INSURANCE MARKET REPORT

INDONESIA: NON-LIFE (P&C)

NON-LIFE (P&C)

Country Map


INDONESIA
POLITICAL
WITH PROVINCES
Country capital
Province capital
Major city
Other city
Primary road
Secondary road
Railway
0 400 km
0 400 mi
N
An province has the same name as its center except where noted. Achen and Yogyakarta are special region. Jakarta Raya is a special city district.
105°E
120°E
135°E
0°
15°S
MYANMAR
BANGKOK
CAMBODIA
PHNOM PENH
VIETNAM
Ho Chi Minh
Qui Nhon
Tuy Hoa
Nha Trang
Lumphat
Rach Gia
Prachuap Khiri Khan
Chumphon
Surat Thani
Phangnga
Nakhon Si Thammarat
THAILAND
Songkhla
Yala
Andaman Sea
Gulf of Thailand
South China Sea
Spratly Islands
MANILA
PHILIPPINES
Sanjose
Puerto Princesa
Palawan
Sulu Sea
Iloilo
Cebu
Tacloban
Samar
Maasin
Butuan
Mindanao
Zamboanga
Davao
General Santos
Jolo
Philippine Sea
FEDERATED STATES OF MICRONESIA
Colonia
Caroline Islands
KOROR
PALAU ISLANDS
PACIFIC OCEAN
Banda Aceh
Bireun
ACEH
Langsa
Meulaboh
Medan
Kabanjahe
Sumatera
Kangar
Ipoh
Kota Baharu
Kuala Terengganu
Kuala Lipis
MALAYSIA
KUALA LUMPUR
Melaka
SINGAPORE
Padangsidempuan
Gunungstoli
Pekanbaru
Selatpanjang
SUMATERA UTARA
RIAU
Tembilahan
Padang
Jambi
SUMATERA BARAT
Tanjunggagung
Palembang
Bengkulu
Baturaja
SUMATERA SELATAN
Tanjungkarang
LAMPUNG
KEPULAUAN BELITUNG BANGKA
Pangkalpinang
Manggar
BANDAR SERI BEGAWAN
BRUNEI
Borneo
Bintulu
Kuching
Sriaman
Pontianak
KALIMANTAN BARAT
KALIMANTAN TENGAH
KALIMANTAN TIMUR
KALIMANTAN SELATAN
Pangkalanbuun
Palangkaraya
Bandjarmasin
Balikpapan
Samarinda
Tanjungrebed
Tarakan
Sandakan
Lahaddatu
Semporna
Celebes Sea
Kotabaru
Makassar Strait
SULAWESI UTARA
Manado
Gorontalo
Mobagu
Baolan
Palu
Luwuk
Poso
SULAWESI TENGAH
SULAWESI SELATAN
Parepare
Makasar
Sulawesi
Kendari
Katobu
SULAWESI TENGGARA
Ternate
MALUKU UTARA
Ambon
Banda Sea
MALUKU
Tual
Manokwari
Sorong
Biak
Jayapura
PAPUA
Dolak
Kiunga
Merauke
PAPUA NEW GUINEA
Arafura Sea
JAKARTA RAYA
JAKARTA
JAWA TENGAH
Serang
BANTEN
Bandung
Semarang
Sidareja
JAWA BARAT
Yogyakarta
Jawa
JAWA TIMUR
Surabaya
Java Sea
INDONESIA
BALI
Denpasar
Mataram
Sumbawabesar
NUSA TENGGARA BARAT
NUSA TENGGARA TIMUR
Flores
Maumere
DILI
EAST TIMOR
Timor
Kupang
Timor Sea
The Settlement
Christmas Island (Aust.)
INDIAN OCEAN
Nguiu
Darwin
Jabiru
Galiwinku
Alyangula
Gulf of Carpentaria
Portkeats
Katherine
Kununurra
Birdum
Victoria
Broome
Fitzroy
AUSTRALIA
Tennant Creek

Map of the Area

==

Update April 2020

The COVID-19 pandemic is expected to have a significant effect on the majority of insurance markets around the world, not limited to a major decline in the financial markets and an expected upsurge in claims related to travel, liability, workers' compensation and business interruption (although most standard policies exclude infectious diseases). The full impact of the pandemic will not be known for some time.

On 20 January 2020 *Regulation No 3/2020* came into force, amending *Regulation No 14/2018 on Foreign Ownership of Insurance Companies.* The new regulation relaxed and clarified the rules surrounding capital increases for unlisted companies which had more than 80% foreign ownership at the time of entry into effect of the regulation. *Regulation No 3/2020* permits such companies to maintain the current percentage of foreign ownership and also clarifies that the same rules will apply to any sharia companies set up by such insurers with sharia units.

In September 2019 the Ministry of State-Owned Enterprises (Kementerian Badan Usaha Milik Negara - BUMN) announced that it had appointed PT Bahana Pembinaan Usaha Indonesia (BPUI) as the holding company of the state-owned insurance companies. In March 2020, the shares of PT Asuransi Jasa Raharja, PT Asuransi Jasa Indonesia and PT Asuransi Kredit Indonesia (Askrindo) were transferred to PT Bahana under *Regulation No 20/2020.*

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it provides a definition of "simple risks" and also exceptions to the rules.

In May 2019 it was announced that Singapore-based Great Eastern Holdings (Great Eastern) had completed the acquisition of PT QBE General Insurance Indonesia from the Australian QBE group. The company was subsequently renamed PT Great Eastern General Insurance Indonesia.

==

- The impact of the government's 2015 requirement for the country to retain greater volumes of gross premium income in the local market is reflected in the statistics for 2016 and 2017, which show that local inwards gross premium income to the country's major professional reinsurers grew by 90.6% and 37% respectively in those years.
- The year 2018 was a particularly bad one for earthquakes and tsunamis, with three significant events together causing over 3,200 deaths and insured losses estimated at more than IDR 25trn (USD 1.73bn).

- The market was also hit by the loss of a Lion Air Boeing 737 which crashed into the Java Sea after taking off from Jakarta on 23 October 2018. All 189 passengers and crew were killed and according to some reports, the total cost to the insurance market was expected to be as high as USD 100mn, of which USD 60mn related to the hull.

- *Regulation No 14/2018 on Foreign Ownership of Insurance Companies*, which came into force on 18 April 2018, maintained the maximum of 80% foreign ownership in a joint venture operation with Indonesian shareholders, although this limitation does not apply to publicly listed insurance companies or to insurance companies with more than 80% foreign ownership at the time *Regulation No 14/2018* was issued.

- In October 2018 the finance minister announced the government's intention to introduce a natural disaster risk-financing scheme in 2019 to deal with the impact of natural catastrophes. As part of this strategy, the government intends to start insuring its own buildings as from 2019. The initial proposal is that these risks should be covered by a consortium of insurers and managed by Jasindo. In February 2019 it was reported that the state-owned insurer PT Asuransi Jasa Indonesia (Jasindo) was to be the lead company in the setting up of a single holding company for a group of nine companies which would include the existing state-owned PT Asuransi Kredit Indonesia (Askrindo), PT Reasuransi Nasional Indonesia and PT Reasuransi Indonesia Utama (Indonesia Re).

- It is understood that the regulator, Otoritas Jasa Keuangan (OJK) is preparing draft regulations on digital-based insurance, although it is presently thought unlikely that these will come into force in the near future.

- In October 2018 the regulator, the OJK, reported that the majority of the 50 insurers with sharia units or windows, including 25 such non-life insurers, had not yet begun the process of setting up separate sharia companies. *OJK Regulation No 67/POJK.05/2016, on the Licensing and Institution of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies and Sharia Reinsurance Companies* requires this to be completed by 2024.

The Future

Given its very large (estimated at 266.8 million in 2018) and increasingly affluent population combined with relatively low levels of insurance penetration, Indonesia remains an attractive destination for foreign insurance carriers and intermediaries, many of which foresee attractive future growth potential. Equally, market sources suggest that there are several family-owned conglomerates seeking to cash in on this foreign interest by selling their insurance subsidiaries to the highest bidder.

The government's intention to insure government assets under the proposed natural disaster risk-financing scheme should stimulate growth in the sector and, in a wider context, may also serve to raise cultural awareness of the concept of insurance.

==

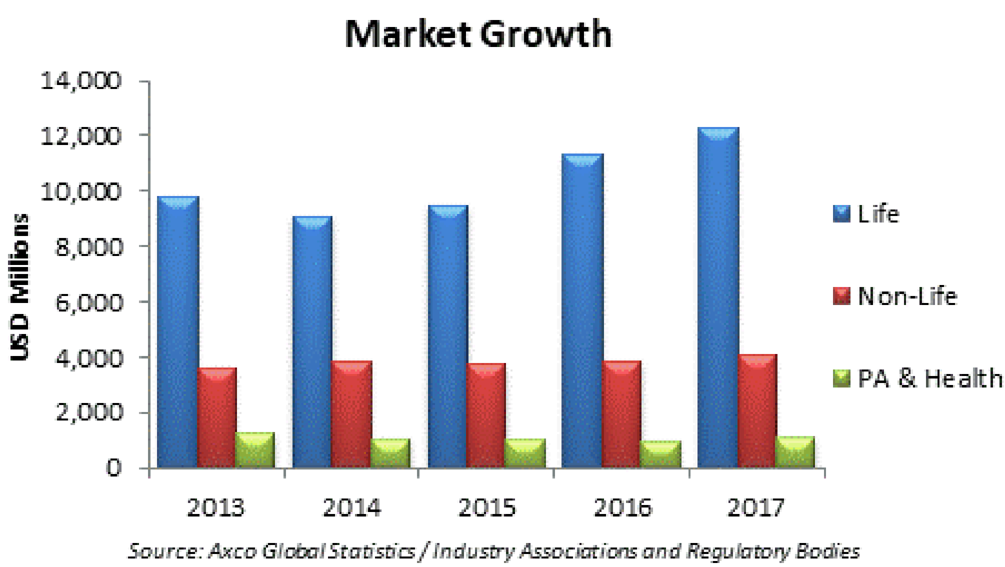
Update April 2020

On 20 January 2020 *Regulation No 3/2020* came into force, amending *Regulation No 14/2018 on Foreign Ownership of Insurance Companies.* The new regulation relaxed and clarified the rules surrounding capital increases for unlisted companies which had more than 80% foreign ownership at the time of entry into effect of the regulation. *Regulation No 3/2020* permits such companies to maintain the current percentage of foreign ownership and also clarifies that the same rules will apply to any sharia companies set up by such insurers with sharia units.

The April 2019 presidential election was won by the incumbent, Joko Widodo, with an increased majority.

==

Growth in the non-life, life, and personal accident (PA) and healthcare markets is shown below.



New statistical information may have been included in the appendices.

- The current rate of exchange is IDR 14,443.29 : USD 1. Further details are provided within the Currency and Exchange Control subsection in the Politics and the Economy section of this report.
- Indonesia covers a land area of 741,102 square miles (1,919,445 square kilometres). The country also claims sovereignty over 1.26mn sq miles (3.26mn sq km) of sea stretching from Asia to Australia. The population in 2018 was estimated at 266.79 million.

Key Facts

- Indonesia, once a Portuguese and then a Dutch colony became independent in 1949 (although West Irian remained a Dutch colony until 1962). The country has progressively adopted a fully democratic model of government.
- Indonesia is the world's largest archipelago with 13,677 islands stretching along the Equator for 3,180 miles (5,120 km). It passes through three time-zones: East Indonesia, Central Indonesia and West Indonesia Standard Time. The total coastline is 3,400 miles (5,471 km) in length.
- Indonesia is a republic. The president is Joko Widodo. Mr Widodo, commonly referred to as Jokowi, received 53.15% of votes in the July 2014 elections. The next presidential and House of Representatives elections will take place on the 17th April 2019.
- Apart from government spending, the economy is driven by consumers, with Indonesia comprising one of the largest markets in the region. Real growth in GDP of 5.16% and 5.27% is forecast for 2019 and 2020 respectively, driven by increased consumption and investment, with downside pressure presented by lower demand for mining commodities. Inflation is expected to average 3.69% and 4.47% over the same period, reflecting a loosened monetary stance to encourage exports and consumption.
- In 2017 total non-life market premium income (including PA and health written by non-life insurers) grew by 6.3% to IDR 59.67trn (USD 4.13bn).
- According to the latest information available from the regulator there were 73 non-life companies in the market in 2017 and in addition there were six reinsurance companies. More recently, a further non-life licence was issued in January 2019. The largest non-life insurer in 2017 was PT Asuransi Sinar Mas with PT Asuransi Jasa Indonesia ranked in second place.
- Non-admitted insurance is prohibited, unless by special dispensation from the regulator when no locally licensed companies have the ability or desire to accept the business. Until recently the regulator has not enforced the non-admitted regulations in relation to marine cargo import business carried out on CIF terms of trade, but *Ministry of Trade Regulation No 82/2017* (as amended) now contains a requirement to insure exports of crude palm oil and coal as well as imports of rice and other imports for government procurement (if transported by sea) with a locally licensed insurer or a consortium of locally licensed insurers.
- There are statutory tariffs and conditions in respect of property (including business interruption) insurance and motor vehicle insurance.
- Foreign insurers may enter the Indonesian market only by way of joint ventures. Current regulations limit foreign ownership to a maximum of 80% in a joint venture operation with Indonesian shareholders. *Law No 40/2014* stipulated that the foreign ownership quota should be re-examined in due course by parliament. Following this, *Regulation No 14/2018 on Foreign Ownership of Insurance Companies*, which came into force on 18 April 2018, maintained the 80% threshold although this limitation does not apply to publicly listed insurance companies or to insurance companies with more than 80% foreign ownership at the time *Regulation No 14/2018* was issued..
- According to the regulator direct acquisition controls about 28% of the non-motor market, slightly ahead of brokers as the most important method of distribution. Motor business is distributed mainly direct and through agents (especially motor dealers). Banks act as agents.

- Earthquake and volcanic eruption are ever-present hazards. Heavy flooding exposure is also present, particularly in Jakarta.

- Compulsory classes include professional indemnity for insurance and reinsurance brokers and workers' compensation for all private sector companies. It is also compulsory for motor vehicle licence holders to contribute (included in the annual vehicle licence fee) to the fund which provides passenger compensation in respect of accidents occurring on public transport by road, rail, sea or air. Other contributions are made by passengers within the price of public transport tickets, and in this sense, such contributions are compulsory. Motor third party insurance is not compulsory, although some market participants are pushing for this situation to change, viewing it as a means of raising cultural awareness of insurance generally.

General Country Information

Country Indicators

Demographic and economic data are shown below, with projections for the final two years.

Indicator	2016	2017	2018	2019	2020
Total population (mn)	261.12	263.99	266.79	269.54	272.22
Total GDP (USD mn)	932,256.50	1,015,541.89	1,046,095.49	1,138,351.69	1,274,888.32
Real GDP growth (%)	5.03	5.07	5.15	5.16	5.27
Inflation (%)	3.53	3.81	3.09	3.69	4.47
Unemployment (%)	5.55	5.41	5.39	5.37	5.35

Source: IMF and IHS Markit

History

Early History

Pre 16th c	For much of its history the Republic of Indonesia was a fragmented assembly of kingdoms, sultanates, principalities and villages spread across an archipelago so vast that many were unknown to each other. The long process of nation building started with the arrival of the Portuguese in the 16th century.
1511	Melaka (Malacca), in what is now Peninsular Malaysia, was captured by the Portuguese admiral, Alfonso de Albuquerque. From that base the Portuguese, in search of spices, set up trading relations with the Moluccas Islands and built a series of forts across the region.
1602	The Dutch East India Company (Vereenigde Ooste-Indische Compagnie, VOC) was founded. Known throughout the Orient as VOC, the company was set up originally to exploit the spice trade but with the passage of time became more and more involved with the annexation and government of territory in the East Indies.
1605	The Portuguese were expelled from the Moluccas by the VOC but retained a presence in East Timor until 1974.
1619	Batavia (Jakarta) was established by Jan Pieterszoon Coen.
1757	The Dutch conquered the Kingdom of Mataram in Java and for the first time extended their sovereignty on the island beyond the enclave of Batavia.
1811	The British took control of Java to forestall an invasion by the French who were then occupying the Netherlands. Stamford Raffles, who went on to establish Singapore in 1819, was appointed lieutenant governor and introduced many reforms to the administration of the Javanese provinces. The British withdrew in 1816 and control reverted to the Dutch.
1863	Effective control was established by the Dutch over Kalimantan, followed by Lombok in 1894, Sumatra in 1903 and Bali in 1908.

20th/21st Century

1927	President Sukarno founded the Partai Nasional Indonesia to work towards independence.
1942	Japan invaded the Dutch East Indies.
1945	Indonesian nationalists accepted the Japanese surrender and declared independence. Dutch armed forces returned in strength in an attempt to re-assert colonial administration.
1949	The Netherlands, under pressure from the UN, finally withdrew from all its territories in the East Indies, with the exception of West Irian, which remained Dutch until 1962. An independent republican government, with Sukarno at its head, assumed control.

1959	President Sukarno introduced "guided democracy" to replace a political system based on the western European model of parliamentary democracy.
1965	An attempted coup, defeated by General Suharto, was blamed on the Communists. Their supporters, numbering between 500,000 and one million, were massacred. General Suharto assumed power. Although he introduced a more liberal economic policy, sympathetic to foreign investment, the government became increasingly authoritarian.
1973	Rises in world oil prices brought unprecedented wealth, laying the foundations for Indonesia's "tiger" economy.
1975	Indonesia invaded East Timor. The action was condemned as illegal by the UN.
1996	Riots took place in support of opposition leader, Megawati Sukarnoputri, the daughter of former president, Sukarno.
1997	The Asian currency crisis led to serious economic problems. An IMF loan was granted, conditioned on political reforms.
1998	Increased economic hardship and discontent with the government led to riots in Jakarta and the resignation of President Suharto in May. He was succeeded by Vice-President Jusuf Habibie.
	Following increasing accusations of human rights infringements in East Timor, UN troops were sent to the region and imposed an uneasy peace.
1999	Opposition leader, Abdurrahman Wahid, was elected president in succession to President Habibie following elections precipitated by accusations of corruption and cronyism. In Paris a meeting of 20 bilateral and multilateral donors pledged USD 5.9bn in foreign assistance.
2000	Continued fighting between religious groups in the Maluku Islands in July led to the declaration of a state of emergency.
2001	The trial of ex-president Suharto, charged with stealing IDR 5.86trn (USD 571.1mn) during his presidency, ended when the Supreme Court declared that he was unfit to stand trial.
	President Wahid was removed from office by the People's Consultative Assembly (Majelis Permusyawarantan Rakyat - MPR) and Megawati Sukarnoputri (formerly vice-president) was sworn in as president on 26 July.
2002	In October the bombing of a night club on the island of Bali left 202 dead, mostly foreigners. The bombing was believed to have been the work of regional Islamic militants.
	Independence was declared in East Timor, following many years of violence.
2003	A bomb attack against the JW Marriott Hotel in Jakarta killed 14 and injured 150.
2004	A terrorist bomb outside the Australian embassy in September killed nine and injured a further 100.
	On 26 December a sub-oceanic earthquake and subsequent tsunami struck the north-west coast of Aceh province (north Sumatra) killing tens of thousands of people before spreading out to affect other countries including the Maldives, Sri Lanka and Somalia.
2005	In August Free Aceh Movement separatists signed a peace deal with the government agreeing to disarm in return for the withdrawal of government soldiers.
2006	The island of Java was hit by a violent earthquake in May and, two months later in July, by a tsunami. Thousands of people lost their lives.
	In December the first direct elections were held in the Aceh province, demonstrating the government's intent to stand by the peace accord signed in 2005. The former separatist leader Irwandi Yusuf was elected governor.
2008	In May President Susilo Bambang Yudhoyono announced that Indonesia would withdraw from the Organization of the Petroleum Exporting Countries (OPEC).
	In July a report accused Indonesia of human rights violations in the period prior to East Timor's independence in 1999. Although President Yudhoyono expressed "deep regret", no actual apology was made.

2010	In October a tsunami affected Sumatra and nearby islands, and was shortly followed by a series of eruptions of the Mount Merapi volcano. The collective death toll exceeded 550.
2014	Legislative elections were held in April, yielding a plurality for the Indonesian Democratic Party of Struggle (PDI-P), which formed a governing Great Indonesia Coalition (KIH) with other minority reformists.
	Joko Widodo, also known as Jokowi, won the presidential election in July with 53.2% of the vote. He was an independent candidate, but was supported by the PDI-P. Mr Widodo's victory was upheld by the Constitutional Court in August after his opponent, Prabowo Subianto, claimed that the results were fraudulent.
	Mr Widodo, who campaigned on a platform of structural reforms and greater transparency, cut fuel subsidies in November, prompting the central bank to increase the benchmark rate to 7.75% to combat inflation.
2016	In January, coordinated terrorist attacks in Jakarta killed 4 civilians and injured 25. Islamic State claimed responsibility.
2017	The former Governor of Jakarta, Basuki Tjahaja Purnama, or Ahok, was sentenced to two years in jail for blasphemy in May. He had lost the gubernatorial election in the previous month.
2018	Over two thousand people were killed by a tsunami in Sulawesi, mostly in the city of Palu, in October.
2019	Mr Widodo was re-elected with 55.5% of the vote in a presidential election held in April. Six people were killed in violent protests against the result in Jakarta. Mr Widodo's victory was upheld by the Constitutional Court in July after his opponent, Prabowo Subianto, claimed that the results were fraudulent.

Geographic Description

Country Name

The Republic of Indonesia.

The country is referred to as Indonesia.

