

## OJK has stopped three carriers from marketing savings plans

**KONTAN:** The Financial Services Authority (OJK) asked three insurance companies to stop marketing traditional products with guaranteed returns, often called savings plans. In the view of the OJK, the three carriers do not have the capacity in terms of capital and risk management to do so. OJK Insurance Supervisory Director Ahmad Nasrullah stated that the OJK had asked the three life insurance companies to stop selling the savings plan products as of last year.

There are two reasons that prompted the OJK to ask the three companies to stop marketing their saving plan products. "The first problem was that their marketing is not accurate because they seemed to be making a specific promise. Second, their insurance capital is insufficient to contain the relevant risks, so we stopped it", Nasrullah said in Jakarta on Wednesday (3/13).

In practice, these life insurance companies promised yields that were too high. As a result, to make an adjustment, companies have to move funds from investment instruments into stocks, which are higher risk. In addition to protecting consumers, the OJK claims the move to stop the marketing of saving plan products was to safeguard the liquidity of companies that issue these products.

The products marketed by the three life insurance companies are similar products to the JS Savings Plan marketed by **PT Asuransi Jiwasraya**. This state-owned insurance company is experiencing liquidity problems, thus delaying payment of matured claims to policyholders. Unfortunately, Nasrullah was reluctant to mention the identity of the three life insurance companies whose OJK product savings plan had been stopped. What is clear is that the companies in question are large life insurance companies.

With the termination, it is not surprising that the contribution of premium product revenue slowed over 2018. In the previous year, life insurance premium income shot up thanks to the marketing of this saving plan product. "The contribution is quite large, but I don't know what the details are. This is counted in traditional insurance products where the contribution is large", he added.

<https://m.kontan.co.id/news/lindungi-konsumen-ojk-hentikan-penjualan-produk-saving-plan-milik-tiga-asuransi-jiwa-1>

## **OJK: many foreign investors seeking to enter the insurance industry**

**CNBC Indonesia:** The insurance industry this year is targeted to grow 12 percent to 15 percent. The optimistic target was set after it turned out that premiums from the non-bank financial industry (**IKNB**) only grew 9 percent last year. Insurance growth is a combination of life insurance and general insurance premiums. "This year the double digit growth target is around 12 to 15 percent or more," Ahmad Nasrullah, Insurance Supervisory Director of the Financial Services Authority (OJK) stated at the *National Seminar: 2019 IKNB Business Prospects* in Jakarta, Tuesday (03/12/2019). In his presentation, Ahmad explained that the insurance industry's gross premiums as of December 2018 had reached IDR448.67 trillion, an increase of 10.05 percent on the previous year, which amounted to IDR 407.71 trillion. Over the last five years, the average growth in gross premiums was around 19.5 percent. However, in the past year, premium revenues only grew 9 percent. "Performance in 2018 decreased in terms of general premium revenue. It may not be too significant, but for us it has become impetus to improve performance in the coming years," Ahmad added.

This slowdown in performance last year, continued Ahmad, was mainly due to the global economic impact on the national economy. This year, he said he was optimistic that there was still a chance to grow. However, one must not neglect the challenges that must be faced. At present, the level of insurance penetration year on year is still around 2 percent to 3 percent, compared to insurance penetration in neighboring countries which is 6 to 7 percent. With this number, according to Ahmad, there is potential to grow. "The potential is still large. Why? Because now we have received many new insurance permit applications. Most of them are not local," he said.

On the other hand, human resources (HR) in the insurance sector are still minimal when compared to that of banks. Based on internal surveys, potential applicants are more interested in entering banking than IKNB. Moreover, banks are more aggressively attracting potential employees at colleges.

Funds for HR development in banking are also quite large and continuing education programs in banking are more structured. As a result, said Ahmad, it is not wrong to cite HR in IKNB, especially insurance, as being lower than that of banks. "This is our challenge, even though we have set a certain percentage that must be allocated for human resource development; in practice, it has not been optimally implemented." he concluded.

IKNB's total assets are currently Rp2,353 trillion, consisting of Rp2,255 conventional assets and Rp98.57 trillion in assets in Sharia. Insurance alone controls 53 percent of assets from total IKNB assets of Rp1,251 trillion. The remaining 12 percent is held by pension funds and 25 percent by financing institutions. The remaining 10 percent is held by other types of IKNB.

