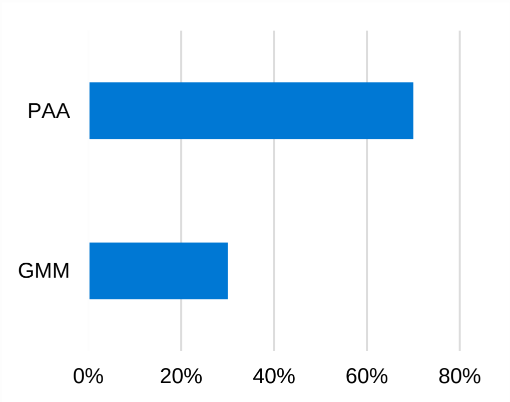
* Note: An input of more than 50% understanding in IFRS 17 is defined as "Greater Understanding."

- As expected, the finance and actuarial staff possess the highest level of IFRS 17 knowledge amongst the key stakeholders, with almost 80% of respondents believing they have an understanding level of greater than 50% on the subject matter (see Figure 4). However, 65% to 70% of the respondents also agree that the claims and underwriting staff do not have a greater understanding of IFRS 17 and the level of understanding amongst senior management is only perceived to be slightly better than this.
- A lack of awareness and comprehension of IFRS 17 could lead to unnecessary roadblocks and delays in an already tight implementation process, indicating the need to accelerate IFRS 17 training across all layers of personnel before the process begins in earnest.
- Referring to Figure 5, close to 80% of the respondents have agreed that they will require transition and income statements related to IFRS 17 trainings to aid with the implementation, while less than half have said they will require trainings on Asset Liability Management (ALM).

KEY TECHNICAL ASSUMPTIONS

Findings from this subsection are limited to respondents who have at least started on their gap analyses.

FIGURE 6: EXPECTED IFRS 17 MODELS FOR MORE THAN HALF THE BUSINESS



- For general insurers, the level of complexity faced during implementation will also be highly dependent on the choice of measurement model used, with the General Measurement Model (GMM) requiring a more robust setup, data system and IFRS 17 engine compared to the Premium Allocation Approach (PAA).
- 70% of the respondents believe that more than half of their business will be using the PAA model (refer to Figure 6), with the remainder believing GMM will be a significant part of their business.
- With many Indonesian (re)insurers writing long-term Credit insurance, the possibility of being required to run a portion of the book on the GMM is high. There is also a possibility of being required to run the Variable Fee Approach (VFA) model for insurers that will market unit-linked general insurance products in light of the OJK recently allowing general insurers to do so.

FIGURE 7: DISCOUNT RATE METHODOLOGY

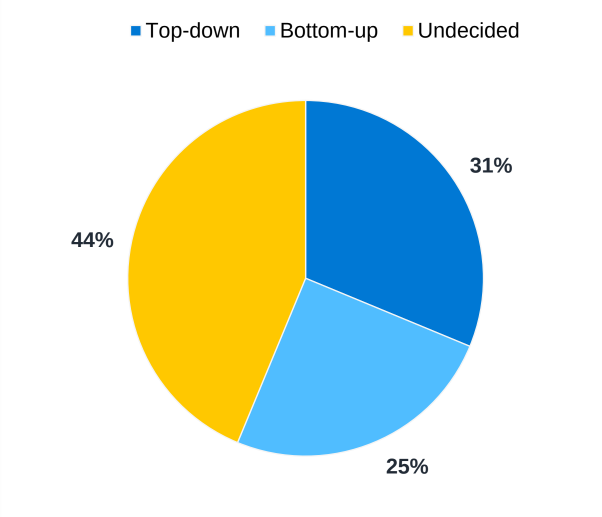
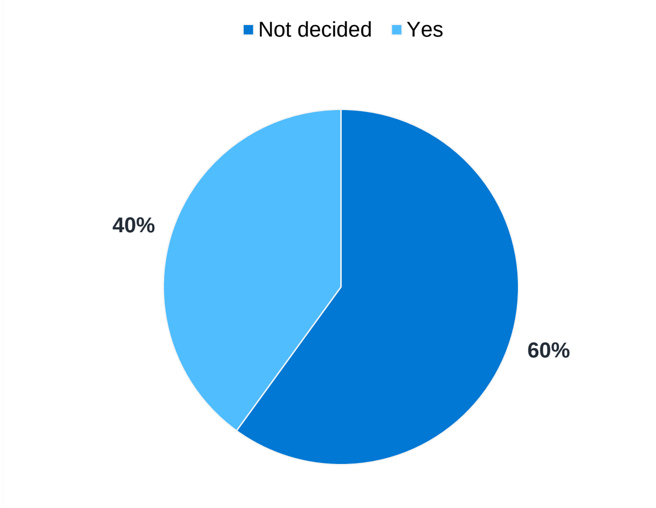