Frontiers and Coastline

Indonesia is the world's largest archipelago with 13,677 islands stretching along the Equator for 3,180 miles (5,120 km). It passes through three time-zones: East Indonesia, Central Indonesia and West Indonesia Standard Time.

To the north is Malaysia, of which two states, Sarawak and Sabah, share the island of Borneo with Brunei and Indonesia. The Philippines lie to the north of Sulawesi (formerly the Celebes) across the Celebes Sea, while in the east, West Papua borders Papua New Guinea.

Australia is to the south of the archipelago across the Arafura and Timor Seas, and to the west of Sumatra the Indian Ocean stretches to Africa.

The total coastline is 3,400 miles (5,471 km) in length.

Land Area

Indonesia covers a land area of 741,102 sq miles (1,919,445 sq km). The country also claims sovereignty over 1.26mn sq miles (3.26mn sq km) of sea stretching from Asia to Australia.

Administration

Indonesia is divided into 34 provinces, three of which are defined as special territories: the capital city of Jakarta, Yogyakarta and Aceh. A governor administers each province. Within the provinces there are 514 administrative units known as regencies or kabupaten. Since the implementation of decentralisation on 1 January 2001 these provincial governments have become the key administration units for most services and have secured authority over budgets, political appointments and use of resources. Central government retains control over defence, foreign and monetary affairs, and the legal system.

Topography

The archipelago of Indonesia is often described as including the inner or metropolitan islands of Java, Bali and Madura, and the remaining outer islands. The country can also be broken down into the greater and lesser Sunda Islands. The greater Sundas comprise Sumatra, Java, Kalimantan and Sulawesi; the lesser Sundas comprise Bali, Timor and the myriad islands of Maluku (Moluccas) and Nusa Tenggara.

A topographical feature particular to Indonesia is the active volcanic area, which runs through Sumatra, Java and the islands of Nusa Tenggara, and then north through Maluku to Sulawesi. This is an area of intense volcanic activity, a striking example of which was the huge eruption of Krakatau in 1883.

Indonesia's wide reach across the archipelago ensures diverse topography. West Java is noted for the spectacular scenery of its intensely cultivated Central Highlands whilst Sumatra is noted for the Bukit Barisan mountain range, which runs down the island's west side. Many of the 93 peaks exceed 6,564 feet (2,000 metres), the highest point being Mount Kerinci at 12,488 ft (3,805 m).

The interior of Kalimantan is extremely rugged and mountainous. It is dissected by many large rivers, which are navigable deep into the thickly forested centre of the island. The two biggest rivers are in Kalimantan: the Kapuas, Indonesia's longest river at 710 miles (1,140 km), flows south-west from deep in the interior, and the Mahakam flows 571 miles (920 km) in the opposite direction.

The wildest and remotest areas of Indonesia are to be found in West Papua. Many parts of the interior are still unexplored. There are many mountain ranges and the highest peak, which is the highest in Indonesia, is Mount Jaya at 16,509 ft (5,030 m).

Climate

There are several climate zones in Indonesia. It is possible for different regions to experience wet and dry seasons simultaneously. Annual rainfall can range from nearly 195 inches (5,000 mm) to less than 19.5 inches (500 mm) per annum.

Much of the country has an equatorial monsoon climate. Rainfall patterns are determined by the north-east monsoon and the south-west monsoon. The north-east monsoon prevails from November and December to February and March, and forms the wet season. The south-west monsoon influences the weather from June to August and September, and brings dry weather. There are many exceptions that disrupt the common patterns, however, particularly in eastern Indonesia.

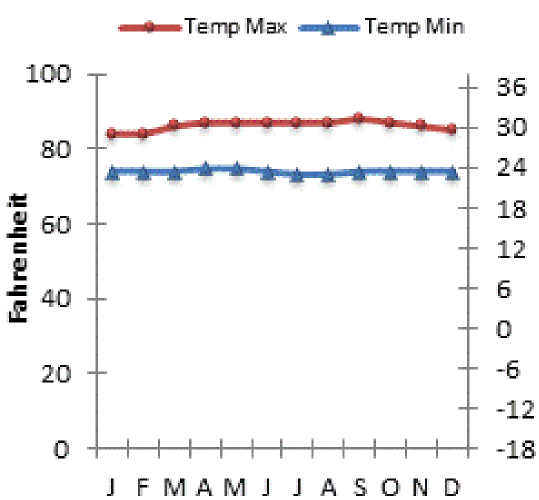
In contrast to other features of the climate, sea level temperatures throughout the country are uniform, averaging around 79ºF (26ºC).

Rainfall is extremely variable according to the region. The graph for Jakarta (Java) is shown below. The annual rainfall is 70.8 inches (1,799 mm) and peak months are December to March. In Balikpapan (Kalimantan) the annual rainfall is higher at 87.7 inches (2,228 mm); every month has substantial rainfall, the worst period being from December to May.

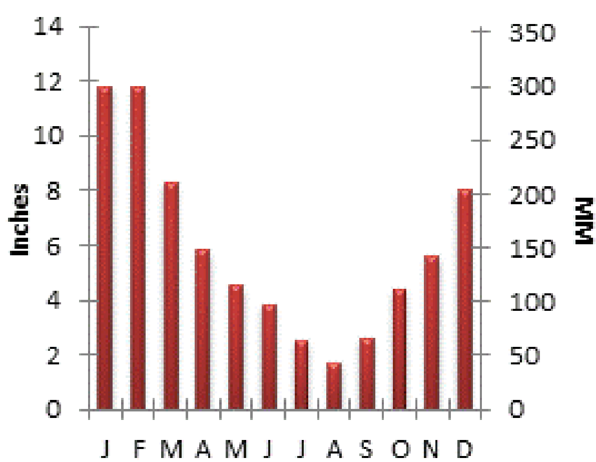
Further west in Padang (Sumatra) the situation is more extreme, with the annual rainfall reaching 164.3 inches (4,172 mm). Heavy rainfall peaks between October and January but can also occur from March to June and in August. September is the driest month, with an average of only 6 inches (152 mm) of rain.

The following graphics illustrate maximum and minimum monthly temperatures and rainfall in Jakarta at 26 ft (8 m) above sea level, 6º11'S, 106º50'E.

Jakarta



Maximum recorded temperature 98°F/37°C, lowest recorded 66°F/19°C based on readings for 80 years



Population and Demographic Trends

Population

Indonesia is home to around 3.5% of the total world population according to UN figures. Indonesia carries out a population census every 10 years; the most recent was held in 2010. According to Statistics Indonesia the population was 237.64 million at the time of the 2010 census, trending lower than the external projections below. National statistics projected that the total population reached 266.79 million in 2018, trending slightly below external estimates.

The increase in the population is thought to be due to higher than expected birth rates; funding for family planning has fallen since it was devolved to local governments in 2001. Officials view family planning as a means to raise living standards and increase access to education, especially for girls. Laws regulating family planning were introduced in 2010 with a view to providing services to the 9% of fertile couples not using contraception. Maternal mortality rates remain high by regional standards. Following the "two children are enough" campaign trumpeted by the government since the 1970s, the average family now has three children as opposed to six or seven.

The urban population was estimated to equal 53.3% of the total in 2015 and is forecast to rise to 63.1% by 2030, straining existing infrastructure. More than half the country's population live on the island of Java, which includes the national capital, Jakarta. Java's chronic over-population prompted the Dutch authorities to introduce a programme of resettlement to less crowded islands in 1905. Since independence, the programme known as "transmigration" has been greatly expanded and nearly seven million people have been moved from Java and Bali to relocate to newly built villages across the archipelago. Spontaneous migration in the opposite direction, however, has frequently been greater. As urban employment becomes less abundant, the population imbalance may correct itself, aided by higher rates of growth in the outer islands.

The concept of transmigration has drawn vigorous criticism from environmentalists and human rights activists. These groups allege that the resettlement of so many people has resulted in massive deforestation and the displacement of indigenous people from land that is rightfully theirs. This in turn has led to social unrest and sectarian violence in various parts of the country, including the Maluku Islands and Kalimantan.

The Indonesian population comprises some 300 ethnic groups, the majority of which are of Malay origin. An estimated 45% are Javanese, 14% Sundanese, 7.5% Madurese, 7.5% coastal Malay and 4.5% Chinese. Towards the eastern end of the archipelago it is more common to find peoples of Melanesian origin, and in remote areas there are settlements of aboriginal peoples. In 2010 (last available data) 3.08% of the total population claimed foreign citizenship.

Total population figures are shown below.

Year	Population (mn)
2018	266.79
2017	263.99
2016	261.12
2010	242.52
2000	211.54
1990	181.44
1980	147.49
1970	114.83
1960	87.79

Source: Source: United Nations, IMF and IHS Markit

Projected total population figures are shown below.

Year	Population (mn)
2050	321.55
2040	312.13
2030	295.60
2020	272.22

Source: United Nations

Birth and death rates per '000 are shown below.

Year	Birth rate	Death rate	Rate of natural increase
2015 to 2020	18.4	7.2	11.2
2010 to 2015	20.2	7.1	13.2
2005 to 2010	21.3	7.2	14.1
2000 to 2005	22.0	7.4	14.6
1995 to 2000	21.8	7.2	14.6
1990 to 1995	24.4	7.6	16.8
1985 to 1990	27.5	8.3	19.2
1980 to 1985	31.7	9.2	22.5
1975 to 1980	34.9	10.5	24.4

Source: United Nations

Infant mortality rates per '000 live births are shown below.

Year	Infant mortality rate
2015 to 2020	21.3
2010 to 2015	25.0
2005 to 2010	29.7
2000 to 2005	36.5
1995 to 2000	45.2
1990 to 1995	56.2
1985 to 1990	68.3
1980 to 1985	80.0
1975 to 1980	91.6

Source: United Nations

The age structure of the population is shown below, with projections for 2025 and 2050.

Age group	1970	1980	1990	2000	2010	2015	2025	2050
To 14 (%)	43.2	41.1	36.4	30.7	29.0	27.9	25.0	19.9
15 to 59 (%)	51.3	53.3	57.5	62.0	63.7	64.0	63.9	60.9
60 and above (%)	5.5	5.6	6.1	7.4	7.4	8.1	11.1	19.2

Note: due to rounding the breakdown above may not equal 100%.
Source: United Nations

The age structure of the population aged 65 and above and 80 and above is shown below, with projections for 2025 and 2050.

Age group	1970	1980	1990	2000	2010	2015	2025	2050
65 and above (%)	3.3	3.6	3.8	4.7	4.8	5.1	6.9	13.8
80 and above (%)	0.4	0.3	0.4	0.5	0.7	0.7	0.8	2.3

Source: United Nations

Life Expectancy

Life expectancy at birth is shown below.

Year	Males	Females
2015 to 2020	67.3	71.7
2010 to 2015	66.6	70.7
2005 to 2010	65.6	69.8
2000 to 2005	64.9	68.5
1995 to 2000	64.2	67.4
1990 to 1995	62.7	65.7
1985 to 1990	61.0	63.8
1980 to 1985	59.5	61.8
1975 to 1980	57.3	59.6

Source: United Nations

Life expectancy at various ages is shown below.

Present age	2015 to 2020	
	Males	Females
At Birth	67.3	71.7
5	64.3	68.3
10	59.5	63.5
20	50.0	53.9
30	40.8	44.5
40	31.7	35.2
50	23.0	26.3
60	15.4	18.1
70	9.4	11.1
80	5.2	6.0

Present age	2015 to 2020	
	Males	Females
90	2.8	3.0
100+	1.7	1.7

Source: United Nations

Major Causes of Death

The leading causes of death as a percentage of total deaths in 2016 (last available data) are shown below.

Cause of Death	Percentage
Diseases of the cardiovascular system	35.16
Infectious and parasitic diseases	13.68
Tumours	11.61
Diseases of the digestive system	7.32
External causes	6.02
Diseases of the respiratory system	5.57
Diabetes mellitus	5.52
Neurological conditions	3.45
Neonatal conditions	2.87
Diseases of the genitourinary system	2.72
Other causes	6.09
Total	**100.00**

Note: due to rounding the breakdown above may not equal 100%.
Source: World Health Organisation

The information and tables shown above must be considered with caution in the context of local data collection as explained by the WHO statistical publication, WHO methods and data sources for country-level causes of death 2000-2016. Much of the modelling used is based on the data for surrounding countries, as death registration data is classified as unavailable or unusable.

Malaria remains one of the major infectious diseases in large parts of Indonesia. Malaria morbidity and mortality significantly affect the poorer parts of the country. A strategic plan has been developed together with increased funding approved through the global fund to fight Aids, tuberculosis and malaria.

Language

The national language is Bahasa Indonesia, based on the Malay language. More than 500 languages and dialects are spoken across the archipelago, the dominant ones being Sundanese, Javanese and Madurese (all three spoken on Java or Madura), Minang and Batak (Sumatra) and Balinese.

English has replaced Dutch as the main second language and is widely spoken in government and business circles.

Religion
Freedom of religion is guaranteed by the constitution, although the government only recognises the six religions officially protected a 1965 blasphemy law: Islam, Protestantism, Catholicism, Hinduism, Buddhism and Confucianism. Islam in various forms was the faith of 87.2% of the population in 2010. Indonesia has the largest Islamic community in the world. Since independence successive governments have resisted attempts to convert the country into an Islamic state.

Other religious groups include Christians, mostly Anglicans, representing 9.9% of the population, and Buddhists, most of whom are of Chinese descent, accounting for 0.7%. Hinduism was once a major influence throughout the region and is now practised mainly on Bali, claiming 1.7% of the population. Only 0.1% of those surveyed claimed no religion. The balance is comprised of other religious groups.

Largest Cities

Capital
Jakarta or **DKI Jakarta** (West Java) - central population 10.51 million (2018 United Nations estimate). Jakarta is officially known as the Special Capital Region of Jakarta or, in Bahasa Indonesia, as Daerah Khusus Ibukota; it is the Bahasa Indonesian name that provides the prefix DKI. During the period of Dutch control it was known as Batavia.

Jakarta is a sprawling, cosmopolitan city with an estimated metropolitan population in excess of 30 million. It is the largest city in Indonesia, having grown rapidly in recent decades as thousands of rural poor have migrated to the capital in search of work. It is the seat of government, commerce and industry, and is estimated to be responsible for a majority of the country's GDP. Jakarta's industries include electronics, chemicals, mechanical engineering and automotive manufacturing. Water shortages, pollution, congestion, flooding and rapid subsidence are the primary development challenges facing the city. The local government revoked permits for the construction of 14 artificial islands as part of a 32km long sea wall project in Jakarta Bay in September 2018.

In 2019, President Joko Widodo announced that the government planned to move the capital from Jakarta to a new city on the island of Borneo (called Kalimantan in Indonesia) by 2024. The new city would be the seat of government, although Jakarta is due to be the primary centre of business for the foreseeable future.

Other Major Areas/Cities
The city population figures provided below are 2018 United Nations estimates.

Surabaya (East Java) - population 2.90 million. Surabaya is Indonesia's second city and a major port. It is an important manufacturing centre and lies at the heart of one of the faster growing industrial regions in the country.

Bandung (West Java) - population 2.54 million. Bandung was developed by the Dutch in the late 19th century as a hill station and has evolved as the centre of the plantation industry. It is Indonesia's third largest city. There are over 50 universities and colleges in and around Bandung. Just outside the city, Indonesia's first aircraft industry, Industri Pesawat Terbang Nusantara (IPTN), was set up in 1976.

Medan (Northern Sumatra) - population 2.29 million. Medan is the most important commercial centre on the island of Sumatra. Strategically placed on the Strait of Malacca opposite West Malaysia, Medan's busy port handles many of the island's natural resource exports such as rubber, palm oil and petroleum.

Palembang (Southern Sumatra) - population 1.67 million. The city's commercial prosperity was first based on tin mining in the 18th century. In more recent years it has emerged as the administrative oil export hub of this part of the island.

Politics and the Economy

Government Structure

Constitution

Indonesia's current constitution was drawn up in 1945 when independence was first declared. It is based on the five principles of the state ideology (Pancasila) of monotheism, humanitarianism, Indonesian unity, representative democracy by consensus and social justice.

A federal constitution was introduced in 1949 when the Dutch withdrew, and in the following year a liberal democratic constitution was declared. After the failure of the parliamentary democratic process, the 1945 constitution was reinstated in 1959. The constitution established a unitary presidential system with executive, legislative and judicial branches.

The constitution can be amended by majority of both houses of parliament, constituted as the People's Consultative Assembly (Majelis Permusyawaratan Rakyat - MPR). The constitution was amended four times between 1999 and 2002, as Indonesia transitioned back to democratic rule. Amendments included the introduction of direct elections for the presidency and vice presidency, term limits for the presidency and the establishment of an upper house of parliament. Amendments altering the unitary nature of the Indonesian are prohibited under the current constitution.

Executive/Legislature

Indonesia is a republic. The president holds the highest executive office of state. The president and cabinet constitute the government, which introduces all legislation.

The parliament is the People's Consultative Assembly (Majelis Permusyawaratan Rakyat - MPR). The lower house, the House of Representatives (Dewan Perwakilan Rakyat - DPR) approves legislation, while the upper house, the Council of Representatives of the Regions (Dewan Perwakilan Daerah - DPD), is only empowered to propose bills and monitor implementation.

The MPR meets as a single body to consider amendments to the constitution, the appointment of a replacement if the presidency is vacant, and impeachment proceedings against the president.

Electoral System

Since the 2004 presidential election, the president and vice-president have been elected directly by the people. Amendments to the constitution in 2002 imposed a limit of two consecutive five-year terms in office for the president. Elections to the Presidency and the House of Representatives (Dewan Perwakilan Rakyat - DPR) are held together every five years; the last elections were held on 17 April 2019, the next are due on 30 April 2024.

Parties must win 15% of the vote in legislative elections before being eligible to nominate presidential candidates. There is universal suffrage of those aged 17 and over. Political parties must submit women as at least 30% of candidates in their party lists.

Local governors, mayors, regents and their deputies are appointed for five year terms by direct elections. Following elections for certain local authorities in 2015, 2017 and 2018, the next elections are due to be held 2020 and 2022. These are due to synchronise officials' terms to enable simultaneous local elections for all posts in 2027.

Local Government

Indonesia is divided into 34 provinces, three of which are defined as special territories: the capital city of Jakarta, Yogyakarta and Aceh. Provinces are further divided into regencies and cities, and are 510 administrative units known as districts or kabupaten, which administer most governmental services. Urban municipalities, 56 in total, have the same administrative status as districts, and are in turn divided into sub-districts and then into villages.

Governors, mayors, regents and their deputies are appointed for five year terms by direct elections. In 2015, legislation scheduled elections in order to synchronise officials' terms to enable simultaneous elections for all posts in 2027.

Current Political Situation

Present Government

The president is Joko Widodo, commonly referred to as Jokowi, who leads the governing coalition, the Great Indonesia Coalition (KIH). The KIH includes the Indonesian Democratic Party of Struggle (PDI-P), United Development Party (PPP), Golkar (PG), and the National Mandate Party (PAN). Mr Widodo was elected for a second and final term with 55.3% of the popular vote in April 2019.

The results of the April 2019 legislative election are shown in the table below.

Party name	Acronym	% of vote	Seats
Indonesian Democratic Party of Struggle	PDI-P	19.33	128
Golkar	PG	9.05	85
Great Indonesia Movement Party	Gerindra	12.57	78
National Democratic Party	NasDem	7.77	59
National Awakening Party	PKB	9.69	58
Democratic Party	PD	4.52	54
Prosperous Justice Party	PKS	8.21	50
National Mandate Party	PAN	6.84	44
United Development Party	PPP	1.89	19
Other parties	n/a	20.13	0
Total	**n/a**	**100.00**	**575**

Source: General Elections Commission, IHS Markit

Political Situation

Since his election as president in 2014, Joko Widodo has prioritised infrastructure investment and foreign investment. Although Mr Widodo's popular appeal secured a second term, he remains reliant on a diverse group of parties and has struggled to fully implement his agenda in the face of economic headwinds. With the backing of most political parties, religious conservatives and Islamist constituencies outside parliament presented the most potent source of opposition, particularly on social issues.

Politics and the Economy

President Joko Widodo is a former governor of Jakarta, and was elected on a populist programme supporting improved public services and major structural reforms, backed by his experience as an exporter and impoverished background. Mr Widodo, known as Jokowi, amassed growing public support in 2014, although his Indonesian Democratic Party of Struggle (PDI-P) only secured a plurality the House of Representatives. The PDI-P formed a governing alliance, the Great Indonesia Coalition (KIH), which subsequently gained an effective majority with the addition of the largest opposition party, Golkar, in 2016. The opposition coalition consisted of only the Great Indonesia Movement Party (Gerindra) and the Prosperous Justice Party (PKS), with just 20% of seats in the House.

Upon taking office, Mr Widodo seized on lower oil values to introduce long-delayed cuts to fuel subsidy programmes. While the reform drew criticism, it liberated funds for investments in health, education and infrastructure. Efforts to improve bureaucratic efficiency and reduce regulatory burdens helped to increase foreign direct investment to record highs. However, annual real GDP growth failed to reach the government's ambitious 7% target, and its IDR 4,800trn (USD 332bn) infrastructure programme widened Indonesia's twin fiscal and current account deficits. This contributed to the depreciation of the IDR currency amid external pressures across emerging markets, prompting the central bank to increase interest rates six times in 2018.