Source: <https://www.cnbcindonesia.com/market/20190312154530-17-60172/ojk-sebut-banyak-investor-asing-ingin-masuk-bisnis-asuransi>

## **OJK circular on fraud control**

*(MKK insurance team)*

The OJK issued OJK Circular Letter No. 46/SEOJK.05/2017, regarding Fraud Control. Fraud control refers to the strategy of an insurance company or Sharia unit in controlling fraud which is designed to identify and check potential cases of fraud and implemented in the form of a fraud control system. Fraud control includes (i) active management control, (ii) organization and accountability, (iii) control and monitoring and (iv) education and training.

Further, there is also a reporting obligation, whereby insurance companies or Sharia units are required to submit reports to the OJK on the application of their fraud controls and anti-fraud strategies as well as on occurrences of fraud. This can be carried out online through the data communication network system of the OJK.

### **Analysis**

Cyber fraud and hacking have opened up a new front in the war on fraud. The threats can come from both outside and inside a company itself. As a result, managers should make efforts to tighten up their fraud controls. Does your company have internal infrastructure to deal with fraud? Does it have a whistleblower program? Simply reporting fraud is not sufficient if there is no follow-up. Following up may be done internally or it may include involving the OJK, the professional association and even other external authorities.

## **Establishment of a foreign insurance company**

*(MKK insurance team)*

Foreign insurance companies may establish themselves in Indonesia with an 80 percent cap on foreign ownership. The remaining 20 percent must be held by a local partner in a Joint Venture (JV) arrangement. This leads to the question of whether foreign employees are allowed to work in an insurance company. According to POJK 67 of 2016 on Insurance (POJK 67), foreigners are allowed to work in a local or JV insurance company but are limited to certain positions. Foreigners may be employed as (i) an insurance expert, one level below the Board of Directors; (ii) an actuary; or (iii) insurance consultant. POJK 67 also stipulates that a foreigner may only work for five years after which time he must leave the company.

In addition, a foreign worker is also subject to the Fit and Proper test (**FPT**) which he must pass to prove his competence in the insurance industry; the company must assign an assistant to him who he will train as part of the Transfer of Technology (**ToT**) program, and for every foreigner, the company must have at least three Indonesian employees (though usually this is not an issue for an insurance company which has a large head count).

## **Bancassurance agreements**

*(MKK insurance team)*

Pursuant to SEOJK 32/2016, an insurance company and a bank may enter into bancassurance agreements. Please note however, that every bancassurance agreement can only utilize one business model for one insurance or bundled product. Furthermore, a bancassurance agreement must be prepared in the Indonesian language, and for a bancassurance agreement with a reference business model, there shall not be any provision that may be construed that the insurance company will market its insurance product exclusively through the bank.

A bancassurance agreement must at least contain the following:

- a. risks and obligations of the parties, *inter alia*:
  - 1) with regard to reference and/or distribution cooperation business model, the insurance company is responsible for the risks of the marketed insurance product; or
  - 2) with regard to product integration business model, the insurance company is responsible for the risks of the insurance product, and the bank is responsible for the risks of the banking product;
- b. with regard to the marketing of **PAYDI** (Unit-Linked Products) through the distribution cooperation business model, the insurance company must record and manage the assets and liabilities of the insurance company in a specific manner;
- c. the business model used, and the insurance or bundled product marketed;
- d. the period of the agreement;
- e. procedure to cancel the insurance policy and payment method of premium or contribution;
- f. procedure for settlement or payment of claims;
- g. the amount of commission given by the insurance company to the bank;

- h. responsibilities of each party in carrying out their obligations concerning anti-money laundering and the prevention of terrorism financing;
- i. a description of conditions which may cause the agreement to be terminated, including termination of the agreement due to revocation of the company's or the bank's business license by the OJK;
- j. a clear explanation regarding the settlement of the rights and obligations of each party when the agreement is terminated;
- k. a clear explanation regarding the limitations of the responsibilities of each party on the marketed insurance product, should there be any disputes with the policyholders, insured parties or participants;
- l. the obligations of the parties in maintaining confidentiality of client information;
- m. among others.

### **Conclusion**

Before entering into a bancassurance agreement, an insurance company or bank should be thoroughly apprised on recent developments with regard to OJK and BPPU (Anti-Monopoly Board) decisions regarding anti-monopolistic practices and the entering into of bancassurance agreements.