FIGURE 8: TO USE THE OTHER COMPREHENSIVE INCOME (OCI) OPTION?



- Close to half of the respondents stated that they have not determined the process to derive the discount rates, i.e., they have not chosen between the top-down and bottom-up approaches (refer to Figure 7). Of those who have determined an approach, there does not appear to be a strong preference for either the bottom-up or top-down approaches. The top-down approach is simpler and more straightforward, but the bottom-up approach may be more robust for long-term products such as Credit insurance.
- Referring to Figure 8, 60% of the respondents have yet to decide on whether to present historical changes in insurance liability amounts in Other Comprehensive Income (OCI) as well as retained earnings at transition. Exercising the option will allow (re)insurers to split the impact of discounting into the insurance finance expense component (which is a part of retained earnings) and the OCI component.

FIGURE 9: RISK ADJUSTMENT METHODOLOGY

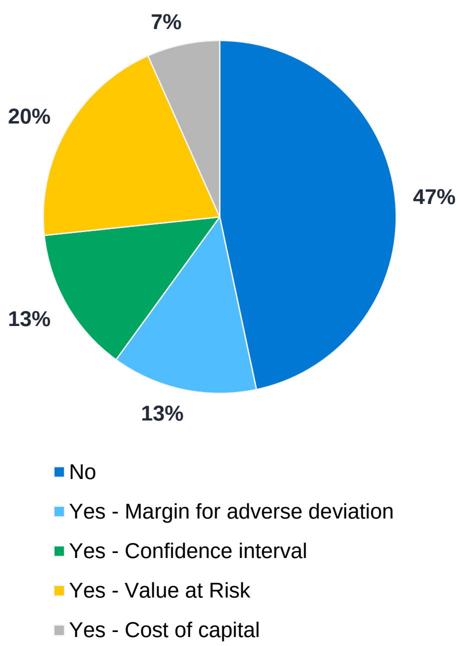
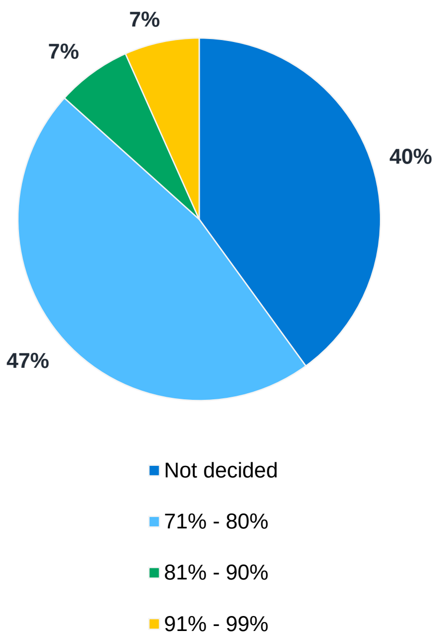


FIGURE 10: PREFERRED CONFIDENCE LEVEL FOR RISK ADJUSTMENT



- Only half of the respondents have a firm opinion on which methodology to use to derive the risk adjustment, with the most popular option being Value at Risk (see Figure 9).
- Out of the respondents who have a preferred confidence level for the risk adjustments, a large majority are choosing a confidence interval between 71% and 80%, indicating that many (re)insurers are mostly comfortable with maintaining the popular 75th percentile results generally used in the industry currently (see Figure 10).

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milliman.com

CONTACT

Pang Chye
pang.chye@milliman.com

Renuka Subramaniam
renuka.subramaniam@milliman.com