Longstanding divisions over the role of Islam in public life grew sharper during Mr Widodo's first term. In 2017, allegations of blasphemy against the governor of Jakarta and protege of Mr Widodo, Basuki Tjahaja Purnama (known as BTP or Ahok), prompted months of mass protests by Islamist groups. Gerindra-led attacks on BTP, a Sino-Indonesian Christian, exploited perceptions of economic and political disenfranchisement within the Malay-Muslim community. Sectarian campaigning against Mr Widodo's allies was extended to the president himself in the presidential election in April 2019. The rival parliamentary collations backed the same candidates as the 2014 contest, with Mr Widodo being challenged by Prabowo Subianto, the leader of Gerindra. Mr Prabowo combined a nationalist tone, attacking the government's reliance on foreign capital and workers for development projects, with appeals to conservative Muslim voters. Mr Widodo continued to advocate pluralism, but selected Ma'ruf Amin, the head of the country's highest Islamic body, as his vice-presidential candidate, aiming to consolidate his coalition's Islamist parties support and neutralise Mr Subianto's rhetoric. After Mr Widiodo was re-elected with 55.3% of the popular vote, Mr Subianto claimed that the results were fraudulent, sparking violent protests in Jakarta that killed at least 6 people injured hundreds.

Despite an emphasis on more technocratic governance, patronage networks within the established political elite continue to influence policy. Although Mr Widodo is a comparative outsider, being the first Indonesian president without a background in the military or established parties, the political system remains fragmented among established parties and consensus driven. Loyalists of Megawati Sukarnoputri, the chair of the PDI-P, and leading figures from other allied parties were rewarded with appointments in the cabinet. The president remains without an independent power base among the political elite, and relied on issuing decrees to bypass the legislature when launching headline campaign promises during his first term. He also appointed figures from the military and security establishment to the cabinet and involved the armed forces in government programmes, countering the influence of political grandees but risking the re-politicisation of the military.

In September 2019, disillusionment with Mr Widodo's progress was highlighted by mass protests against legislation that demonstrators perceived as regressive and serving vested interests. Unpopular bills tabled at the end of the parliamentary term included laws weakening the powers and independence of the Corruption Eradication Commission (KPK), liberalising agriculture and labour regulations and a draft criminal code with articles extending Sharia law and criminalising dissent. Nationwide student-led demonstrations forced the government to delay of most of the bills, although the KPK law had been passed unanimously. The discontent was largely led by constituencies supportive of Mr Widodo, reflecting frustration with the executive's participation in policy measures apparently protecting entrenched political elites. While the president publicly considered retracting the bills in response, civil society groups and protest leaders subsequently adopted a wider programme of demands as protests continued into October. The appointments of Mr Amin as vice president and Ms Megawati's daughter Puan Maharani as speaker of parliament suggests that the Islamist and elite influences that protestors opposed will continue to guide policy into his second term.

In addition to concerns regarding government representation and accountability, public security is sporadically undermined by communal violence and terrorist attacks. While Indonesia is a Muslim-majority country, some eastern regions are evenly divided between Muslims and Christians and other religious minorities. Attacks in these areas can trigger a cycle of reprisals. Although Jemaah Islamiyah, the most sophisticated terrorist organisation in south-east Asia, has been less active, the number of less professional attacks has risen. Religious minorities, including Muslim sects, are often targeted. A low-level separatist conflict in Papua escalated sharply after pro-independence militants killed at least 16 civilian workers constructing the Trans-Papua Highway in December 2018. The incident prompted a joint military and police crackdown against Papuan independence groups, which was followed by mass anti-government demonstrations, riots and unrest that killed at least 27 people in late 2019.

International Relations

Indonesia's relations with the international community have improved since the end of what the UN viewed as the illegal occupation of East Timor in 2002. As a core member of the Association of Southeast Asian Nations (ASEAN), Indonesia has focused on encouraging trade and stability in the region. Foreign policy beyond ASEAN tends to be aligned with domestic priorities, including attracting foreign investment and expressing solidarity with persecuted Muslims.

Indonesia also has had disagreements with Malaysia and Singapore, centring on territorial, and migration issues. There are nearly 2.7 million Indonesian migrant workers in Malaysia, around half illegally, and mass deportations cause periodic bilateral tensions. However, despite mutual distrust, disputes within ASEAN are usually contained by an emphasis on consensus-building and non-interference. Indonesia and five other ASEAN states signed an intelligence-sharing pact, branded the "Our Eyes Initiative", in January 2018.

The country has sought to present itself as an impartial mediator of Chinese claims contested by various neighbours in the South China Sea. China claims the Natuna Islands, which are part of Indonesia's Exclusive Economic Zone (EEZ). The surrounding waters have abundant fisheries and are often subject to foreign poaching. Despite maintaining its position as a non-claimant state in the South China Sea dispute, Mr Widodo's government has taken a more forceful approach than its predecessor to protecting its waters as part of a broader effort to establish Indonesia as a maritime economic and military power in the region. The Permanent Court of Arbitration (PCA) held that there was "no legal basis" to China's claims within the "nine-dash line" under the UN Convention of the Law of the Sea. Indonesia continues to assert its sovereignty, however, and renamed the northern part of its EEZ the North Natuna Sea in 2017. The military opened a base on Natuna Besa, the largest island in Indonesia's territorial waters in the south of the region, in December 2018. President Joko Widodo also called for other members of ASEAN to patrol the disputed waters. However, Indonesia's increasing reliance on Chinese Belt and Road Initiative (BRI) development finance for the government's infrastructure programme is likely to temper Indonesia's approach.

Relations with Australia have continued to deepen since the introduction of democracy in Indonesia, with co-operation centred on security issues. In recent years Indonesia has lobbied Australia to increase the number of asylum seekers it accepts, without success. The issue is a source of recurring tension, despite growing commercial ties. Indonesian social services are strained by handling refugees caught up in regional people smuggling. Economic relations with Australia are less developed than many of Indonesia's neighbours, but are likely to deepen after the two countries signed a Free Trade Agreement (FTA) in March 2019. The deal granted preferential treatment to most Indonesian exports, most notably remoting tariffs on petroleum, furniture and wood products, while allowing greater access to the Australian agricultural, education and healthcare sectors.

Further afield, international ties have been strained by Indonesia's zero tolerance policy regarding drugs trafficking, which applies the death penalty to both nationals and foreigners. The president and public opinion views the issue as a national emergency, as Indonesia is reportedly home to 4.5 million addicts. Draft amendments to the penal code permitting sentences to be commuted to lengthy prison terms could reduce the severity of frequent diplomatic conflicts over the executions of foreign nationals, although the terms would not be enacted for several years.

In addition to WTO membership, Indonesia is a founding member of the Association of Southeast Asian Nations (ASEAN) and is a member of the UN, OPEC, the Asian Development Bank (ADB), the International Bank for Reconstruction and Development (IBRD), IMF, WHO and Organization of the Islamic Conference (OIC).

Economy

Economic Performance

Indonesia is the largest economy in south-east Asia. Agriculture remains the largest provider of employment, but manufacturing and industry are greater contributors to output. The country has a vast range of mineral resources, which have been exploited rapidly over the past decades. Exports of coal, palm oil, hydrocarbons and other minerals make an important contribution to the balance of payments. Foreign Direct Investment (FDI) averaged 1.91% of GDP from 2013 through 2018.

In recent years, growth has been driven by investment into mining and infrastructure projects, supported by the government's objective of boosting infrastructure spending from 2.5% to 4.0% of GDP by 2020. Although commodity exports benefitted from a rebound in 2018, capital outflows due to increased imports required for the infrastructure programme and investor concerns over emerging market currencies contributed to a depreciation of the IMR currency to the USD by 8.8% over 2018. In response, the central bank tightened interest rates six times over the year to defend the currency, while the government delayed projects. Increased social spending supported domestic consumption and demand, although this was constrained by import tariffs placed on consumer goods.

Despite efforts to encourage foreign investment into other sectors of the economy, both the government and opposition maintain a consensus that land and natural resources ought to be under the command of the state, in line with article 33 of the constitution. In recent years, the government has increased the holdings of State-Owned Enterprises (SOEs) in the extractives sector, notably taking up oil and gas blocks through the Pertamina SOE rather than renewing foreign contracts. In 2017, the government revoked a ban on exports of raw mineral ores after local smelting capacity remained insufficient, although foreign miners were required to divest majority control to domestic entities. However, nickel ore exports were subsequently banned from January 2020. Following protected negotiations, US company Freeport-McMoran agreed to sell 51% of the Grasberg copper mine, the world's largest producer of gold and second largest of copper, to the Inalum SOE in August 2018. In exchange for the USD 3.85bn (IMR 55.61trn) sale, the operating rights were extended to 2041. Regulatory uncertainty and concerns over muted Chinese demand are likely to constrain further investment in the current term.

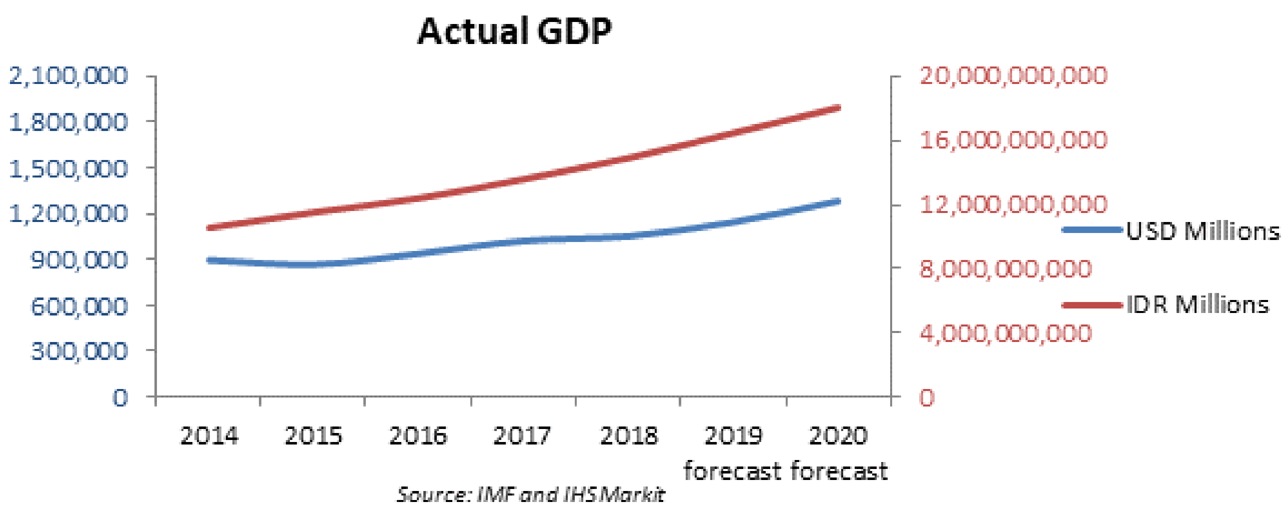
Notwithstanding a near-term outlook for moderated growth, investors have welcomed the president's commitment to structural reforms. Successive packages of initiatives have focused on rationalising licensing procedures, lowering taxes and opening sectors to foreign investment. The limited success of the tax amnesty, the introduction of more realistic revenue targets and funds released by reduced fuel subsidies, have supported the implementation of reforms. However, implementation slowed as the currency came under pressure ahead of elections in April 2019. Politically sensitive gasoline and diesel prices were frozen for two years from March 2018. The government will continue to lobby investors to participate in public-private infrastructure projects, with private capital and grants from development banks expected to supplement budget allocations.

Real GDP was projected to increase by 5.16% in 2019 and 5.27% in 2020. Inflation was projected to increase to 3.69% in 2019 and 4.47% in 2020. Despite declining pressure on the currency from US interest rates, ongoing trade and geopolitical tensions are likely to persist as a drag on commodities exports. Indonesia's growing population, ongoing structural reform and large reserve buffers are likely to support long term investment.

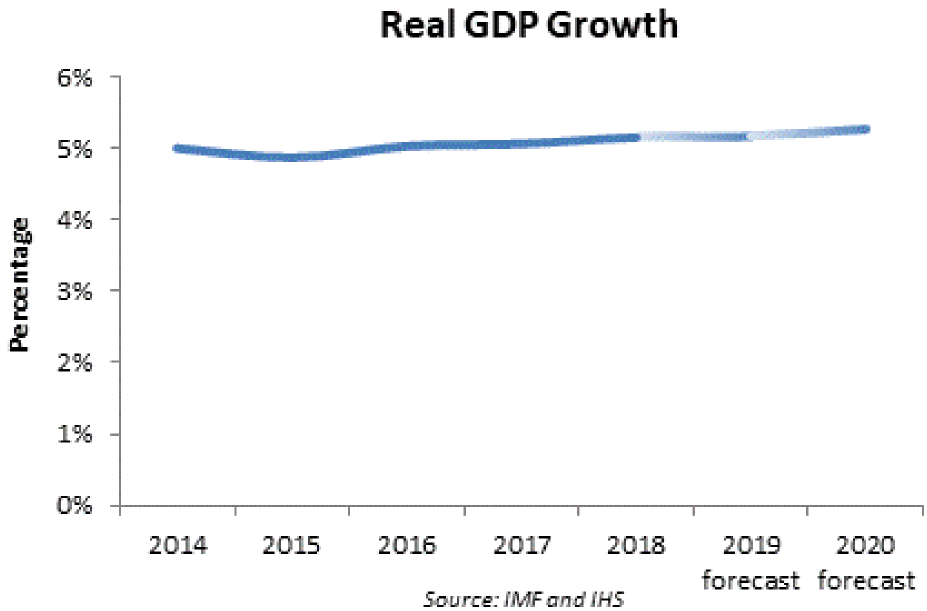
In June 2019, S & P Global Ratings upgraded Indonesia's sovereign debt rating to "BBB" with a stable outlook.

Gross Domestic Product

Total GDP figures are shown below in local currency and US dollars (USD) converted at the average annual rate of exchange.



Growth in real GDP in local currency is shown below.



The main contributors to GDP are shown below.

Industry	2017
	Percentage of total
Services	45.28
Industry - manufacturing	30.01
Agriculture	13.95
Industry - other	10.76
Total	**100.00**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

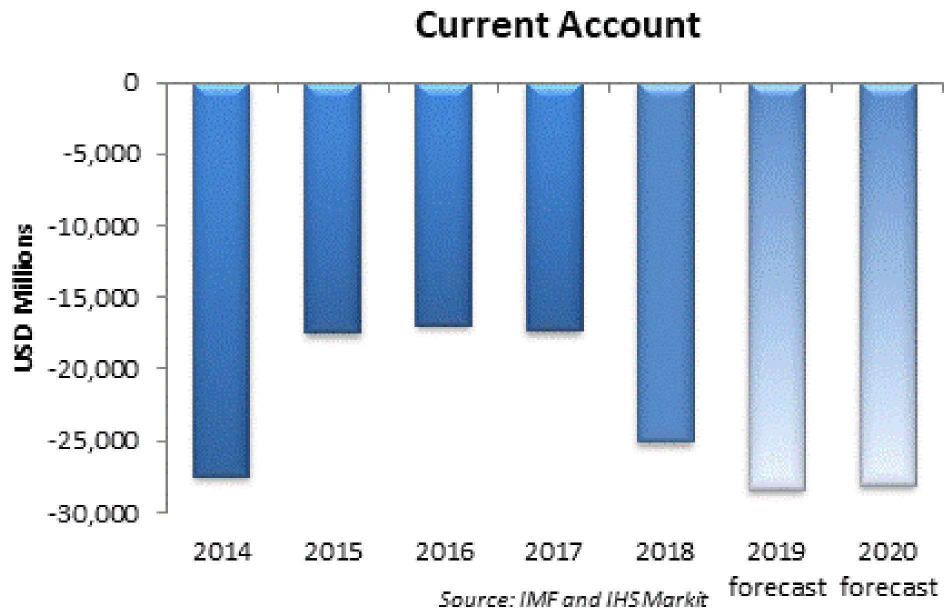
GDP per capita in US dollars (USD) and in comparable economies is shown below.

Country	2018
	GDP per capita
Malaysia	11,022.25
China	9,712.31
Thailand	7,284.32
Indonesia	**3,920.97**
India	2,078.55

Source: IMF

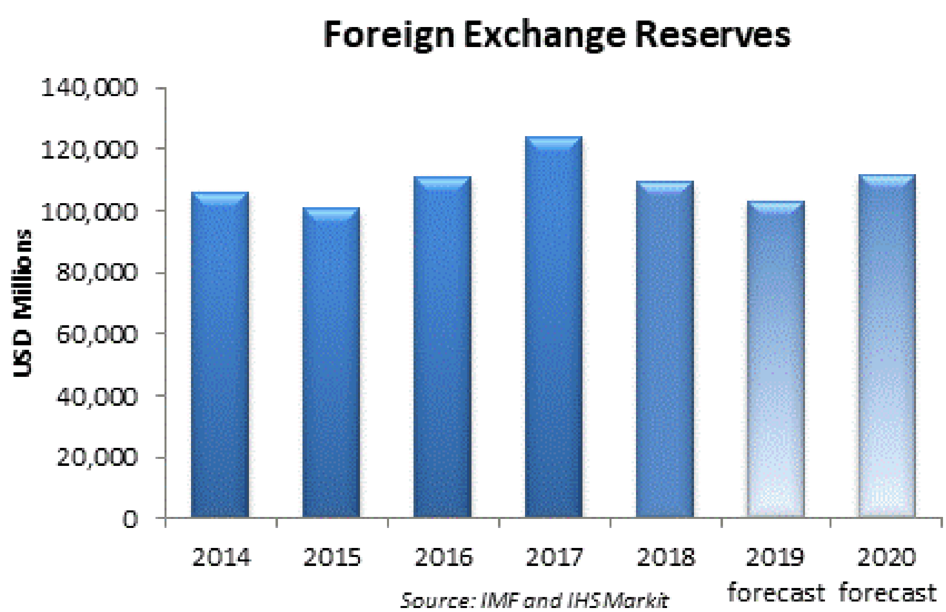
Current Account Balance

The current account balance in US dollars (USD) is shown below.



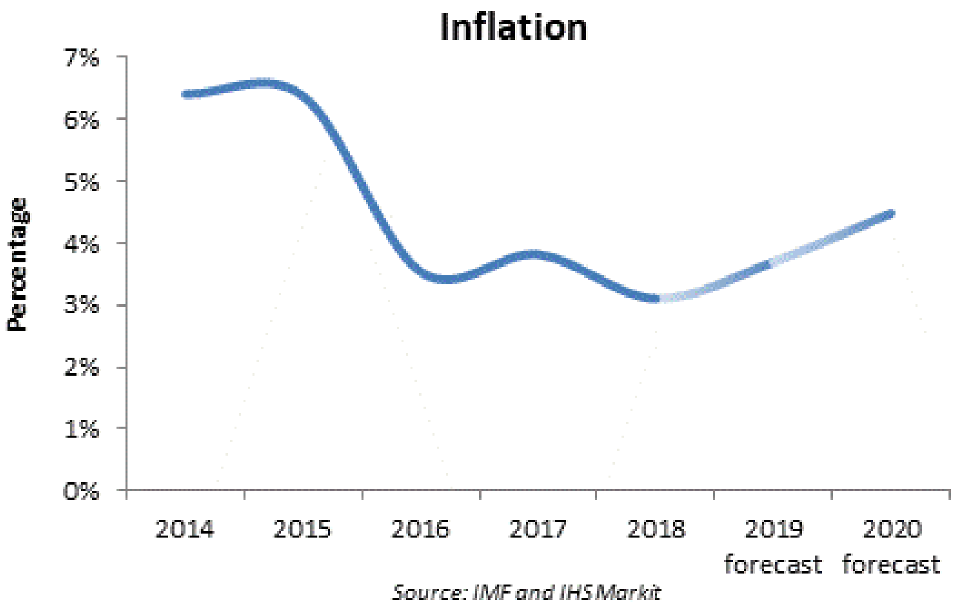
Foreign Exchange Reserves

Foreign exchange reserves, excluding gold, are quoted in US dollars (USD) below.



Inflation

Annual consumer price inflation is shown below.



Interest Rates

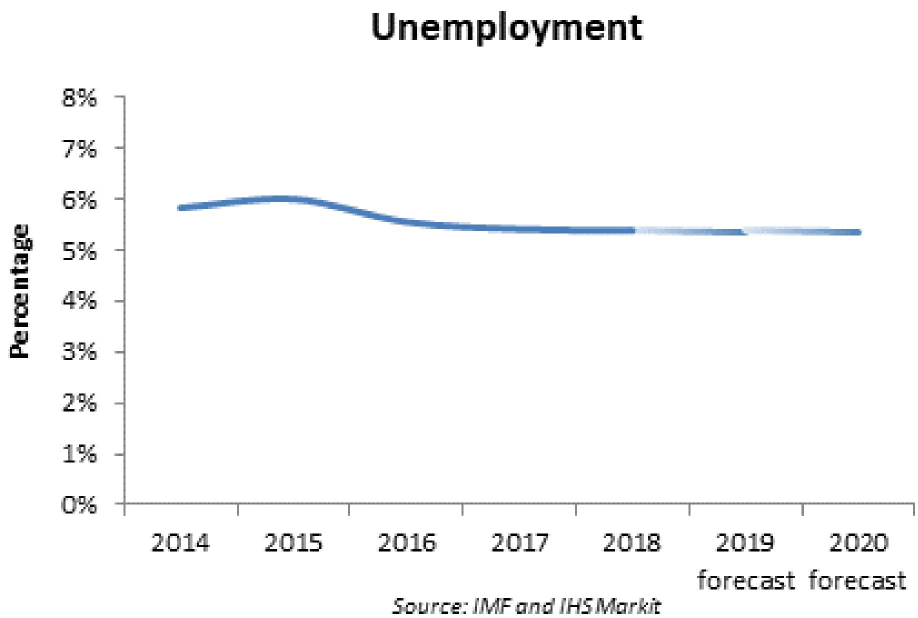
Key interest rates are shown below.

