

RECENT DEVELOPMENTS

**Three challenges faced by insurance companies in 2015**

Based on the observation of the Indonesian insurance industry, in 2015 the insurance industry will be facing three challenges. The first challenge is the economic slowdown as well as capital market conditions that could reduce demand in the insurance market. Growth in general insurance depends on the performance of the real sector while life insurance depends on capital market conditions.

Secondly, seventeen insurance companies still need to meet the minimum capital requirement of Rp100 billion at year-end. As a result of the high interest of [foreign] investors and the attractiveness of the Indonesian insurance market, insurance companies that are still undercapitalized will need to meet the target by the deadline. Finally, competition will increase with the advent of the ASEAN Economic Community (AEC) in 2015. With insurance penetration at less than 5 percent, the Indonesian insurance market will find itself accessible to global insurance companies. Several other issues also present challenges to the national insurance industry in facing open competition. A number of the issues are related to the capitalization of national companies, human resources in the field of insurance, insurance products which are still conventional as well as the lack of financial literacy among the general public.

Another challenge is that Indonesia still lags far behind neighboring countries with regard to the number of insurance agents at an international level. In 2014, the number of agents in Indonesia listed in MDRT (<http://www.mdr.org/about/>) at an international standard only came to 763 agents; Indonesia thus ranks third after the Philippines and Singapore who respectively have 1,000 agents and 800 agents. Ideally, in 2015, the number of agents that are at an international level can be increased to at least 1,000 people.

## **Investor Foreign investors dominate RI insurance industry, OJK: They must be curtailed**

**Jakarta** *The Financial Services Authority* (OJK) will set limits on foreign ownership in the domestic insurance industry. Over time, foreign interests have gained a majority stake of the market, and in terms of ownership, their stake may have reached as high as 99%. This state of affairs has come about because of the limited amount of local capital. The Chief Executive Supervisor of the Non-Bank Financial Industry (IKNB) OJK, Firdaus Djaelani, stated that limits on foreign ownership would be imposed on the domestic insurance company. "In order to increase capital, and as a result of a lack of local capital, many (owners) are foreign. Thus, foreign ownership is probably now around 90%, 99%," Firdaus said when speaking at Dhanapala Building, Ministry of Finance, Jakarta (19/1/2015).

Firdaus said that through the New Insurance Law, it is hoped that foreign ownership in insurance companies would soon be reduced. For existing insurance companies, the portion of foreign ownership should come to 80:20. "This law mandates that returning the proportion of ownership to 80:20 can be carried out through a direct sale to an Indonesian party or by turning to the capital markets and going public," he said.

As for the licensing of new insurance companies in Indonesia, foreign ownership should be reduced. Currently, there are 20 joint venture companies in the life insurance industry. "However, for a new company, foreign insurers will not hold an 80 percent stake. For existing companies, according to the law, there is a divestment plan: if I am not mistaken the proportion is 80:20. For new insurance companies, the government is considering ownership figures of up to 60:40", said Firdaus. Firdaus explained that according to Law No. 2 of 1992, ownership was unregulated for an insurance company that was founded by Indonesian citizens and/or an Indonesian legal entity.

For a joint insurance company, the criteria were not previously set out for the foreign parent company. In addition, the criteria for foreign nationals in a joint insurance company were not stipulated either. In the New Insurance Law, an insurance company that was founded by an Indonesian citizen and/or legal entity must be owned directly or indirectly by an Indonesian citizen(s). For a joint insurance company, the foreign parent company must have a subsidiary engaged in the same line of business. It is also stipulated that a foreign citizen can become the owner of a joint venture insurance company through transactions on the stock exchange.

*Source: <http://finance.detik.com/read/2015/01/19/163643/2807498/5/2/investor-asing-dominasi-asuransi-ri-ojk-harus-mulai-dibatasi>*



## **Actuaries in the new insurance paradigm**

*By Angel Rumondor*

*with additional research by Miranda Mamahit*

The insurance industry in Indonesia shows great promise. As the number of premiums increases and more and more varied insurance products come onto the market, we can look forward to the development of the industry in terms of size of assets under management as well as in terms of the number of market players. According to statistics of the OJK, the assets of the insurance industry have increased on average by 18.8 percent annually since 2009-2014. In December 2014 (unaudited), the total assets of insurance companies reached Rp755.4 trillion. In the pension sector, total net assets of pension funds as at December 2014 (unaudited) reached Rp186.3 trillion with an average growth rate of 9.7 percent per year (Source: <http://www.ojk.go.id/en/press-release-ojk-opens-call-for-papers-on-insurance-and-pension-fund>).