Investment type	2014	2015	2016	2017	2018
Deposit rate	8.75	8.34	7.17	6.52	n/a
Lending rate	12.61	12.66	11.89	11.07	10.54
Money market rate	5.85	5.83	4.80	4.19	n/a

Source: IMF

Employment

The percentage of the labour force that is unemployed is shown below.



In February 2019 the labour force totalled 136.18 million. The labour force participation rate was 69.32% and the unemployment rate was 5.01%, trending in line with external estimates.

The distribution of the employed population by sector in February 2019 is shown below.

Industry	Percentage
Agriculture, forestry and fishing	29.46
Trade and repair	18.91
Manufacturing	14.09
Accommodation and catering	6.80
Construction	5.89
Education	5.10
Other services	4.91
Transportation and storage	4.02
Public administration, defence and compulsory social security	3.98
Healthcare and social work	1.53
Financial intermediation	1.38
Professional, scientific and technical services	1.31
Mining and quarrying	1.06
Information and communication	0.73
Water supply and sanitation	0.32
Real estate	0.26
Utilities	0.24
Total	**100.00**

Note: due to rounding some totals may not equal the breakdown above.

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Earnings

There is no national minimum wage in Indonesia. *Government Regulation No 78/2015* sets out procedures for setting regional minimum wages and all workers in the formal sector are hypothetically covered by minimum wage regulations. The regulation provides a formula for provincial governors to calculate regional rates according to local growth and inflation figures.

The minimum monthly wage in Jakarta, considered a leading indicator for labour in the rest of the country, rose to IDR 3.93mn (USD 278) in 2019.

Average net monthly incomes by industry in February 2019 in are shown in the table below. These wages reflect rates for non-management workers.

Industry	IDR	USD
Mining and quarrying	4,355,800	307
Financial intermediation	4,107,387	290
Information and communication	3,815,220	269
Public administration, defence and compulsory social security	3,756,932	265
Utilities	3,736,722	263
Real estate	3,340,522	236
Healthcare and social work	3,319,353	234
Professional, scientific and technical services	3,206,680	226
Transportation and storage	3,203,582	226
Education	2,670,964	188
Manufacturing	2,554,876	180
Average	**2,548,425**	**180**
Construction	2,410,409	170
Water supply and sanitation	2,346,012	165
Trade and repair	2,257,050	159
Accommodation and catering	2,243,069	158
Other services	1,586,801	112
Agriculture, forestry and fishing	1,490,044	105

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Official statistics classified 9.66% of the population as below the national poverty line of IDR 410,670 (USD 28.95) per month in September 2018. In 2017 (late available data) the United Nations (UN) reported that 5.7% of Indonesia's population lived on less than USD 1.90, at purchasing power parity (PPP), per day. The percentage of those earning under USD 1.90 at PPP per day, in comparable economies, is shown below.

Country	Percentage
Papua New Guinea	39.3
Philippines	7.8
Indonesia	**5.7**
Vietnam	2.0

Source: United Nations

Key Industries

Agriculture, forestry and fishing

Agriculture accounted for 29.46% of employment in February 2019 and 13.95% of GDP in 2017 (last available data). Plantations produce rubber, tobacco, sugar, palm oil, coffee and tea, while small farms produce most subsistence crops and substantial proportions of cash crops for export. The government banned new palm oil developments for three years from 2018, strengthening earlier freezes, but restrictions are unevenly implemented throughout the archipelago. The country remains the world's largest producer and exporter of the crop, with almost 5% of its landmass dedicated to its cultivation. Rice is the staple food. Other important crops include cassava, maize, sweet potatoes, coconuts, sugarcane, soybeans, peanuts, green beans and tobacco.

Indonesia is a leading exporter of plywood but earnings have fallen in recent years and raw material is becoming increasingly scarce. Much of the timber harvested is hardwood, which is often used for fuel. Other valuable industrial woods produced in significant quantities include teak, ebony, bamboo and rattan. Almost all forest land is state-owned, although numerous illegal sawmills operate. The government has repeatedly extended a moratorium on deforestation that was imposed as part of a USD 1bn climate agreement with Norway in 2011, and banned peat land clearances following widespread forest fires from 2015. Satellite data suggests that these practices have continued, however. Palm oil exports are a source of trade tensions with the EU, which has sought to defend European vegetable oil and biofuel producers and limit deforestation. During 2019, the EU effectively banned the use of imported palm oil for biofuel production, before placing tariffs on imported Indonesian biodiesel.

Mining and energy

Indonesia is the world's second largest producer of tin and third largest producer of coal. In 2017, the government revoked a ban on exports of raw mineral ores after local smelting capacity remained insufficient. Foreign miners were also required to divest majority control to domestic entities. Following protected negotiations, US company Freeport-McMoran agreed to sell a controlling stake of the Grasberg copper mine, the world's largest producer of gold and second largest of copper, for USD 3.85bn (IMR 55.61trn) to state-owned enterprise Inalum in August 2018. The operating rights for the mine were extended to 2041, securing delayed investments in its conversion from open pit to underground operations. Regulatory uncertainty and concerns over muted Chinese demand are likely to constrain further investment in the current term.

The mining industry also produces nickel, bauxite, copper, gold, silver, iron sand, granite stone and geothermal energy. Most of the Indonesian mining and energy companies are either state-owned or joint ventures with foreign companies that offer capital and technological expertise. The government announced that it would ban exports of nickel ore from January 2020.

Indonesia is one of the biggest petroleum producers in Asia and petroleum exports constitute a substantial source of income, although the industry is increasingly oriented to serve surging domestic demand. According to the US Energy Information Administration (EIA), Indonesia's oil production averaged 894,684 barrels of oil per day (bpd) in 2018, of which 336,816 bpd was exported. Rich oil and gas reserves are located mostly in Sumatra, Java and Kalimantan. Subdued oil prices, increasing competition and regulatory uncertainty have constrained investment since 2014. Preliminary data suggested that the hydrocarbon sector accounted for 10.7% of government revenue in 2018.

Indonesia is also the 10th largest producer of natural gas globally, with reserves of 103 trn cubic feet (cu ft) in 2016 (last available information). Natural gas production is increasingly the focus of investment and exploration. In February 2019, a Repsol-led consortium announced the discovery of 2 trn cu ft of natural gas in the Sakakemang block in South Sumatra.

Manufacturing

Manufacturing accounted for 14.09% of employment in 2019 and 30.01% of GDP in 2017 (last available data). Industrial expansion remains a priority of government development programmes, although the sector has struggled to establish industries in more complex value chains. Many existing enterprises are devoted to petroleum refining, textiles and food processing, while other leading branches of the manufacturing sector include wood products, tobacco, pulp and paper, and chemicals. Most manufacturing is concentrated on Java.

Tourism

Indonesia's tourism sector has been identified by the government as an area of significant long-term potential, setting a target of 20 million arrivals by 2020. According to the World Travel and Tourism Council (WTTC), the industry directly contributed 1.90% of GDP and employed 4.67 million people in 2018. According to national statistics, 15.81 million tourist arrivals were recorded in 2018, with 40% of those tourists visiting the island of Bali. Visitor numbers were increased despite to a series of natural disasters.

Tourism was one of the sectors removed from the government's "negative investment list" in 2016, allowing for 100% foreign ownership of tourism ventures. The sector should benefit in the medium term from infrastructure investment and plans for regional tourist boards in selected areas.

Exports and Imports

Exports are shown below, with leading commodities reported as percentages of total exports and in US dollars (USD).

Commodity	2017	
	Percentage	USD mn
Fixed vegetable oils and fats, crude, refined or fractionated	12.78	21,564.90
Coal, coke and briquettes	12.12	20,461.88
Gas, natural and manufactured	5.25	8,861.02
Articles of apparel & clothing accessories	4.87	8,213.60
Other	64.98	109,708.63
Total	**100.00**	**168,810.04**

Note: due to rounding some totals may not equal the breakdown above.

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The most important export destinations are shown below.

Destination	2017	
	Percentage	USD mn
China	13.65	23,049.30
United States of America	10.55	17,810.48
Japan	10.54	17,790.81
India	8.34	14,083.57
Other	56.91	96,075.88
Total	**100.00**	**168,810.04**

Note: due to rounding some totals may not equal the breakdown above.

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Imports are shown below, with leading commodities reported as percentages of total imports and in US dollars (USD).

Commodity	2017	
	Percentage	USD mn
Petroleum, petroleum products and related materials	15.31	23,913.72
Electrical machinery, apparatus and appliances	5.69	8,888.36
Iron and steel	5.35	8,348.54
Other industrial machinery and parts	4.90	7,656.59
Other	68.75	108,580.97
Total	**100.00**	**157,388.17**

Note: due to rounding some totals may not equal the breakdown above.

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The most important sources of imports are shown below.

Source	2017	
	Percentage	USD mn
China	22.56	35,511.68
Singapore	12.02	18,916.73
Japan	8.97	14,109.92
Thailand	5.86	9,227.56
Other	50.59	79,622.28
Total	**100.00**	**157,388.17**

Note: due to rounding some totals may not equal the breakdown above.

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

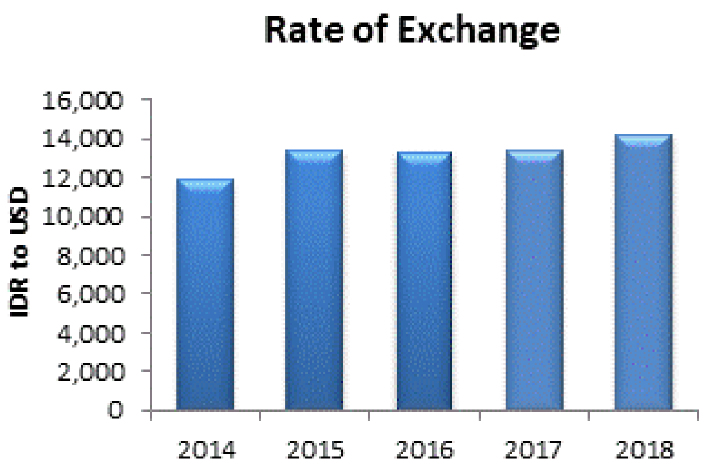
Currency and Exchange Control

Currency and Exchange Rate

The unit of currency is the rupiah (IDR). Until 1970 Indonesia operated a complex multiple exchange rate system but then it adopted a unitary rate, which remained fixed at IDR 415: USD 1 until November 1978 when the rupiah was devalued to IDR 625 : USD 1.

Business transactions are generally accounted for in rupiah but many are conducted in foreign currencies, notably the USD and the yen. The exchange values are linked to a basket of currencies.

The average annual exchange rate against the US dollar (USD) is shown below.



Source: IMF

The exchange rate when this report was in preparation has been used for all current conversions and is shown in the Key Facts section of this report. For previous years, the average annual rate for the year in question has been used.

Exchange Control

Investors are free to transfer funds abroad but approval from Bank Indonesia is required before taking IDR 100mn (USD 6,867) or its equivalent out of the country. Repatriation of profits, expatriate employment expenses, loan principal and interest, royalties, technical fees and capital transfers is allowed.

Supervision and Control

Legislation

Insurance Legislation

==

Update April 2020

On 20 January 2020 *Regulation No 3/2020* came into force, amending *Regulation No 14/2018 on Foreign Ownership of Insurance Companies.* The new regulation relaxed and clarified the rules surrounding capital increases for unlisted companies which had more than 80% foreign ownership at the time of entry into effect of the regulation. *Regulation No 3/2020* permits such companies to maintain the current percentage of foreign ownership and also clarifies that the same rules will apply to any sharia companies set up by such insurers with sharia units.

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it provides a definition of "simple risks" and also exceptions to the rules.

==

Legislative Overview

Insurance legislation in Indonesia was first published in comprehensive form in 1992 as *Law of the Republic of Indonesia No 2/1992*. Subsequently this legislation was amended by a series of additional regulations and decrees.

Law No 40/2014 which came into effect on 23 October 2014, replaced the 1992 law in its entirety and it now forms the primary basis of local insurance legislation. Subsequent to its publication, a series of implementing regulations were issued in 2016 and 2017. The most significant recent legislation, issued in early 2018, resolved a long-outstanding debate by confirming the maximum percentage of foreign ownership of unlisted insurance companies at the existing threshold of 80% but tightened the rules by addressing indirect foreign ownership.

Insurance legislation in Indonesia is relatively sophisticated by regional standards. Although the legislation generally follows internationally accepted insurance regulatory principles, a part of it was prepared with local market development and protection considerations in mind. One example is the 2015 regulations on retention limits and priority cessions to local reinsurers aimed at retaining more premium within the Indonesian market. Due to the country's high exposure to natural hazards, this attracted some international criticism but further measures aimed at retaining more risk locally and strengthening the local reinsurance industry through capital injections and consolidation can be expected.

As Indonesia has the world's largest Muslim population, there is an already large and still growing presence of sharia-compliant financial institutions. There are a certain number of regulations specific to Islamic insurance. Otherwise regulations in respect of conventional and Islamic insurance are identical.

The regulator published *Circular Letter No 9/SEOJK.05/2017 on Micro Insurance Products and Marketing of Micro Insurance Products* in 2017 in order to widen financial inclusion and to build capacity in the sector. A development blueprint, educational workshops and public awareness campaigns were launched simultaneously.

Current Legislation

The principal current legislation and related items affecting the non-life insurance industry are set out in chronological order in the table below.

Legislation	Effective Date	Purpose
Law No 21/2011 on the Financial Services Authority	22 November 2011	Set up the Financial Services Authority (Otoritas Jasa Keuangan - OJK), which replaced the Capital Markets and Financial Institutions Supervisory Agency (Badan Pengawas Pasar Modal - BAPEPAM) as the insurance supervisory authority from 1 January 2013.
Circular Letter No 2/SEOJK.07/2014 on Services and the Settlement of Complaints from Consumers of Financial Services Businesses	6 August 2014	Implemented *OJK Regulation No 1/POJK.07/2013* regarding consumer protection. A specific section of *OJK Regulation No 01/POJK 07/2013* deals with procedures for customers to address complaints and to achieve dispute resolution related to financial service sales and products. The regulations in *Circular Letter No 2/SEOJK.07/2014* apply to financial service providers including insurance companies, but not insurance intermediaries.

Legislation	Effective Date	Purpose
Law No 40/2014 on Insurance	17 October 2014	Also referred to as the *New Insurance Law*, it is a comprehensive rewrite of insurance legislation, replacing the *Law of the Republic of Indonesia No 2/1992* (as subsequently amended). Parliament provided for subsequent implementing regulations to be formulated and published by the regulator.
OJK Regulation No 23/POJK.05/2015 on Insurance Products and Marketing of Insurance Products	26 November 2015	Sets out the requirements for insurance policies and their approval. It also sets out the regulations on the distribution of insurance products by insurance companies, sharia insurance companies and microinsurance companies.
OJK Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support and *Circular Letter No 31/SEOJK.05/2015 on Own Retention Limits, Reinsurance Support, and Reporting of Reinsurance / Retrocession*	1 January 2016	Set out revised requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession with the aim of retaining more premium within the local market.
OJK Circular No 32/SEOJK.05/2016 on Bancassurance	1 September 2016	This is the first regulation on bancassurance issued by the OJK. Previously, bancassurance was regulated by *Circular Letter of Bank Indonesia No 12/35/DPNP on Risk Management Implementation for Banks Conducting Bancassurance Activities*, which is still in force. The new regulation mirrors the provisions of *Circular No 12/35/DPNP* but it is specific to insurance companies and is more comprehensive. It defines three acceptable bancassurance models for conventional and sharia insurers and bank partners.
OJK Regulation No 67/POJK.05/2016 on the Licensing and Institution of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies and Sharia Reinsurance Companies	28 December 2016	Contains implementing regulations to *Law No 40/2014* providing for increased paid-up capital requirements for, among other things, conventional and sharia (re)insurance companies, whilst restating the minimum guarantee fund requirements under *Government Regulation No 39/2008.*
OJK Regulation No 68/POJK.05/2016 on the Licensing and Institution of Insurance Brokers, Reinsurance Brokers and Loss Adjusters	28 December 2016	Contains implementing regulations to *Law No 40/2014*. It amended *Decree No 425/KMK06/2003* refining the requirements for insurance brokers, reinsurance brokers and loss adjusters, all of which are subject to mandatory licensing requirements by the regulator. It also provides for increased capital requirements for insurance and reinsurance brokers.

Legislation	Effective Date	Purpose
OJK Regulation No 69/POJK.05/2016 on Business Conduct of Insurance, Sharia Insurance, Reinsurance and Sharia Reinsurance Companies	28 December 2016	Contains implementing regulations to *Law No 40/2014*. Among other things, it amended regulations on insurance agency agreements, obligations of insurance agents and training requirements for agents. Previous prohibitions on agents working for more than one insurance company were partially relaxed. It also set out data protection and marketing rules for (re)insurance and sharia (re)insurance companies.
Circular Letter No 9/SEOJK.05/2017 on Micro Insurance Products and Marketing of Micro Insurance Products	23 April 2017	Sets out the regulations on microinsurance products and their sale and distribution. Under the regulation, insurance companies are required to have a working group dedicated to developing microinsurance products.
OJK Regulation No 71/POJK.05/2016 on the Financial Soundness of Insurance and Reinsurance Companies and OJK Regulation No 72/POJK.05/2016 on the Financial Soundness of Insurance and Reinsurance Companies	1 July 2017	Implementing regulations to *Law No 40/2014* providing for rules relating to investments, solvency margins and annual financial statements. In June 2017 the OJK issued various circular letters setting out rules for conventional (re)insurers and sharia (re)insurers on risk-based capital requirements, approvals for investments that exceed stated limits and assets that are permitted in the form of non-investments, asset valuation, technical reserves and mandatory annual actuarial reports.
OJK Regulation No 17/POJK.05/2017 on the procedure for imposition of administrative penalties	17 April 2017	Implementing regulations to *Law No 40/2014* concerning the procedure for imposition of administrative penalties in the field of insurance and the procedure for blocking of assets and revocation of blocking.
OJK Regulation No 55/POJK.05/2017 on statutory reporting	19 July 2017	Implementing regulations to *Law No 40/2014* concerning statutory reporting requirements for insurers, reinsurers and brokers, also administrative penalties for failure to comply.
OJK Regulation No 56/POJK.05/2017 on investment in state-backed securities	28 August 2017	Implementing regulations to *Law No 40/2014* expanding the range of options of investment instruments for non-bank financial service institutions.
Government Regulation No 14/2018 on Foreign Ownership of Insurance Companies	17 April 2018	Contains the latest rules relating to foreign ownership of insurance companies and confirmed the maximum percentage of foreign ownership of unlisted insurance companies at the existing threshold of 80%.

In addition to the above, there are regulations and circular letters issued by the regulator which deal with, among other things, corporate governance, risk management, reporting requirements and consumer protection.

Legislative Process

When the regulator wants to revise or draft new legislation it draws up terms of reference, which are sent to the legal department. The proposed legislation is then passed to the cabinet secretary who reviews it before submitting it to a parliamentary select committee. The committee reviews the draft legislation and enters into a dialogue with the regulator on any points of concern. If necessary, the latter makes adjustments to the draft legislation and then re-submits it to the select committee. If thereafter approved, the legislation is then debated in parliament. Once parliament approves legislation it is submitted to the president for signature. If not signed within 15 to 30 days it automatically passes into law and is gazetted.

The regulator has powers granted to it by *Law No 40/2014* to introduce insurance and reinsurance market regulations which do not require parliamentary assent.

Other bodies which in the past have introduced legislation or regulations relating directly or indirectly to insurance include the Ministry of Finance and the Ministry of Manpower and Transmigration.

Statutory Tariffs

Since the introduction of mandatory tariff rating and conditions in respect of property and motor business as per *Circular No SE-06/D.05/2013* (in force as from 1 February 2014) the regulator is committed to a review of these tariffs on a regular basis following examination of the latest available statistical evidence. Such a review resulted in *Circular No SE-05/2015* which made certain amendments to the conditions cited in *Circular No SE-06/D.05/2013*. Subsequently on 26 January 2017 the regulator published *Circular No 6/SEOJK.05/2017* introducing revised property and motor insurance tariffs, effective from 1 April 2017. Salient details of changes to the 2017 property and motor tariffs can be found in the Property and Motor sections of this report.

Compulsory Insurances

List of Compulsory Insurances

- Fund for road, rail, sea and air transport passengers - state social insurance scheme.
- Professional indemnity insurance for insurance and reinsurance brokers.
- Workers' compensation (state scheme).
- Liability insurance for licensed drones.
- Shipowners' liability for marine oil pollution (a financial guarantee or insurance).
- Exporters of coal and/or crude palm oil and importers of rice and other imports for government procurement (if transported by sea)

Supplementary Information on Compulsory Insurances

Law Nos 33/1964 and *34/1964 on the Mandatory Insurance Fund for Passenger Accidents* created a fund in respect of accidents occurring to passengers on any form of public transport (by road, rail, water or air) from departure to arrival. An individual contribution to the fund is included in the public transport ticket price. The fund, which is administered by PT Jasa Raharja, also receives contributions from all vehicle owners by way of a fee charged with the vehicle licence issuance and subsequent annual renewals. Maximum compensation limits are as follows:

Max compensation	By road/water		By air	
	IDR mn	USD	IDR mn	USD
Death	25	1,873	50	3,747
Permanent disability	25	1,873	50	3,747
Medical expenses	10	749	25	1,873
Funeral expenses	2	149	2	149

Source: Market sources

The standard annual contribution to the fund payable in respect of a private vehicle licence issuance or renewal is IDR 143,000 (USD 9.90).

OJK Regulation No 68/POJK.05/2016 stipulates that insurance and reinsurance brokers applying for a licence after this regulation must provide evidence of professional indemnity (PI) cover with a minimum limit equivalent to the paid-up capital. Insurance and reinsurance brokers who were already licensed before *OJK Regulation No 68/POJK.05/2016* are required to adhere to a previous (1999) regulation requiring a minimum limit for PI cover of IDR 1bn (USD 69,236) placed in the local market.

Under *Government Regulation No 44/2015* promulgated on 30 June 2015 some benefits were revised within the new workers' compensation programme (Program Jaminan Kecelakaan Kerja) from 1 July 2015. Workers' compensation programmes are now mandatory for all private sector companies (previously, they were compulsory only for companies employing 10 or more workers).

Minister of Transportation Regulation No PM 90 of 2015 stipulates (inter alia) licensing requirements for drones. One of these requirements is the presentation of insurance documents in order to apply for a licence, implying that liability insurance for licensed drones is obligatory. No minimum or maximum limits of cover are mentioned in the legislation.

There is a requirement under the *International Convention on Civil Liability for Oil Pollution Damage 1969*, renewed in 1992 (and amended in 2000) to give evidence of an insurance or other financial guarantee in respect of oil pollution. Indonesia is a signatory to this convention. The convention requires owners of ships carrying more than 2,000 tonnes of oil in cargo to maintain "insurance or other financial security" sufficient to cover the maximum liability for one oil spill. Further details can be found in Axco's separate report on International Agreements.

Ministry of Trade Regulation No 82/2017 (as amended) contains a requirement to insure exports of crude palm oil and coal as well as imports of rice and other imports for government procurement (if transported by sea) with a locally licensed insurer or a consortium of locally licensed insurers authorised by the Ministry of Trade. The new insurance requirements took effect on 1 February 2019, with a one-month transition period for compliance. Following reports of significant export delays caused by compliance checks, it was announced that the transition period will be extended until 31 May 2019.

Changes in Legislation

Legislative Update

==

Update April 2020

On 20 January 2020 *Regulation No 3/2020* came into force, amending *Regulation No 14/2018 on Foreign Ownership of Insurance Companies.* The new regulation relaxed and clarified the rules surrounding capital increases for unlisted companies which had more than 80% foreign ownership at the time of entry into effect of the regulation. *Regulation No 3/2020* ended the requirement for Indonesian shareholders to contribute at least 20% of any capital increase for such companies. These companies are therefore now allowed to maintain the current percentage of foreign ownership, although the new regulation stipulates that the insurer must obtain an injection of capital by means of an initial public offering (IPO) in Indonesia if an Indonesian shareholder does not participate in a capital increase. Also, the rule now applies to all types of capital increases, not just cash injections. The regulation also clarifies that the same rules will apply to any sharia companies set up by such insurers with sharia units in order to comply with *OJK Regulation No 67/POJK.05/2016, on the Licensing and Institution of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies and Sharia Reinsurance Companies*.

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Government Regulation No 14/2018 on Foreign Ownership of Insurance Companies came into effect on 17 April 2018 and resolved a long-outstanding debate by confirming the maximum percentage of foreign ownership of insurance companies at the existing threshold of 80%. The main change introduced by the regulation is that the 80% limit is now also applied to indirect ownership. This limitation does not apply to insurance companies which are publicly listed or to companies with more than 80% foreign ownership at the time this new regulation was issued.

Projected Legislation

As mandated under *Chapter XI* of *Law No 40/2014*, the guarantee fund in each insurance company is to be replaced by a new policyholder protection scheme, to be called the Policy Holder Insurance Corporation (Lembaga Penjaminan Pemegang Polis - LPPP), to which all insurers will be obliged to contribute. Further implementing legislation in this respect was to follow within three years of enactment of *Law No 40/2014*. As at the time of preparation of this report, this legislation was still in the process of being drafted.

It is also understood that the Financial Services Authority (Otoritas Jasa Keuangan - OJK) is preparing a draft regulation on digital-based insurance, although it is thought unlikely that this will be enacted in the near future.

Supervision

Insurance Supervisory Authority

The insurance supervisory authority is the Financial Services Authority (Otoritas Jasa Keuangan - OJK / the regulator).

The government act to establish the OJK was signed by parliament on 27 October 2011 and enacted as *Law No 21 of 2011 on the Financial Services Authority*. The OJK is an independent financial body regulating both banks and non-banks. Non-bank regulation, which includes all forms of regulated insurance activity, began from 1 January 2013.

Article 10 of *Law No 21 of 2011* provided that OJK is headed by a Board of Commissioners consisting of nine members, two of whom must be appointed by the Bank Indonesia and the Ministry of Finance. The other seven members are appointed by presidential decree having been selected by the House of Representatives based on recommendations made by a selection committee. The Board of Commissioners is authorised under *Article 11* of *Law No 21 of 2011* to issue OJK regulations, Board of Commissioners' regulations and Board of Commissioners' decrees. The current chairman of the Board of Commissioners is Mr Wimboh Santoso, who was elected by the House of Representatives to the position for a period of five years in June 2017.

The role of insurance supervision includes:

- drafting and publishing insurance legislation - this may be in the form of insurance law, government regulation, Ministry of Finance regulation or OJK regulation
- initiating and supporting educational initiatives to increase awareness and understanding of the insurance industry

- supervision and enforcement - this role includes financial statement analysis, company visits, policyholder complaint handling, registration for actuaries and others, licensing, imposing sanctions and vetting new insurance products.

The regulator is financed by fees from regulated entities. *Government Regulation No 11/2014* is the prevailing legislation in this respect which applies to all parties which engage in financial sector activities including insurance and reinsurance companies. The latter pay annual fees to the regulator based on criteria set out in *Government Regulation No 11/2014,* as well as specific fees for one-off activities such as business licence application, registration requests, IPO requests and corporate plan reviews. Annual fees payable by insurers and reinsurers are variable according to specific percentage calculations related primarily to the value of assets in audited or provisional unaudited accounts. Annual fees may be paid in quarterly instalments.

It is understood that the regulator is in the process of preparing draft regulations on digital-based insurance, although it is presently thought unlikely that these will come into force in the near future.

Statutory Returns

The following company non-life insurance and reinsurance company reporting is required:

- audited annual (1 January to 31 December) non-consolidated financial statements by 30 April
- quarterly non-consolidated financial statements by one month after the end of the quarter
- reinsurance programme activity report by 15 January
- guarantee fund quarterly report.

Financial summary statements must be published on the insurance company website no later than 30 April in the following year. Quarterly statements must be published no later than one month after the end of the quarter.

The Indonesian Institute of Accountants (Ikatan Akuntan Indonesia) agreed the adoption of International Financial Reporting Standards (IFRS) as from 1 January 2012. The approach has been to retain national GAAP accounting with progressive convergence with IFRS where possible. There is currently no plan or timetable for full implementation of IFRS.

In December 2016 the regulator issued several implementing regulations to *Law No 40/2014*, including *OJK Regulation No 71/POJK.05/2016, on the Financial Soundness of Insurance and Reinsurance Companies*. The regulation, which took effect on 28 December 2016, requires companies to have their annual financial statements reviewed by the company's actuary. *Circular 29/SEOJK.05/2017* further elaborated on the matter by detailing the required form and arrangement of actuarial reports.

Insolvency Regulation

Law No 40/2014 provides for the concept of a statutory manager, whereby the regulator can suspend the functions of the board of directors, the board of commissioners and/or the sharia supervisory board of a sharia-compliant company and appoint a statutory manager to take over the management of the affected company if:

- the regulator suspends the company's business licence
- the company informs the regulator that it is no longer able to fulfil its obligations
- the regulator determines that the company is unable to fulfil its obligations
- the company breaches any of the provisions of *Law No 40/2014* and associated rules
- the company's financial condition does not meet the relevant financial requirements
- the company facilitates or conducts criminal financial actions.

In the event of appointment of a statutory manager, the board of directors, the board of commissioners and/or the sharia supervisory board of a sharia-compliant company are immediately relieved of their authorities but are not permitted to resign until the statutory manager has fully completed his or her duties.

Under *Law No 40/2014* if an insurance company intends to terminate its activities it must inform the regulator and thereafter fulfil all of its obligations. If a company is dissolved and liquidated the regulator must withdraw the operating licence. *Law No 40/2014* further provides that a bankruptcy claim against an insurance company can only be filed by the regulator. *Law No 40/2014* also specifies that in a bankruptcy, after the company's payment obligations to the state are satisfied the company's insurance funds will be used in priority to satisfy the company's obligations to policyholders and beneficiaries.

Policyholders are given priority in the distribution of assets following a company's liquidation. Conventional and sharia insurers and reinsurers must maintain a minimum guarantee fund of 20% of paid-up capital or equity benchmark as policyholder protection in the event of bankruptcy.

OJK Regulation No 67/POJK.05/2016 on the Licensing and Institution of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies and Sharia Reinsurance Companies, one of the implementing regulations to *Law No 40/2014* issued in December 2016, contains increased paid-up capital requirements for both conventional and sharia (re)insurance companies, and restates the requirement for (re)insurers to maintain a guarantee fund of at least 20% of minimum paid-up capital.

As mandated under *Chapter XI* of *Law No 40/2014*, the guarantee fund in each insurance company is to be replaced by a new policyholder protection scheme (to be called the Policy Holder Insurance Corporation - LPPP) to which all insurers will be obliged to contribute. Further implementing legislation in this respect was to follow within three years of enactment. As at the time of preparation of this report the guarantee fund had still not been established.

Consumer Dispute Resolution

Circular letter No 2/SEOJK.07/2014

Circular Letter No 2/SEOJK.07/2014 on Services and the Settlement of Complaints from Consumers of Financial Services Businesses implemented *OJK Regulation No 1/POJK.07/2013* regarding consumer protection and took effect on 6 August 2014. A specific section of *OJK Regulation No 01/POJK 07/2013* deals with procedures for customers to address complaints and to achieve dispute resolution related to financial service sales and products. The regulations in *Circular Letter No 2/SEOJK.07/2014* apply to financial service providers the definition of which includes insurance companies, but not insurance intermediaries.

Consumers are defined as insurance policyholders, investors and pension fund participants. Financial service providers must establish internal policies regarding the settlement of disputes.

Financial service providers may not charge fees for settling complaints or disputes and must have formal complaint administration procedures. Records must contain at the minimum the customer's identity, the subject matter of the complaint and a record of measures taken to resolve the complaint.

Disputes may be settled by either party providing a formal apology or by paying compensation to the customer. Financial remedies can only be applied to complaints involving financial loss. A compensation request cannot exceed the financial loss suffered by the consumer.

If these dispute resolution procedures fail to result in a settlement agreement between the financial service provider and the customer one of the disputing parties may initiate litigation. Either party may also refer the matter to the regulator in accordance with the provisions of *OJK Regulation No 1/POJK.07/2013.*

Financial service providers must provide information on the status of a consumer's complaint through their website, or by post, email or telephone. Financial service providers and their customers can also monitor the development of complaints through the integrated consumer services system managed by the regulator. In order the keep records up to date the regulator may request information from financial service providers. Financial service providers must report to the regulator all complaints from their customers involving financial loss and resulting in a dispute. These reports must be submitted to the regulator every quarter on the 10th day of January, April, July and October. Reports may be submitted manually to the regulator or electronically through the integrated customer services system.

If reports of complaints are not filed within three months of the deadline the regulator will charge an administrative fine to the financial services provider which does not, however, waive the obligation to submit the report.

Arbitration

There is a general arbitration law and a national arbitration board in Indonesia.

The standard non-life insurance policy arbitration clause includes the provisions detailed below.

- The arbitration consists of three arbitrators, two appointed by the respective parties and the third by the two party-appointed arbitrators. The third arbitrator acts as umpire.
- Should there be a disagreement between the parties to the dispute as to the appointment of arbitrators, or should the two party-appointed arbitrators fail to agree upon and appoint a third arbitrator, the parties may apply to the chairman of the court in the defendant's domicile to appoint arbitrators and/or the third arbitrator.
- The arbitrators must make an award in writing within 180 days from the date of establishment of the Arbitration Panel. This time period may be extended, however, upon consensus of both parties.
- The arbitration award is final and binding upon both parties.
- Should either party fail to comply with the terms of the arbitration award, the other party can request the court at the defendant's domicile to order execution of the award.
- Matters not provided for or not sufficiently provided for within the arbitration clause are subject to the conditions of the *Act of the Republic of Indonesia No 30 dated 12 August 1999* in respect of arbitration and alternative dispute resolution.

Indonesian Insurance Mediation Body (Badan Mediasi Asuransi Indonesia - BMAI)

In January 2007 life and non-life insurers established the Indonesian Insurance Mediation Body (Badan Mediasi Asuransi Indonesia - BMAI), providing policyholders with alternative recourse to settling insurance disputes other than through the courts. The insurance association also operates a complaints division, which handles small complaints relating to both life and non-life policies.

Ombudsman

There is no insurance ombudsman in Indonesia.

Non-Admitted Insurance Regulatory Position

Definition

Non-admitted insurance refers to the placing of insurance outside the regulatory system of the country in which the risk is located. A non-admitted insurance policy may be one that is issued abroad or one in which the risk(s) may be included in a global master policy by an insurer that is unauthorised in the country in which the risk is located. An authorised insurer is one that has been granted permission to do business in a country (or region) by the local supervisory authority. The text below describes the regulations that apply to non-admitted insurance for this country.

Summary

Non-admitted insurance is not generally permitted in Indonesia because the law provides that insurance must be purchased from locally authorised insurers with some exceptions.

Legislation

The legal provisions setting out the requirement for insurers to be authorised are contained in *Chapter IV Article 8 (1) of Law No 40/2014.* This article stipulates that "each party (which) shall undertake insurance business must first obtain a licence from the Financial Services Authority".

The legal provisions setting out the requirement for risks to be insured with locally authorised companies are contained in *Chapter V, Article 25* of *Law No 40/2014*. This article stipulates that "insurance of objects in Indonesia can only be insured by an insurance company or sharia insurance company which has obtained a licence from the Financial Services Authority" (Axco translation).

Ministry of Trade Regulation No 82/2017 (as amended) contains a requirement to insure exports of crude palm oil and coal as well as imports of rice and other imports for government procurement (if transported by sea) with a locally licensed insurer or a consortium of locally licensed insurers authorised by the Ministry of Trade. The new insurance requirements took effect on 1 February 2019, with a one-month transition period for compliance. Following reports of significant export delays caused by compliance checks, it was announced that the transition period will be extended until 31 May 2019.

Freedom of services under GATS

Indonesia has been a member of the World Trade Organization (WTO) since 1 January 1995. In spite of this current regulations permit only very limited purchase of non-admitted insurance (see the heading Buyers in this section for details).

ASEAN is preparing to fulfil its objective to establish a single market in relation to the provision of services, including insurance and financial services. Indonesia was one of the founding member countries of ASEAN. The potential impact in terms of changes to Indonesian legislation in order to accommodate the demands of the proposed single market is not yet known. For the time being there is little or no evidence of concern in the local market regarding this impending development.

Insurers

The following insurances are exceptions to the general prohibition on non-admitted placements (according to *Chapter V, Article 25* of *Law No 40/2014*):

- where no insurer (conventional or sharia) licensed in Indonesia has the ability to retain or manage the insurance
- where no insurer (conventional or sharia) licensed in Indonesia is willing to provide insurance
- where the risk is not situated in Indonesia.

The following is also an exception from the general prohibition on non-admitted placements as per advice from the regulator:

- marine cargo import insurance on CIF terms of trade.

Ministry of Trade Regulation No 82/2017 on the Utilisation of Indonesian Sea Carriage and Insurance for Export of Certain Goods (as amended by *Ministry of Trade Regulation No 48/2018*) contains a requirement to insure exports of coal and crude palm oil, and also imports of rice, with a locally licensed insurer or a consortium of locally licensed insurers. The new insurance requirements took effect from 1 February 2019. The amendment introduced by *Regulation No 48/2018* removed the option previously contained in *Regulation No 82/2017* whereby insurance could be obtained from a foreign insurance company if the appropriate insurance was not available from an Indonesian insurer.

Local Risk Definition

Law No 40/2014 (*Chapter V, Article 25*) refers to "insurance objects" in its provisions stipulating that insurance must be placed locally. This is currently interpreted to mean any type of commercial, industrial and personal insurances, including health and PA written in non-life companies, situated locally.

Article 25 of *Law No 40/2014* altered the list of exceptions appearing in the previously applicable *Law of the Republic of Indonesia No 2/1992* relating to conditions in which buyers can source insurance in non-admitted markets. The law no longer includes the exception to the non-admitted placement regulations applicable when "the insured (buyer) is not an Indonesian citizen or an Indonesian legal entity". For this reason a local risk is now redefined as a risk situated in Indonesia relating to an insured object (without reference to the nationality of the buyer). As a result foreign buyers of insurance in Indonesia can no longer cover their "insured objects" in non-admitted markets. Insurance of risks situated outside Indonesia remains, however, a valid exception to the non-admitted regulations.

Exchange Controls

Currency exchange control is an issue for non-admitted placements because there is a requirement to report to the Central Bank all wired transaction remittances outside the country in excess of USD 100,000.

Tax

Premiums paid overseas are treated as unearned income and are taxed accordingly. In such cases, the authorities may also impose a fine for breach of regulations (if such a breach exists) and disallow companies from charging the cost of insurance as a business expense to the profit and loss account.

Insurer Responsibilities

There does not appear to be any requirement that insurers involved in non-admitted placements should warn buyers that they are not subject to local supervision.

Multinationals

There does not appear to be any legislation relating specifically to multinational insurance programmes or multinational insurers and such insurances and insurers are subject to the same rules as all other insurances and insurers.

DIC/DIL

The legislation does not address the use of global difference in conditions/difference in limits covers or excess layers above a primary local policy.

Premium Taxes

Where non-admitted insurance is arranged by a buyer directly with an insurer outside Indonesia a withholding tax of 10% should be paid. Stamp duty is not applicable to transactions carried out outside the country. For further details please refer to the Taxation section of this report.

Buyers

As per *Law No 40/2014* insurance buyers cannot place their business with non-admitted insurers abroad, unless:

- no insurer (conventional or sharia) licensed in Indonesia has the ability to retain or manage the insurance
- no insurer (conventional or sharia) licensed in Indonesia is willing to provide insurance
- the risk is not situated in Indonesia.

If the first two of these conditions are met it is presumed (but not explicitly stated in *Law No 40/2014*) that a buyer must show proof to the regulator that he or she has approached the market exhaustively and has not found any locally licensed company able or willing to accept the proposed insurance(s). Previous to *Law No 40/2014* unless special dispensation was granted by the regulator for a buyer to insure direct overseas, premiums could not be deducted by a company as a business expense in relation to profits tax: it is presumed that this is still the case.

A buyer may also be exposed to taxation on any compensation paid by an overseas insurer, which is treated as unearned income. Buyers are also subject to financial penalties for breaches of the non-admitted regulations with a fine calculated as a proportion of the premium involved. Various potential taxation penalties are imposed upon buyers who purchase unauthorised non-admitted insurance (see Fines/Penalties below).

See also the heading Local Risk Definition in this section regarding a critical change in the exceptions to the general prohibition on non-admitted placement brought about by *Law No 40/2014,* as compared to arrangements previously prevailing under the *Law of the Republic of Indonesia No 2/1992.*

Intermediaries

Intermediaries (ie brokers or agents) have to be authorised to do insurance business. *Law No 40/2014* provides that all brokers and agents must be registered with the regulator. Unregistered brokers are not allowed to canvass for business in Indonesia.

Law No 40/2014 does not repeat the prohibition (which was contained in *Article 12* of the previous and now revoked *Law of the Republic of Indonesia No 2/1992*) on licensed brokers placing insurance with companies not licensed to carry on insurance business in Indonesia. The regulator considers that such a provision would be effectively redundant because it is already implicit in *Article 25* of *Law No 40/2014.* The issue of brokers warning clients regarding fines and penalties for breaches of *Article 25* of *Law No 40/2014* in relation to the placement of unauthorised non-admitted insurance does not at present apply because no such fines and penalties are specified within *Law No 40/2014.*

Market Practice

Primary liability cover and statutory insurances are customarily arranged in Indonesia. Foreign multinational companies do occasionally wish to arrange cover for excess liability under their global umbrella programmes offshore on a non-admitted basis, and the regulator is aware of this practice. The regulatory authority will award dispensation from the primary regulations only if it can be shown that no company in Indonesia has the capacity or the desire to accept such covers. Although marine business is not exempt from the prohibition on non-admitted insurance, the regulator understands its international nature and it does not intervene in respect of imports carried out on a CIF basis. In such circumstances importers often purchase goods CIF and then arrange for a local insurance company to issue a policy for customs declaration purposes only. In this respect it remains to be seen how the regulator will interpret the requirements of *Ministry of Trade Regulation No 48/2018* to insure imports of rice and goods for government procurement with a locally licensed insurer or a consortium of locally licensed insurers.

There are specific regulatory prohibitions on fronting in the form of compulsory retentions applying to each class of business.

A market agreement under the auspices of Badan Pusat Pengala Data Asuransi Nasional (BPPDAN - government's central statistics department) seeks to develop national retention capacity by requiring all non-life insurance companies to make an obligatory cession of 2.5% of every property risk insured by them to a pool managed by Reasuransi Internasional Indonesia (ReINDO), now part of Indonesia Re.