However, the industry still needs to improve the quality of its human resources. Nowhere is this need more acute and apparent than in the lack of actuaries which potentially threatens to impede development in the industry as a whole. Actuaries employ techniques derived from mathematics (mainly statistics) to manage risk in relation to financial instruments. They are usually employed at financial institutions such as insurance companies to help design pension and benefit plans and health and accident plans. Actuaries may assist in designing and pricing insurance products and also assessing the range of benefits that can be offered. They also have a role to play in making recommendations on investment strategy.

Under the previous law on insurance, Law No. 2 of 1992 on the Insurance Business, actuaries and other parties providing services to the insurance industry were classified as “Insurance Supporting Businesses”. The term Insurance Supporting Business is no longer used in the new insurance law. Instead, actuarial firms as well as insurance and reinsurance brokerage firms and claims adjuster companies are now categorized as Insurance Business Entities (along with insurance and reinsurance companies) while Insurance agents and actuarial consulting companies are no longer considered part of the Insurance Business, and there are few provisions on their conduct. This has the legal

consequence that none of the implementing regulations of the previous insurance law apply to them, except those with specific references to them.

In general, actuaries must display professionalism and competence and follow good corporate governance provisions. In Law number 2, year 1992, an actuarial consulting business is defined as an insurance business field whose business license is granted by the ministry. In the new insurance law, Law Number 40 Year of 2014 on Insurance, an actuarial consultant is no longer an insurance business, but it is a professional service provider to an insurance company.

According to the 1992 Insurance Law, a fit and proper test was only applied to the members of the BOD, BOC and the shareholders. However, according to the new insurance law, in addition to the abovementioned requirement, individual actuaries employed at an insurance company must undergo a fit and proper test as well. Other components of an insurance company that are obliged to comply with such requirement under the new insurance law are, among others, the controlling party, members of the sharia supervisory board and auditor(s). Moreover, actuaries must also be members in good standing with the professional association of actuaries. Non-employee actuaries providing services to insurance companies must be registered with the OJK.

Since the old insurance law and its implementing regulations no longer apply to actuarial consulting companies, the MoF intends to issue its own regulation in this regard. A draft regulation has been prepared but for the present time, the provisions of the new insurance law allow actuarial consulting companies to continue operating with their existing business licenses.

Actuary Headlines:

- The OJK launched a Scientific Writing Contest (Call For Papers) on insurance and pension funds at the OJK Institute building on February 20. The theme of the competition is the Increasing Role of Statistics and Actuaries to Revitalize the Insurance and Pension Fund Industry. The competition was announced by the Chairman of the Board of Commissioners Muliaman D. Hadad. In his speech, Mr. Hadad stated that he was seeking any ideas, methods, and new concepts to revitalize the insurance industry and pension funds in the Call For Papers.
- Manulife has linked up with the Faculty of Mathematics and Science at Gajah Mada University in Yogyakarta. The partnership is part of the company's Actuarial Development Programme, which aims at increasing interest among university students to pursue a career in actuarial science.

- Prudential Indonesia has signed a partnership agreement with the University of Indonesia (UI) to support and improve faculty training. Two lecturers will be sent to undergo international actuarial training every year, and the company will also invite an international lecturer to the UI campus.
- Insurance industry executives believe that insurance companies in Indonesia need an estimated 800 actuarial experts over the next few years. Currently, there is a shortage of such expertise in the country. According to the Society of Actuaries of Indonesia (PAI), there are 180 fellows and 200 associates of actuarial professionals who have earned recognition from the Fellowship of the Society of Actuaries of Indonesia (FSAI).

<http://www.asiainsurancereview.com/News/View-NewsLetter-Article/id/30914/Type/eDaily/Indonesia-800-actuaries-needed-over-the-next-few-years>

*DISCLAIMER*

*Articles in this newsletter are purely informational in nature and should in no way be construed as constituting legal advice.*

*14th Floor Wisma Metropolitan II Kav. 31 | Jl. Jend. Sudirman Jakarta 12920 | P.O. Box 2844 Jakarta 10001  
Tel. +62 21 571 1130 | Fax. +62 21 571 1162 & +62 21 570 1686 | mail@mkklaw.net | www.mkklaw.net*