Fines/Penalties

Fines and penalties for breaches of *Article 25* of *Law No 40/2014* in relation to the placement of unauthorised non-admitted insurance are not specified in detail within *Law No 40/2014.*

Unless special dispensation is granted by the regulator for a buyer to insure directly overseas, premiums cannot be deducted as a legitimate business expense in the profit and loss account.

A buyer is also exposed to taxation on any compensation paid by an overseas insurer, which can be treated as unearned income. Buyers are also subject to financial penalties for breach of the non-admitted regulations with a fine calculated as a proportion of the premium involved.

Fronting

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019*, clarifying that reinsurance support in *Article 7* of *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support* refers to either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Although fronting is possible there are a number of barriers to it. Pure fronting is not permitted without specific permission from the regulator to waive the requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession contained in *Regulation No 14/POJK.05/2015* and *Circular Letter No 31/SEOJK.05/2015*. While the regulation requires 100% domestic reinsurance of "simple risks", it does not apply to multinational insurance programmes or insurance products that provide worldwide cover.

Captives and global carriers must have a minimum security rating of "BBB" from a recognised international rating agency otherwise the fronting companies may incur higher risk charges under the risk-based capital formula. This has made companies more cautious in relation to fronting arrangements.

A market agreement requires all companies to cede a minimum of 2.5% of each property risk to Reasuransi Nasional Indonesia (ReINDO) although, depending upon the policy cover, the company may decline to accept if the cover is outside its treaty provisions.

The main issues arising out of local fronting arrangements (other than obtaining exemption from the mandatory retention requirements in specific cases from the regulator) relate to delays in documentation, language and/or coverage misunderstandings and general service standards.

Company Registration and Operating Requirements

Establishing A Local Company

Chapter VI, Article 8 of *Law No 40/2014* lists the procedure to obtain a business licence from the regulator. The principal requirements are as follows:

- articles of association
- organisational structure
- details of paid-up capital
- details of guarantee fund
- details of ownership
- feasibility study and appropriateness of shareholders and control
- ability and propriety of directors and commissioners or the equivalent of same in a sharia company or joint venture, and of sharia supervisory board (where applicable) and of the appointed actuary and internal auditor
- experts to be engaged
- feasibility of the operational plan
- feasibility of risk management systems
- details of products to be marketed
- engagement with related parties and policies if there is transfer of some functions in the operation of the business
- infrastructure preparation and reporting on same to the regulator
- in the event of a foreign direct investment confirmation of approval from the supervisory authority in the foreign country of origin
- any other requirements which will be needed to support healthy business growth.

In general, business licensing information requirements are treated in accordance with the type(s) of business to be carried out.

A single investment ruling, known as the "single presence policy", was introduced under *Law No 40/2014* which stipulates that a party (individual or company) can only be the "controlling shareholder" of one company in each of the following six categories of company: one life insurance company, one non-life insurance company, one reinsurance company, one sharia life insurance company, one sharia non-life insurance company or one sharia reinsurer. The deadline for compliance was 17 October 2017.

The regulator has 30 days from receipt of the completed business licence application to respond with an acceptance or rejection. In the case of rejection the regulator must confirm this in writing citing the reasons for rejection.

Insurers which open additional offices in the country outside the head office must report these to the regulator. Officers in any branch office who are responsible for underwriting (acceptance or rejection of insurance proposals) and claims settlement must meet the standards set by the regulator.

According to *Law No 40/2014* every insurance company has to appoint at least one "controller". A controller is defined as a party which directly or indirectly has the authority to determine the management and policies of the insurance company. The regulator is granted the right to approve or disapprove of a controller's appointment or to appoint a person who is deemed to be more suitable.

A ruling which is already in effect for sharia companies requiring separation of investment and risk funds was extended by *Law No 40/2014* to apply to conventional insurance companies.

Law No 40/2014 applied fit and proper tests to members of the board of directors, the board of commissioners and the shareholders as well as to controllers, members of sharia supervisory boards, actuaries and auditors of insurance companies.

In December 2016 the regulator issued several implementing regulations for *Law No 40/2014*, including *OJK Regulation No 67/POJK.05/2016, on the Licensing and Institution of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies and Sharia Reinsurance Companies.* This regulation took effect on 28 December 2016. The regulation required insurance and reinsurance companies to submit a plan for complying with the "single presence" and Indonesian shareholdings policies (both under *Law No 40/2014*) for approval by the regulator.

The regulation also lists the information to be submitted to the regulator in case of change of ownership.

Types of Insurance Organisation

Chapter II, Article 6 of *Law No 40/2014* deals with permitted forms of insurance organisations, which may be:

- a limited liability company
- a co-operative
- a mutual fund company in existence at the time of coming into force of *Law No 40/2014.*

There was only one mutual fund company in existence at the time of coming into force of *Law No 40/2014.* The regulator reports that it does not intend to license any more mutual fund companies in future.

Insurance companies can only be owned, according to *Law No 40/2014* by:

- Indonesian citizens and/or an Indonesian legal entity which is directly or indirectly wholly owned by Indonesian citizens
- Indonesian citizens and/or an Indonesian legal entity together with foreign citizens or a foreign legal entity which transacts the same or similar business or owns a holding company which transacts the same or similar business.

Law No 40/2014 enshrines an existing requirement that a foreign shareholder must be an insurance company transacting the same line(s) of business as the locally licensed company or a holding company having at least one subsidiary transacting the same line(s) of business as the locally licensed company.

Foreign Ownership

==

Update April 2020

On 20 January 2020 *Regulation No 3/2020* came into force, amending *Regulation No 14/2018 on Foreign Ownership of Insurance Companies.* The new regulation is intended to relax and clarify certain aspects of the rules surrounding capital increases for unlisted companies which had more than 80% foreign ownership at the time of entry into effect of the regulation. *Regulation No 3/2020* ended the requirement for Indonesian shareholders to contribute at least 20% of any capital increase for such companies. These companies are therefore now allowed to maintain the current percentage of foreign ownership, although the new regulation stipulates that the insurer must obtain an injection of capital by means of an initial public offering (IPO) in Indonesia if an Indonesian shareholder does not participate in a capital increase. Also, the rule now applies to all types of capital increases, not just cash injections. The regulation also clarifies that the same rules will apply to any sharia companies set up by such insurers with sharia units in order to comply with *OJK Regulation No 67/POJK.05/2016, on the Licensing and Institution of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies and Sharia Reinsurance Companies*.

==

Government Regulation No 14/ 2018 on Foreign Ownership of Insurance Companies came into effect on 17 April 2018 and resolved a long-outstanding debate by confirming the maximum percentage of foreign ownership of insurance companies at the existing threshold of 80%. This limitation does not apply to insurance companies which are publicly listed or to companies with more than 80% foreign ownership at the time this new regulation was issued. These companies, however, are not allowed to increase their foreign ownership percentage. Any further injection of capital in these companies is also to be made in a ratio of at least 80:20, ie at least 20% of any capital increases in cash must be by Indonesian shareholders, or through an initial public offering (IPO), thereby reducing the percentage of foreign ownership.

In December 2016, the regulator issued several implementing regulations for *Law No 40/2014*, including *OJK Regulation No 67/POJK.05/2016, on the Licensing and Institution of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies and Sharia Reinsurance Companies.* The regulation required (re)insurance companies to submit a plan for complying with the "single presence" and Indonesian shareholdings policies (both under *Law No 40/2014*) for approval by the OJK.

Definitions were introduced by *Law No 40/2014* providing that "insurance companies can be owned by Indonesian citizens and or entities that are directly or indirectly wholly owned by Indonesian citizens". A minority 20% owner must be an Indonesian individual and/or an Indonesian legal entity directly owned by Indonesian individuals. Companies which are not currently in compliance with the 2014 law must within five years of the *Law No 40/2014* coming into effect either undertake an initial public offering (IPO) or transfer the relevant ownership to Indonesian citizens.

The current level of permitted foreign ownership of insurance companies in Indonesia is one of the highest allowed foreign ownership concessions in the ASEAN countries.

Types of Licence

Composite insurance licences are not issued.

The definitions of non-life insurance within *Law No 40/2014* cover:

- conventional non-life insurance business including PA and health insurance
- Islamic non-life business including PA and health insurance conducted according to sharia principles.

Law No 40/2014 also explicitly states that PA and health insurance may also be transacted by a licensed conventional life insurance company or a licensed sharia life company.

In addition to non-life and life insurance companies, there are public companies responsible for the administration of the social security and occupational accident programmes and companies that administer insurance programmes for civil servants and the armed forces.

Non-life direct insurance companies are permitted to accept inwards treaty and facultative reinsurance, as long as accepted reinsurance premium volume does not exceed direct insurance premium volume: a separate licence is not required in this respect.

Government Regulation No 39/2008 stipulated that sharia operations may be established as separate companies or alternatively as a separate unit of a conventional insurance company. According to *Law No 40/2014* a separate sharia company will have to be established to write takaful or retakaful business if and when an existing sharia unit's assets (including the tabarru fund and the policyholders' investment fund) exceed 50% of the total of the conventional and sharia insurance company's assets or within 10 years of the *Law No 40/2014* coming into effect. In October 2018 the regulator, the OJK, reported that the majority of the insurers with sharia units or windows, including 25 such non-life insurers, had not yet begun the process of setting up separate sharia companies.

It is thought that no conventional insurance companies with sharia units or windows in the market currently satisfy the 50% requirement since takaful business in the market as a whole is currently estimated to constitute less than 5% of total market gross premium income.

Capital Requirements

==

Update April 2020

On 20 January 2020 *Regulation No 3/2020* came into force, amending *Regulation No 14/2018 on Foreign Ownership of Insurance Companies.* The new regulation relaxed and clarified the rules surrounding capital increases for unlisted companies which had more than 80% foreign ownership at the time of entry into effect of the regulation. *Regulation No 3/2020* permits such companies to maintain the current percentage of foreign ownership. It ended the requirement for Indonesian shareholders to contribute at least 20% of any capital increase for such companies, although it stipulates that the insurer must obtain an injection of capital by means of an initial public offering (IPO) in Indonesia if an Indonesian shareholder does not participate in a capital increase. Also, the rule now applies to all types of capital increases, not just cash injections. The regulation also clarifies that the same rules will apply to any sharia companies set up by such insurers with sharia units in order to comply with *OJK Regulation No 67/POJK.05/2016*.

==

For established insurance and reinsurance companies the equity needed to satisfy the minimum paid-up capital requirement is the sum of the following:

- paid-up capital

- capital surplus
- retained earnings
- general reserve
- specific reserve
- increase or decrease in the values of securities
- differences arising from the revaluation of fixed assets.

The minimum capital/equity requirements for existing companies with effect from 31 December 2014 are as follows:

- conventional insurance companies - IDR 100bn (USD 6.92mn)
- reinsurance companies (conventional) - IDR 200bn (USD 13.85mn)
- sharia insurance companies - IDR 50bn (USD 3.46mn)
- sharia reinsurance companies - IDR 100bn (USD 6.92mn)
- sharia insurance units operating within a conventional insurance company - IDR 25bn (USD 1.73mn)
- sharia reinsurance units operating within a conventional reinsurance company - IDR 50bn (USD 3.46mn).

In December 2016 the regulator issued several implementing regulations for *Law No 40/2014*, including *OJK Regulation No 67/POJK.05/2016, on the Licensing and Institution of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies and Sharia Reinsurance Companies.* This regulation took effect on 28 December 2016 and prescribed increased paid-up capital requirements for new companies as follows:

- conventional insurance companies - IDR 150bn (USD 10.39mn)
- conventional reinsurance companies - IDR 300bn (USD 20.77mn)
- sharia insurance companies - IDR 100bn (USD 6.92mn)
- sharia reinsurance companies - IDR 175bn (USD 12.12mn).

Existing companies are expected to comply with *OJK Regulation No 67/POJK.05/2016* when there is a change of ownership or a transfer of shares to a new shareholder. The regulation lists the information to be submitted to the OJK in case of change of ownership. Simultaneously the regulator restricted the ways in which paid-up capital may be increased to cash injections, profit reinvestment, loan conversions and share dividends.

The working capital for sharia insurance units operating within a conventional insurance company was also increased by *OJK Regulation No 67/POJK.05/2016* to IDR 50bn (USD 3.46mn), while sharia reinsurance units operating within a conventional reinsurance company require a working capital of IDR 75bn (USD 5.19mn).

In addition insurance and reinsurance companies are currently required to maintain a guarantee fund of the greater of not less than 20% of the minimum paid-up capital or equity or 1% of net premium plus 0.25% of reinsurance premium ceded as prescribed by *Ministry of Finance Regulation No 53/PMK 010/2012* effective from 1 January 2013. *Law No 40/2014* specifies that amounts in this fund must be adjusted in line with the size of the insurance business provided that the guarantee fund always exceeds the initial fund set up on establishment of the company. Permitted guarantee fund assets are cash deposits or Indonesian government-issued securities of one year or more in duration. The fund must be held by a custodian bank.

As mandated under *Chapter XI* of *Law No 40/2014*, the guarantee fund in each insurance company is to be replaced by a new policyholder protection scheme (to be called the Policy Holder Insurance Corporation - LPPP) to which all insurers will be obliged to contribute. Further implementing legislation in this respect was to follow within three years of enactment. As at the time of preparation of this report the guarantee fund had still not been established.

Solvency Margins

In December 2016 the regulator issued several implementing regulations for *Law No 40/2014*, including *OJK Regulation No 71/POJK.05/2016, on the Financial Soundness of Insurance and Reinsurance Companies*. The regulation restates the previous rules on solvency margins: insurance companies must set an annual solvency target of 120% of the minimum risk-based capital (RBC) and the solvency margin must be at all times at least 100% of the minimum RBC (known as MMBR).

The regulation took effect on 28 December 2016 and was subsequently amplified by guidelines published under *Circular 24/SEOJK.05/2017* (in respect of conventional insurers and reinsurers) and *Circular 25/SEOJK.O5/2017* (in respect of sharia insurers and reinsurers).

Computation of the RBC formula is based on a series of complex calculations which take into account a number of factors, which include:

- asset default risk
- cash-flow mismatch
- risk of deterioration in anticipated loss experience
- reinsurance risk
- risk of insufficient premium due to investment results.

All risk factors are allocated loadings (charges) or discounts, depending on their likely effect on the company, in order to arrive at the final ratio.

Where a company fails to meet the MMBR requirement it must submit a financial restructuring plan to the regulator and is prohibited from paying dividends to shareholders. Where MMBR falls below 40%, a company shall receive a final warning.

The same requirements apply to reinsurers.

Circular 25/SEOJK.O5/2017 contains guidelines relating to the calculation of minimum risk-based tabarru funds and tauhid funds and minimum risk-based capital for sharia insurers and reinsurers. The minimum risk-based tabarru fund is known as the DTMBR.

At present there is no suggestion that the authorities are considering introducing more risk-based regulations along the lines of *Solvency II*.

Reserve Requirements

Circular 27/SEOJK.O5/2017, issued in conjunction with *OJK Regulation 71/POJK.05/2016,* provides guidelines for the calculation of technical reserves in respect of conventional insurers and reinsurers and *Circular 28/SEOJK.05/2017,* issued in conjunction with *OJK Regulation 72/POJK.05/2016* provides guidelines for the calculation of technical reserves in respect of sharia insurers and reinsurers.

Circular 27/SEOJK.O5/2017 specifies primary technical reserves for conventional insurers and reinsurers as unearned premium reserves, claims reserves and catastrophe reserves. Claims reserves include known outstanding loss reserves, IBNR reserves and reserves for claims payments which have been approved but which have not been paid at the date of valuation. The scope for permitted catastrophe reserves depends on the adequacy of catastrophe reinsurance that has been arranged. Calculation details for all reserves are appended to *Circular 27/SEOJK.O5/2017.*

Circular 28/SEOJK.05/2017 specifies primary technical reserves for sharia insurers and reinsurers as unearned contribution tabarru and tanahud funds which have not yet become revenue, claims provisions and permitted catastrophe reserves. Calculation details for all reserves are appended to *Circular 28/SEOJK.05/2017.*

Premium reserves must take into account future revenue and expenses, under approved assumptions with the addition of a risk margin. Unearned premium reserves must take into account catastrophic risk.

Technical reserves are included as liabilities for the purpose of calculating solvency and valuation must be validated by the company actuary.

Reinsurance and retrocession receivables are treated as admissible assets in the balance sheets of insurance and reinsurance companies. This being the case the insurer or reinsurer may represent in the balance sheet technical reserves on a net of reinsurance basis. It is not customary for reinsurers to deposit with ceding companies technical reserves relating to proportional or non-proportional reinsurance treaties.

Investment Regulations

In December 2016 the regulator issued several implementing regulations for *Law No 40/2014*, including *OJK Regulation No 67/POJK.05/2016, on the Licensing and Institution of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies and Sharia Reinsurance Companies.* The regulation requires (re)insurance companies to submit a plan for complying with the "single presence" and Indonesian shareholdings policies (both under *Law No 40/2014*) by 28 June 2017 for approval by the OJK.

The main changes to investment rules under *OJK Regulation No 71/POJK.05/2016, on the Financial Soundness of Insurance and Reinsurance Companies* are listed below.

- Bank deposits with a term of less than or equal to one month at each bank are now limited to 20% of total investments.
- The maximum term deposit in a rural bank is limited to 1% of total investments.
- Certificate deposits in each bank are limited to 50% of total term deposits.
- Investments in corporate bonds are limited to 20% of total investments.
- The maximum permitted investment in securities issued by multinational corporations was increased to 20%.

The regulations took effect on 28 December 2016.

Regulation No 1/POJK 05/2016 entitled *Regarding State Securities Investment for Non-bank Financial Service Institutions* introduced mandatory levels of state security investment for (inter alia) insurance companies in two phased stages starting in 2016 in order to ensure adequate participation by such institutions in the funding of state development programmes. In respect of non-life insurance and reinsurance companies (including sharia non-life companies) *Regulation No 1/POJK 05/2016* provides that as from 31 December 2017 at least 30% of all investments must be in state securities, with an interim minimum of 20% for 2016 and 2017.

OJK Regulation No 71/POJK.05/2016 indicates the following available investment types and restrictions.

Nature of investment	Investment restrictions
Time deposits at banks including deposits on call and time deposits with a period of less than or equal to one month	Max 20% for each bank
Time deposits for each rural bank and rural sharia bank	Up to 1% of the total investment and up to 5% of the total investment in aggregate
Certificate of deposit for each bank	Up to 50% of the total investment in the form of time deposits with banks
Publicly listed shares on Indonesian Stock Exchange	Max 40% of total investment and 10% for each issuer
Corporate bonds listed on the stock exchange	Max 50% of total aggregate investment and 20% for each issuer

Nature of investment	Investment restrictions
Medium term notes and commercial paper issued by multinational institutions in which Indonesia becomes a member or shareholder	Max 20% of total investment for each issuer and 40% of total investment in aggregate
Commercial papers issued by a country other than Indonesia	Max for each issuer 10% of total investments
Mutual funds	Max 50% of total investments and 20% for each issuing investment manager
Asset backed securities	For each investment manager up to 20% of the total investment and up to 50% of total investment in aggregate
Real estate fund in the form of a collective investment contract	For each investment manager up to 10% of the total investment and up to 20% of total investment in aggregate
Securities transactions through repurchase agreement	For each counterparty up to 2% of the total investment and up to 10% of total investment in aggregate
Direct investment in limited liability companies whose shares are not listed on a stock exchange	Up to 10% of total investments in aggregate
Land, building with strata title or land with buildings for investment	Up to 20% of total investment in aggregate and in respect of land for investment up to 33.3% of total investment in aggregate
Land for investment	Up to one-third of the total investment in aggregate
Financing through mechanisms of co-operation with other parties in the form of credit co-operation	For each party up to 10% of the total investment and up to 20% of the total investment in aggregate
Pure gold	Up to 10% of total investment in aggregate
Loans secured by security rights	Up to 10% of total investment in aggregate

Source: Market sources

The collective total of publicly quoted shares on the Indonesian Stock Exchange, corporate bonds, sukuks and securities and mutual funds investments may not exceed 80% of total investments.

Overseas investments may not exceed 20% of total investments.

Circular 26/SEOJK.05/2017, issued in conjunction with *OJK Regulation 71/POJK.05/2016,* deals with required regulatory approvals when:

- an insurer or reinsurer wishes to make an investment placement in excess of stated limits
- approval is required for recognition of non-investment assets such as capital support, reinsurance and deferred acquisition costs.

Circular 22/SEOJK.05/2017, issued in conjunction with *OJK Regulation 71/POJK.05/2016*, deals with the asset valuation bases for conventional insurers and reinsurers and *Circular 23/SEOJK.05/2017*, issued in conjunction with *OJK Regulation 72/POJK.05/2016*, deals with the asset valuation bases for sharia insurers and reinsurers.

Retentions

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019*. This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016, inter alia, set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover.

The table below sets out the mandatory retention requirements for primary insurers as prescribed by *OJK Circular Letter No 31/SEOJK.05/2015*.

Type of Insurance	Equity (IDR)	Minimum per risk retention	Maximum per risk retention
Aviation		0.375% of equity	10% of equity
Satellite		0.075% of equity	10% of equity
Onshore energy	<500bn	1.5% of equity	10% of equity
	>500bn to 1trn	1.125% of equity, minimum IDR 7.5bn	
	>1trn to 2trn	0.75% of equity, minimum IDR 11.25bn	
	>2trn	IDR 15bn	
Offshore energy	<500bn	0.75% of equity	10% of equity
	>500bn to 1trn	0.56% of equity, minimum IDR 3.75bn	
	>1trn to 2trn	0.375% of equity, minimum IDR 5.625bn	
	>2trn	IDR 7.5bn	
Engineering	<500bn	1.5% of equity	10% of equity
	>500bn to 1trn	1.125% of equity, minimum IDR 7.5bn	

Type of Insurance	Equity (IDR)	Minimum per risk retention	Maximum per risk retention
	>1trn to 2trn	0.75% of equity, minimum IDR 11.25bn	
	>2trn	IDR 15bn	
Liability		IDR 750mn	10% of equity
PA and health		IDR 150mn	10% of equity
Credit		IDR 750mn	10% of equity
Surety		IDR 750mn	10% of equity
Miscellaneous		IDR 750mn	10% of equity
Property	<500bn	1.5% of equity	10% of equity
	>500bn to 1trn	1.125% of equity, minimum IDR 7.5bn	
	>1trn to 2trn	0.75% of equity, minimum IDR 11.25bn	
	>2trn	IDR 15bn	
Motor		IDR 150mn	10% of equity
Marine cargo	<500bn	1.5% of equity	10% of equity
	>500bn to 1trn	1.125% of equity, minimum IDR 7.5bn	
	>1trn to 2trn	0.75% of equity, minimum IDR 11.25bn	
	>2trn	IDR 15bn	
Marine hull	<500bn	0.6% of equity	10% of equity
	>500bn to 1trn	0.45% of equity, minimum IDR 3bn	
	>1trn to 2trn	0.3% of equity, minimum IDR 4.5bn	
	>2trn	IDR 6bn	

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The minimum retention limit in respect of the property line of business must be adjusted for bad risks to at least 30% of the minimum stipulated. The definition of a bad risk includes hazardous occupations (chemical, oil, gas, paper leather, rubber, wood bamboo, rattan and motor vehicle repair shops) and risks of third class construction as stipulated in the tariff regulations issued by the OJK.

Different limits apply in respect of sharia-compliant insurers.

OJK Circular Letter No 31/SEOJK.05/2015 stipulates that the priority reinsurance in the local market must be a minimum of either 25% (of the automatic reinsurance capacity in case of treaty reinsurance or of the sum insured in case of facultative reinsurance) or the amounts stated below, whichever is the higher in respect of conventional reinsurance. Amounts stated by the regulator by individual class of business in respect of sharia reinsurance are lower than those cited in the table below which relates to conventional reinsurance business.

LOB	Mandatory domestic priority treaty placement (IDR bn)		Mandatory domestic priority facultative placement (IDR bn)
	Proportional	Non-proportional	
Property*	210	185	620
Marine cargo	150	140	250
Marine hull	80	75	140
Aviation	75	60	180

LOB	Mandatory domestic priority treaty placement (IDR bn)		Mandatory domestic priority facultative placement (IDR bn)
	Proportional	Non-proportional	
Satellite	40	40	40
Onshore energy	100	100	640
Offshore energy	170	170	620
Engineering	210	185	620
Liability	85	100	175
Miscellaneous	125	100	300

*Note: * excluding cessions to Maipark.*

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

In respect of motor, PA, health, credit and surety reinsurance support must be provided 100% by domestic reinsurers.

Insurance Premium or Policy Taxes and Charges

The taxes and charges applicable are shown in the table below.

Insurance class	Description of tax or charge	% (unless otherwise stated)	To be paid by
All non-life	Stamp duty	IDR 6,000	Insured
All non-life	Annual regulatory levy	Variable	Insurer

Source: Market sources

The regulator is financed by fees from regulated entities. *Government Regulation No 11/2014* is the prevailing legislation in this respect which applies to all parties which engage in financial sector activities including insurance and reinsurance companies. The latter pay annual fees to the regulator based on criteria set out in *Government Regulation No 11/2014,* as well as specific fees for one-off activities such as business licence application, registration requests, IPO requests and corporate plan reviews. Annual fees payable by insurers and reinsurers are variable according to specific percentage calculations related primarily to the value of assets in audited or provisional unaudited accounts. Annual fees may be paid in quarterly instalments.

Legislative Update

==

Update April 2020

To counter the economic effects of the COVID-19 pandemic, the standard rate of corporation tax has been reduced from 25% to 22% for fiscal years 2020 and 2021 and will be further reduced to 20% from 2022. For public listed companies with at least 40% shares traded on the Indonesian stock market, the corporation tax rate will reduce to 19% for 2020 and 2021, and to 17% from 2022.

==

There have been no recent changes in legislation.

Withholding Taxes on Premiums Paid Overseas

Where non-admitted insurance is arranged by a buyer directly with an insurer outside Indonesia a withholding tax of 10% should be paid. It is difficult to monitor this, however, since only wired remittances exceeding USD 100,000 must be reported to the Central Bank.

A withholding tax of 2% is imposed on premiums ceded by direct insurance companies to non-resident reinsurers, and 1% applies to retrocession premiums ceded by reinsurance companies in Indonesia to non-resident companies.

Where the recipient is resident in a country which has a double tax treaty with Indonesia, the withholding tax rates may be reduced.

Withholding tax also applies to commission paid to intermediaries and individual agents. For brokers the rate is 6% on commission paid to domestic companies. Commissions paid to resident individual insurance agents are subject to a progressive tax rate as follows:

- up to IDR 25mn (USD 1,731) at 5%
- over IDR 25mn (USD 1,731) to IDR 50mn (USD 3,462) at 10%
- over IDR 50mn (USD 3,462) to IDR 100mn (USD 6,924) at 15%
- over IDR 100mn (USD 6,924) to IDR 200mn (USD 13,847) at 25%
- over IDR 200mn (USD 13,847) at 35%.

If the intermediary is non-resident, however, the withholding tax rate is 20%, subject to tax treaty arrangements.

VAT

Insurance and reinsurance companies are liable for VAT on commission paid to intermediary companies at a rate of 10%. Insurance and reinsurance companies are not subject to VAT and cannot therefore claim a refund, but they are entitled to treat VAT as a business expense.

Corporation Tax

==

Update April 2020

To counter the economic effects of the COVID-19 pandemic, the standard rate of corporation tax has been reduced from 25% to 22% for fiscal years 2020 and 2021 and will be further reduced to 20% from 2022. For public listed companies with at least 40% shares traded on the Indonesian stock market, the corporation tax rate will reduce to 19% for 2020 and 2021, and to 17% from 2022.

==

Resident companies are subject to taxation on their worldwide income. Non-resident companies are taxed only on income sourced in Indonesia, including income attributable to permanent establishments in the country.

Corporation income tax is calculated with effect from 1 January 2010 on the basis of a standard rate of 25% of assessable income less allowable expenses.

Listed companies which meet certain conditions are eligible for a 5% reduction from the standard corporate tax rate.

Any foreign tax paid by the company may be used to credit the amount of income tax to be paid to Indonesia, limited to the amount of Indonesian tax otherwise payable on the income. Non-resident companies are liable only for taxes withheld.

Tax losses may be carried forward for five years as an offset against profits in those years. Some types of industries and operations in remote areas are allowed to carry forward such losses as an offset to profits for up to 10 years.

A company is domiciled in Indonesia if it is managed, controlled or has its head office in Indonesia. Branches of foreign companies are taxed only on those profits derived from activities carried out in Indonesia. Income accruing from an Indonesian branch to a foreign parent is, however, taxed as income of the branch if the business is of a similar nature to the business of the branch.

In respect of insurance and reinsurance companies technical reserves are admissible operating expenses except for IBNRs, which are not tax deductible.

Captives

Indonesia has no legislation dealing with alternative risk transfer or captives, and no special provisions have been made in the tax regulations in this respect. That said, several insurers are owned by larger industrial/commercial groups and may write some or all of the parent's risks along with those of third-party clients.

Summary and Trends

A restructured Indonesian legal system and new laws have evolved since independence in 1945, but the system is still often perceived by the public to be flawed and corrupt. Court awards are low, and few insurance claimants resort to the legal process. Indonesians are not litigious by nature.

Basis of Legal System

Indonesia's legal system is a mixture of unwritten indigenous law, sharia (Islamic) law and the system introduced by the Dutch in colonial times. Sharia law applies to Muslim Indonesians on matters regarding marriage, divorce and inheritance. Indigenous (customary) law applies to other matters including inheritance. For Muslims, disputes related to inheritance can be heard either by the sharia court or the district court which is a civil court of first instance.

The Indonesian legal system traces its roots to the civil code imported by the Dutch in colonial times, which in turn can be traced back through the French civil code to Roman law. New legislation has been introduced in recent years in a number of areas including limited liability, companies, foreign investment, specialised industries, taxation, bankruptcy, corporate governance and consumer protection.

The concept of negligence or fault is accepted in Indonesia but that of strict liability is not. The notion of punitive damages is not recognised. Following the Dutch civil law tradition, Indonesian courts do not apply the principle of precedent.

The time bar for civil cases is 30 years from the date of an occurrence with a few exceptions such as commercial papers (five years) and lawyers' fees (two years). The time bar for the administrative court varies from 19 days to 12 months. Appeals in most instances must be made within 14 days of a judgement being passed. Many insurers adopt a proactive stance on settling losses, rather than keeping potential outstanding losses on their books for a lengthy period.

Litigiousness

Indonesians are not litigious, as is demonstrated by the low level of awards and the limited demand for liability insurance. The legal process can be difficult and unpredictable, and few claimants choose to bring cases to court.

Access to the Courts

Expense, distance, poverty, lack of education and cultural barriers are just some of the reasons why access to the courts is difficult for many Indonesians. Even those with the necessary resources may be discouraged by corruption and the long delays in cases being heard.

Changes designed to neutralise some of the factors affecting corruption have been put into place and are said to be having some effect. Judicial salaries were raised in 2006, and, as a result of an IMF requirement, cases heard in the commercial court are now reported in writing. Evidence emerging since 2006 suggests that these changes have only had a limited effect.

Court Procedure

The court system consists of three tiers: the district courts, as courts of first instance; the high court, as court of appeal; and the Supreme Court. There are also a number of chambers at the district court level to handle specific types of case, such as the commercial court, which deals with matters relating to bankruptcy and commercial debt. Cases are normally presided over by a panel of three judges, who review and decide all questions of fact and law. There is no jury system and no discovery procedure: verbal arguments rarely take place, and disputing parties are expected to produce their own evidence. The courts have only limited powers to award costs to the successful party, though they usually do so in relation to the relatively minimal aspect of trial costs. Each party is, however, primarily liable to pay its own legal costs including lawyers' and expert witness fees. This situation has a deterrent effect on litigation by aggrieved claimants, and given the characteristics of the system, many lawyers strongly advise their clients to seek an out-of-court settlement.

Indonesia has ratified the 1958 *New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards*, but only relating to relationships defined as "commercial" under Indonesian law, and only on the basis of reciprocity. An international arbitration award may only be enforced in Indonesia by obtaining an order from the Central Jakarta district court.

For further details regarding alternative dispute resolution, please refer to the Consumer Dispute Resolution heading within the Supervision and Control section of this report.

There is no insurance ombudsman in Indonesia, although a government ombudsman has been appointed but solely with the purpose of investigating complaints related to state organisations.

Assessment of Compensation

Few cases reach court due to the long processes involved in arriving at judgements. Civil cases often take more than six years to complete. Substantive remedies include financial compensation for material or non-material damage, but Indonesian law does not provide for the award of punitive damages.

Mainly for reasons of delay and costs, third party motor accidents rarely proceed to court. The injured party is unlikely to be able to afford to pay the legal costs and both the injured party and the insurer are usually happy to settle out of court. It is rare for death or permanent disability claims to exceed the local equivalent of USD 5,000 and many are settled for considerably less. Anecdotal evidence suggests that there have been few increases in awards in recent years. Injury claims are often confined to the reimbursement of medical expenses incurred.

The main source of liability claims is said to be hotels catering for foreign visitors, particularly those from North America and Europe and usually insured by joint venture companies. Even in these circumstances local settlements do not often exceed the equivalent of USD 5,000.

Under Indonesia's *Civil Procedural Code*, appeal procedures are not restricted by any monetary amount, affording the parties to any dispute the ability to pursue matters to the Supreme Court level, if they so desire.

In principle foreign judgements are not recognised or enforceable in Indonesia. A successful foreign judgement creditor is therefore obliged to file a new action in the Indonesian courts and to re-litigate the matter on its merits within the confines of Indonesian law. Once a judgement is obtained in the Indonesian courts it can then be enforced in Indonesia.

Historical Development

History

19th c	Insurance was introduced into the East Indies by agents of Dutch and British insurers.
1946	The Association of Miscellaneous Insurance Companies was formed.
1953	The Reinsurance Company of Indonesia (Maskapai Reasuransi Indonesia) was formed.
1956	The first all-Indonesian congress of national insurance companies convened.
1964	A system of presidential decrees regulating the insurance industry was introduced.
1967	The Insurance Council of Indonesia was re-established and opened its membership to all companies in the insurance sector.
1978	The insurance brokers' association was incorporated.
1992	*Insurance Law No 2* regulating the insurance industry was enacted.
2002	The non-life insurance association, Asosiasi Asuransi Umum Indonesia (AAUI) was established as a member of Dewan Asuransi Indonesia (DAI).
2004	Several decrees were introduced relating to fit and proper tests, licensing and qualifications of agents and compulsory domestic reinsurance treaties.
2005	Insurance market supervision was transferred from the Ministry of Finance to the Capital Markets and Financial Institutions Supervisory Agency (BAPEPAM). A decree imposing minimum and maximum retentions and minimum local treaty reinsurance cessions came into force.
2007	Benchmark minimum premium rates for motor material damage were introduced. Companies were given the option of creating their own motor rating tariffs from the last five years' experience, to be approved by the supervisory authority.
2008	*Government Regulation No 39/2008* increased the minimum paid-up capital (or equity) of insurers and reinsurers to be met in three stages, subsequently extended to 31 December 2010, 31 December 2012 and 31 December 2014.
2013	A new Financial Services Authority, the Otoritas Jasa Keuangan (OJK / the regulator) took over the regulation and supervision of banks (from Bank Indonesia) from 31 December 2013 and took over the responsibilities of BAPEPAM on 1 January 2013.
	OJK Circular No SE-06/D.05/2013 mandated new premium rate tariffs and conditions in respect of property (including business interruption) insurance and new minimum and maximum tariffs in respect of motor vehicle insurance.
2014	*Law No 40/2014 on Insurance* known as the *New Insurance Law* became effective from 23 October. *Law No 40/2014* revoked the *Law of the Republic of Indonesia No 2/1992* in its entirety.
2015	*Regulation No 14/POJK.05/2015* and *Circular Letter No 31/SEOJK.05/2015* came into effect on 1 January 2016, setting out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession.
2016 and 2017	The regulator completed the process of establishing implementing regulations to *Law No 40/2014* through a series of regulations and circulars.
2018	*Government Regulation No 14/2018 on Foreign Ownership of Insurance Companies* confirmed the maximum percentage of foreign ownership of insurance companies at the existing threshold of 80%, with some grandfathering provisions.

2019 *Ministry of Trade Regulation No 82/2017* (as amended) requires exports of crude palm oil and coal as well as imports of rice and other imports for government procurement (if transported by sea) to be insured with a locally licensed insurer or a consortium of locally licensed insurers authorised by the Ministry of Trade. The new insurance requirements took effect on 1 February 2019, with a one-month transition period for compliance. Following reports of significant export delays caused by compliance checks, it was announced that the transition period will be extended until 31 May 2019.

The Market Today

Summary and Trends

==

Update April 2020

The COVID-19 pandemic is expected to have a significant effect on the majority of insurance markets around the world, not limited to a major decline in the financial markets and an expected upsurge in claims related to travel, liability, workers' compensation and business interruption (although most standard policies exclude infectious diseases). The full impact of the pandemic will not be known for some time.

On 20 January 2020 *Regulation No 3/2020* came into force, amending *Regulation No 14/2018 on Foreign Ownership of Insurance Companies.* The new regulation relaxed and clarified certain aspects of the rules surrounding capital increases for unlisted companies which had more than 80% foreign ownership at the time of entry into effect of the regulation. *Regulation No 3/2020* permits such companies to maintain the current percentage of foreign ownership and also clarifies that the same rules will apply to any sharia companies set up by such insurers with sharia units.

In September 2019 the Ministry of State-Owned Enterprises (Kementerian Badan Usaha Milik Negara - BUMN) announced that it had appointed PT Bahana Pembinaan Usaha Indonesia (BPUI) as the holding company of the state-owned insurance companies. In March 2020, the shares of PT Asuransi Jasa Raharja, PT Asuransi Jasa Indonesia and PT Asuransi Kredit Indonesia (Askrindo) were transferred to PT Bahana under *Regulation No 20/2020.*

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it provides a definition of "simple risks" and also exceptions to the rules.

==

The non-life insurance market (excluding PA and health business) grew by 5.9% in 2017, according to the latest available statistics. If PA and health business is included the overall growth rate in 2017 was 6.3%. The major classes of business in 2017 were property and motor representing, respectively 26.7% and 28.9% of the total non-life market gross premium income including PA and health business. Current indications for 2018 are that overall non-life (excluding PA and health) insurance market growth is likely to be in the region of 10%.

The year 2018 was a particularly bad one for earthquakes and tsunamis, with three significant events together causing over 3,200 deaths and insured losses estimated at more than IDR 25trn (USD 1.73bn).

The market was also hit by the loss of a Lion Air Boeing 737 which crashed into the Java Sea after taking off from Jakarta on 23 October 2018. All 189 passengers and crew were killed and according to some reports, the total cost to the insurance market was expected to be as high as USD 100mn, of which USD 60mn related to the hull.

The impact of the government's 2015 requirement for the country to retain greater volumes of gross premium income in the local market is reflected in the statistics for 2016 and 2017, which show that local inwards gross premium income to the country's major professional reinsurers grew by 90.6% and 37% respectively in those years. A move to further increase the local insurance and reinsurance market's retentions in Indonesian non-life insurance business would appear to be unlikely in the short term as the authorities wait to see the proven effects of changes made in 2015.

Regulation No 14/2018 on Foreign Ownership of Insurance Companies, which came into force on 18 April 2018, maintained the maximum of 80% foreign ownership in a joint venture operation with Indonesian shareholders, although this limitation does not apply to publicly listed insurance companies or to insurance companies with more than 80% foreign ownership at the time *Regulation No 14/2018* was issued.

Since at least 2017 the government has been considering the formation of one or more state-owned insurance holding companies, with a view to enhancing their ability to raise capital and achieve greater operational efficiency, particularly in terms of reducing the amount of business ceded to foreign reinsurers. In February 2019 it was reported that the state-owned insurer PT Asuransi Jasa Indonesia (Jasindo) was to be the lead company in the setting up of a single holding company for a group of nine companies which would include the existing state-owned PT Asuransi Kredit Indonesia (Askrindo), PT Reasuransi Nasional Indonesia and PT Reasuransi Indonesia Utama (Indonesia Re).

In October 2018 the finance minister announced the government's intention to introduce a natural disaster risk-financing scheme in 2019 to deal with the impact of natural catastrophes. As part of this strategy, the government intends to start insuring its own buildings as from 2019. The initial proposal is that these risks should be covered by a consortium of insurers and managed by PT Asuransi Jasa Indonesia (Jasindo). In February 2019 the General Insurance Association of Indonesia (AAUI) announced that the consortium was still in the process of being formed.

Given the high number of insurers relative to the size of the market, it is not surprising that the direct insurance market has remained highly competitive. Although the trend of rising commission ratios appears to have been stemmed in 2017, it is believed that many companies are disguising incentive payments under the heading of general expenses, for which the ratio continues to increase. The deterioration in technical profitability in 2017 largely reflects the rising expense ratios, with market sources suggesting that over 30 companies made an underwriting loss in that year and with little sign of improvement in 2018.

Ministry of Trade Regulation No 82/2017 (as amended) contains a requirement to insure exports of crude palm oil and coal as well as imports of rice and other imports for government procurement (if transported by sea) with a locally licensed insurer or a consortium of locally licensed insurers authorised by the Ministry of Trade. The new insurance requirements took effect on 1 February 2019, with a one-month transition period for compliance. Following reports of significant export delays caused by compliance checks, it was announced that the transition period will be extended until 31 May 2019.

Market Size

According to Axco Global Statistics, in 2017 Indonesia was ranked as the 30th largest insurance market in the world. The non-life market ranked at number 34 and the PA and health insurance market at number 39.

The total market size in 2017 was broken down as follows:

	Life	Non-Life	Personal Accident & Health	Total Market
Premium in IDR mn	163,860,452.50	54,481,999.00	14,345,575.70	**232,688,027.20**
Premium in USD mn	12,245.91	4,071.64	1,072.10	**17,389.65**
% of total market	70.42	23.41	6.17	**100.00**

Note: due to rounding some totals may not equal the breakdown above.
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies
New statistical information may have been included in the appendices.

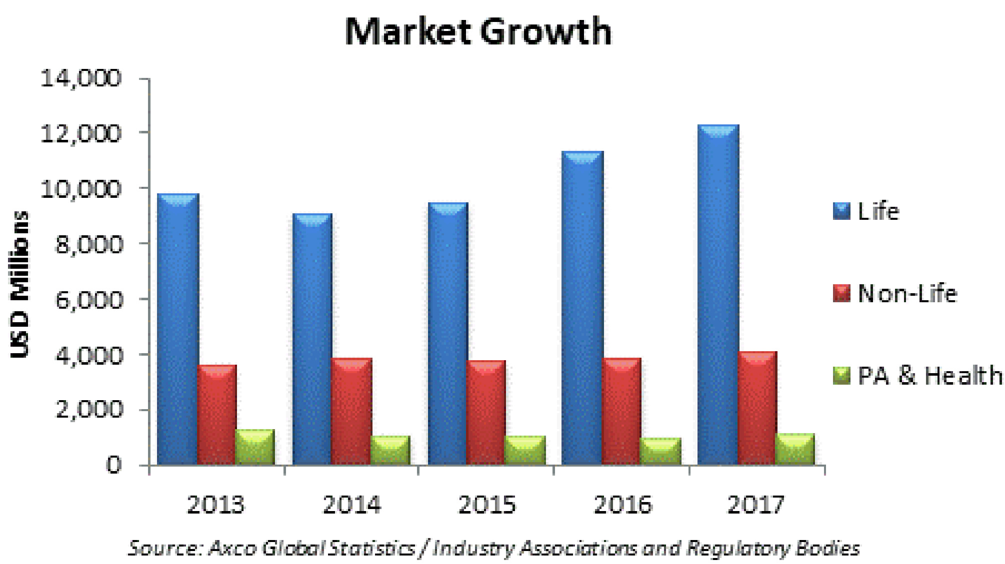
The following table compares the annual growth rates of non-life premium income in local currency with the nominal GDP growth and inflation rates over the last available five years.

	2013	2014	2015	2016	2017
Premium growth (%)	18.26	16.02	10.51	1.25	6.32
Nominal GDP growth (%)	10.80	10.72	9.05	7.64	9.53
Inflation rate (%)	6.41	6.39	6.36	3.53	3.81

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies
New statistical information may have been included in the appendices.

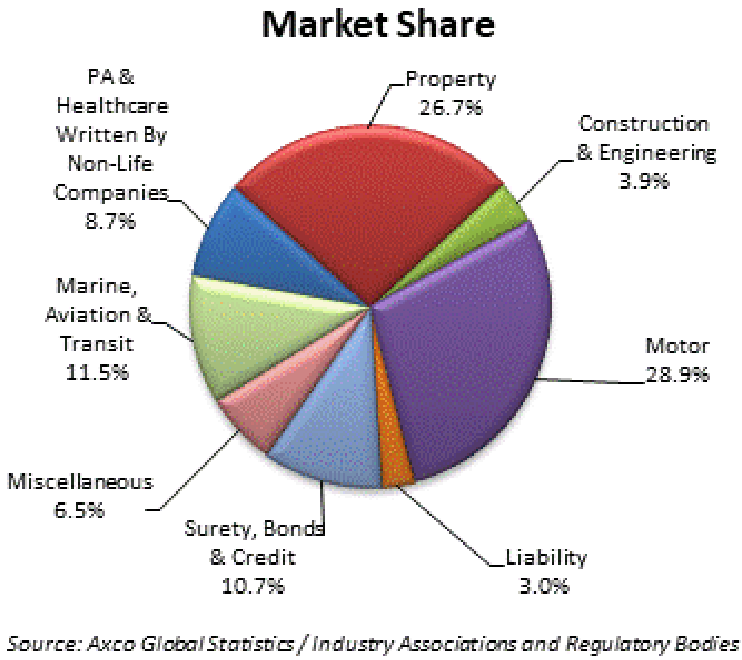
It will be observed that in 2016 and 2017 competitive pressures caused non-life premium growth to fall below nominal GDP growth.

Growth in the non-life, life, and personal accident (PA) and healthcare markets is shown below.



New statistical information may have been included in the appendices.

The division of the market in 2017 is shown below.



Note: due to rounding the breakdown above may not equal 100%.
New statistical information may have been included in the appendices

The graph indicates that property and motor business (which are both subject to tariff) are the predominant classes of non-life business.

Market Penetration

Market premium as a percentage of GDP and expenditure on a per capita basis expressed in USD are shown below for the year 2017; comparisons are made with Malaysia, Philippines and Singapore.

	Life including riders		Non-life (P&C)		Personal Accident & Healthcare*		Total	
	%	per capita	%	per capita	%	per capita	%	per capita
Indonesia	**1.21**	**46.39**	**0.40**	**15.42**	**0.11**	**4.06**	**1.71**	**65.87**
Malaysia	2.75	273.67	1.14	113.38	0.17	16.43	**4.05**	**403.48**
Philippines	1.29	38.29	0.55	16.34	n/a	n/a	**1.83**	**54.63**
Singapore	6.62	3,755.31	0.70	399.95	0.94	535.79	**8.27**	**4,691.04**

*Note: * PA & Healthcare data represents PA & Healthcare business other than life riders, whether written by life, non-life or specialist healthcare insurers. Details of the split of such business (where available) are included in Appendix 1.*
Due to rounding some totals may not equal the breakdown above.
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

It will be observed that non-life insurance penetration in Indonesia is similar to the Philippines (which is probably one of the more analogous countries to Indonesia in Asia) and considerably lower than in Malaysia and Singapore. The table, along with other anecdotal evidence, suggests that there is ample room for future growth in the Indonesian non-life market.

Market Participants

Summary and Trends

==

Update April 2020

In September 2019 the Ministry of State-Owned Enterprises (Kementerian Badan Usaha Milik Negara - BUMN) announced that it had appointed PT Bahana Pembinaan Usaha Indonesia (BPUI) as the holding company of the state-owned insurance companies. In March 2020, the shares of PT Asuransi Jasa Raharja, PT Asuransi Jasa Indonesia and PT Asuransi Kredit Indonesia (Askrindo) were transferred to PT Bahana under *Regulation No 20/2020.*

In May 2019 it was announced that Singapore-based Great Eastern Holdings (Great Eastern) had completed the acquisition of PT QBE General Insurance Indonesia from the Australian QBE group. The company was subsequently renamed PT Great Eastern General Insurance Indonesia.

==

According to the latest information available from the regulator there were 73 non-life companies in the market in 2017 and in addition there were six reinsurance companies. More recently, a new non-life licence was issued in January 2019 to PT Asuransi Total Bersama, owned by a group of local investors.

There is no particular evidence that non-life companies are being absorbed into broader financial service groups. There are both foreign and domestic groups in the market. Market sources suggest that there are several family-owned conglomerates seeking to cash in on foreign interest by selling their insurance subsidiaries to the highest bidder.

Since at least 2017 the government has been considering the formation of one or more state-owned insurance holding companies, with a view to enhancing their ability to raise capital and achieve greater operational efficiency, particularly in terms of reducing the amount of business ceded to foreign reinsurers. In February 2019 it was reported that the state-owned insurer PT Asuransi Jasa Indonesia (Jasindo) was to be the lead company in the setting up of a single holding company for a group of nine companies which would include the existing state-owned PT Asuransi Kredit Indonesia (Askrindo), PT Reasuransi Nasional Indonesia and PT Reasuransi Indonesia Utama (Indonesia Re).

Privatisation/Deregulation

PT Asuransi Jasa Indonesia (Jasindo) is owned 100% by the state. There were moves to privatise the company between 2010 and 2012 but these did not lead to any changes. Asuransi Jasa Indonesia has a small holding in the Allianz Utama Indonesia joint venture company.

State Insurance Companies

==

Update April 2020

In September 2019 the Ministry of State-Owned Enterprises (Kementerian Badan Usaha Milik Negara - BUMN) announced that it had appointed PT Bahana Pembinaan Usaha Indonesia (BPUI) as the holding company of the state-owned insurance companies. In March 2020, the shares of PT Asuransi Jasa Raharja, PT Asuransi Jasa Indonesia and PT Asuransi Kredit Indonesia (Askrindo) were transferred to PT Bahana under *Regulation No 20/2020.*

==

There were two state-owned insurance companies in the market when this report was in preparation as follows:

- PT Asuransi Jasa Indonesia (Jasindo)
- PT Asuransi Kredit Indonesia (Askrindo), which is owned by the Ministry of Finance and Bank Indonesia (central bank) and writes all classes of domestic credit insurance, including trade credit, surety and customs bonds and credit/surety reinsurance. The company also writes general classes of non-life insurance business.

PT Reasuransi Indonesia Utama (Indonesia Re), the largest local reinsurance company, is owned by the state, as is PT Reasuransi Nasional Indonesia, which is a subsidiary of Askrindo.

Since at least 2017 the government has been considering the formation of one or more state-owned insurance holding companies, with a view to enhancing their ability to raise capital and achieve greater operational efficiency, particularly in terms of reducing the amount of business ceded to foreign reinsurers. In February 2019 it was reported that the state-owned insurer PT Asuransi Jasa Indonesia (Jasindo) was to be the lead company in the setting up of a single holding company for a group of nine companies which would include the existing state-owned PT Asuransi Kredit Indonesia (Askrindo), PT Reasuransi Nasional Indonesia and PT Reasuransi Indonesia Utama (Indonesia Re).

Market Structure

==

Update April 2020

In September 2019 the Ministry of State-Owned Enterprises (Kementerian Badan Usaha Milik Negara - BUMN) announced that it had appointed PT Bahana Pembinaan Usaha Indonesia (BPUI) as the holding company of the state-owned insurance companies. In March 2020, the shares of PT Asuransi Jasa Raharja, PT Asuransi Jasa Indonesia and PT Asuransi Kredit Indonesia (Askrindo) were transferred to PT Bahana under *Regulation No 20/2020.*

==

Many domestic companies are either owned by or have links with banks and large business organisations. The international joint venture companies also have strategic links with banks, domestic insurance companies and conglomerates. A particular feature of the Indonesian insurance market is the involvement of domestic insurance companies in separate operations, as shareholders of joint venture companies. This does not necessarily lead to the development of synergy between joint ventures and the domestic insurance companies, however, as they often operate in different segments of the market with distinct business philosophies and strategies. Another feature evident in recent years has been that some well-established non-life insurers within banking groups and commercial conglomerates have initiated life insurance companies in conjunction with a foreign joint venture partner.

The following table shows the largest groups and their member companies.

Group	Member companies		
	Life insurers	Non-life insurers	Significant other group companies
Sinar Mas Group	Jiwa Sinar Mas MSIG*	PT Asuransi Sinar Mas	PT Bank Sinar Mas (Bank Sinarmas), PT Sinar Mas Sukuritas, PT Sinarmas Multifinance
Astra International Group	PT Astra Aviva Life*	PT Asuransi Astra Buana	PT Bank Permata, PT Astra Sedaya Finance, PT Toyota Astra Financial Services, PT Federal international Finance, PT Surya Artha Nusanthara Finance, PT Komatsu Astra Finance, PT Toyota Astra Motor, PT Astra Daihatsu Motor, PT Isuzu Astra Motor, PT Astra Honda Motor
Jasindo	BTN Jasindo*	PT Asuransi Jasa Indonesia (Jasindo)	n/a
PT Asuransi Central Asia	PT AJ Central Asia Raya (CAR)	PT Asuransi Central Asia	Asia International Insurance Network
Pertamina Group	Asuransi Tugu Mandiri	PT Tugu Pratama	PT Tugu Reasuransi Indonesia (Tugu Re)
Bank Danamon		PT Asuransi Adira Dinamika	Adira Dinamika Multifinance, Adira Kredit

*Note: * joint venture*

Source: Market sources

It may be noted that many of the leading non-life insurance companies operate sharia-compliant units. Islamic insurance still represents, however, a small proportion of the non-life market, currently estimated at less than 5% of the total. In October 2018 the regulator, the OJK, reported that the majority of the 50 insurers with sharia units or windows, including 25 such non-life insurers, had not yet begun the process of setting up separate sharia companies. *OJK Regulation No 67/POJK.05/2016, on the Licensing and Institution of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies and Sharia Reinsurance Companies* requires this to be completed by 2024.

Brief descriptions of the leading 10 non-life companies in 2017 are given below. The non-life market shares of the top three companies are very similar. Otherwise the non-life market is characterised by a large number of players with just one company having a market share marginally exceeding 9%.

Sinar Mas Group has four main business divisions: agriculture, real estate, pulp and paper and financial services. Asia Pulp and Paper (subsidiary) is one of the world's leading companies in pulp and paper and the largest in Asia (outside Japan). Sinar Mas was the largest non-life insurer in the market in 2017 with a market share of 9.03%.

PT Asuransi Jasa Indonesia (Jasindo) which is state-owned, was the second largest company in the non-life market in 2017 with a market share of 8.43%: the company writes all classes of non-life business.

Astra Buana is a subsidiary of Astra International, a public listed company which has seven business divisions: automotive, heavy equipment, financial services, agribusiness, wood-based, IT and infrastructure. The leading shareholder is the Singapore-based Cycle & Carriage Company. Astra is the leading automotive company in Indonesia and assembles passenger and commercial vehicles for Toyota, cars for Daihatsu and Isuzu and motorcycles for Honda. In 2017 Astra was the third largest non-life insurer in the market with a non-life market share of 6.98%. In 2014 Astra entered a life insurance joint venture with Aviva.

PT Asuransi Kredit Indonesia (Askrindo) is owned by the Ministry of Finance and Bank Indonesia (central bank), and writes all classes of domestic credit insurance, including trade credit, surety and customs bonds and credit/surety reinsurance. The company also writes general classes of non-life insurance business and, through its subsidiary PT Reasuransi Nasional Indonesia, life, non-life and sharia reinsurance. In 2017 this company had a non-life market share of 5.85%.

Central Asia is a non-life company specialising in motor and personal lines as well as a range of industrial and commercial property, casualty and specialist lines such as D&O and electronic equipment insurance. The company is part of an association of five insurance companies called Asia Insurance International, comprising Asia Insurance Co Ltd of Hong Kong, The Asia Insurance Co Ltd of Singapore, Bangkok Insurance Public Co Ltd of Thailand, Asia Insurance (Cambodia) Plc and PT Central Asia of Indonesia. The association is based on cross-equity shareholdings. In 2017 Central Asia had a non-life market share of 4.39%.

Asuransi Bangun Askrida was established in 1989 and writes motor, personal accident, marine hull, marine cargo, construction, liability, surety and miscellaneous accident business. In 2017 the company had a non-life market share of 4.32%.

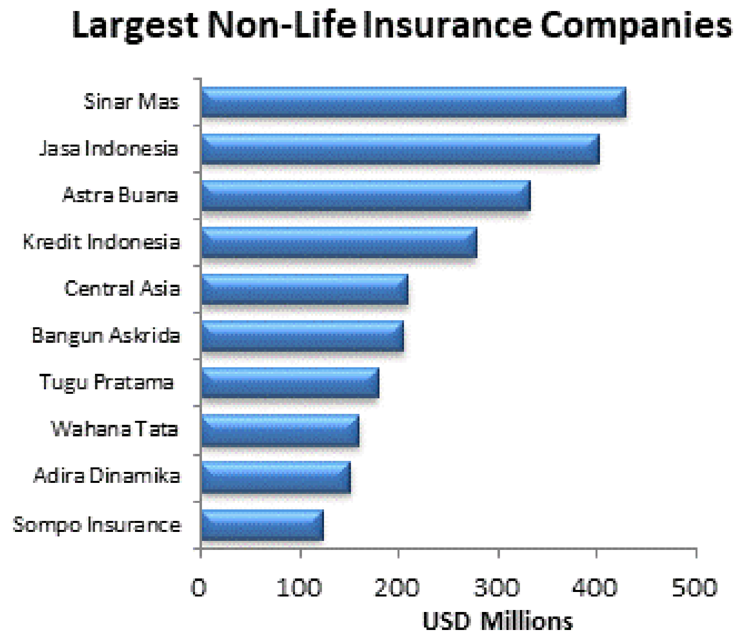
Tugu Pratama's major shareholder is Pertamina which also has a majority interest in Tugu Mandiri Life. Bank Mandiri is the other major shareholder. Tugu is especially strong in oil and gas business, reflecting its parent's principal activities. Tugu also owns Tugu Reasuransi Indonesia (Tugu Re). In 2017 Tugu Pratama was the seventh largest non-life company in the market with a market share of 3.77%.

Wahana Tata is a non-life insurance company specialising principally in corporate insurances, being wholly Indonesian owned. In 2017 it had a non-life market share of 3.36%.

Adira Dinamika, part of the Bank Danamon group, concentrates on motor business and has developed its distribution systems through motor dealers, brokers, leasing companies, agents and workshops. In 2017 this company had a non-life market share of 3.18%. In September 2018 it was announced that the Switzerland-based Zurich Insurance Group had entered into an agreement to acquire 80% of the company, making it the largest foreign non-life insurer.

PT Sompo Insurance Indonesia was formed following the merger of the Japanese parent companies of PT Asuransi Nipponkoa Indonesia and Sompo Japan Insurance Indonesia. The company writes most general classes of non-life insurance business and in 2017 had a non-life market share of 2.57%.

The leading non-life insurance companies in 2017 ranked by premium income are shown below.



Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

New statistical information may have been included in the appendices.

Market Concentration

The aggregate market share (%) of the top five and top 10 non-life companies over the last available five years is shown below.

Market segment	2013	2014	2015	2016	2017
Top 5 companies	35.36	35.44	36.16	35.10	34.69
Top 10 companies	53.09	54.13	54.51	52.06	51.89

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies
New statistical information may have been included in the appendices.

Company Changes

==

Update April 2020

In September 2019 the Ministry of State-Owned Enterprises (Kementerian Badan Usaha Milik Negara - BUMN) announced that it had appointed PT Bahana Pembinaan Usaha Indonesia (BPUI) as the holding company of the state-owned insurance companies. In March 2020, the shares of PT Asuransi Jasa Raharja, PT Asuransi Jasa Indonesia and PT Asuransi Kredit Indonesia (Askrindo) were transferred to PT Bahana under *Regulation No 20/2020.*

In May 2019 it was announced that Singapore-based Great Eastern Holdings (Great Eastern) had completed the acquisition of PT QBE General Insurance Indonesia from the Australian QBE group. The company was subsequently renamed PT Great Eastern General Insurance Indonesia.

===

In June 2018 the Japan-based Tokio Marine group announced that it had agreed to acquire Insurance Australia Group's 80% interest in PT Asuransi Parolamas, the smallest non-life insurer in the market, thereby adding to its existing presence via PT Asuransi Tokio Marine Indonesia.

In September 2018 it was announced that the Switzerland-based Zurich Insurance Group had entered into an agreement to acquire 80% of Adira Dinamika, making it the largest foreign non-life insurer.

In December 2018 Singapore-based Great Eastern Holdings (Great Eastern) announced that it had agreed to acquire 100% of the shares in PT QBE General Insurance Indonesia from the Australian QBE group. Subsequently, Great Eastern announced in February 2019 that it had agreed to divest a 5% interest in its Indonesian acquisition to the PT Suryasono Sentosa group in order to comply with local shareholding requirements.

In July 2017 the regulator, the OJK, revoked the licence of PT Asuransi Raya following a series of sanctions it had imposed on the company.

Total Assets

Total assets for the non-life market over the last available five years are shown below.

	2013	2014	2015	2016	2017
Total assets (IDR mn)	86,858,028.00	111,114,957.00	120,213,666.00	122,365,376.00	128,705,645.00
Growth (%)	25.29	27.93	8.19	1.79	5.18

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Following solid growth rates in the local non-life market over the observed period, the growth in assets has followed suit.

Technical Reserves

Technical reserves for the non-life market over the last available five years are shown below.

	2013	2014	2015	2016	2017
Technical reserves (IDR mn)	38,626,414.00	51,267,460.00	54,763,336.00	51,985,874.00	50,610,619.00
% of gross written premium	89.34	102.20	98.79	92.62	84.81

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The growth rate in the quantum of the non-life market's technical reserve base was substantial and continuous over the period up to and including 2015. *Regulation of the Minister of Finance No 53/PMK.010/2012* strengthened reserve regulations significantly and this is thought to have accounted for technical reserves constituting increased percentages of gross premium income between 2012 and 2015. *Circular 27/SEOJK.O5/2017,* issued in conjunction with *OJK Regulation 71/POJK.05/2016* further strengthened reserve regulations, although this does not appear to be reflected in the apparent weakening since 2014, for which the reasons are not known. Current regulations require companies to have their annual financial statements reviewed by the company's actuary.

Expense Ratios

The following table shows the ratio of total commissions against direct written premiums by major class over the last available five years.

Line of business	2013	2014	2015	2016	2017
Property	11.03	9.66	9.58	8.86	8.27
Construction and engineering	9.82	9.61	10.40	9.13	9.90
Motor	13.82	17.18	21.12	22.71	22.65
Liability	6.98	7.02	9.25	11.22	8.95
Surety, bonds and credit	12.47	16.01	14.73	18.74	15.14
Marine, aviation and transit	7.47	8.08	8.17	7.73	8.61
Personal accident and healthcare	16.06	0.12	0.05	13.04	13.46
Total non-life market	**11.63**	**12.60**	**13.97**	**14.31**	**14.04**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The following table shows the expense ratio (total commissions and expenses against direct written premiums) for the overall market over the last available five years.

	2013	2014	2015	2016	2017
Expense ratio (%)	32.02	33.21	35.48	39.05	40.74

Total expense and commission ratios have been increasing over the period: this trend is thought to be have been caused by competitive pressures in the market. The trend of rising commission ratios appears to have been stemmed in 2017 following the imposition by the regulator, the OJK, of maximum commissions for tariff-rated property and motor business at 15% for property and 25% for motor, in accordance with *OJK Circular Letter No 6/2017*. These are maximum commissions and in specific cases they may be lower. Although the insurance association, the AAUI, is understood to have advised its members against the use of "excessive" (undefined) additional incentives, it is believed that many companies are disguising incentive payments under the heading of general expenses, for which the ratio continues to increase.

Profitability

Underwriting results and pre-tax profits/losses for the non-life market over the last available five years are shown below.

	2013	2014	2015	2016	2017
Underwriting profit/loss (IDR mn)	1,087,683.00	2,060,141.00	2,095,959.00	2,314,245.00	1,739,212.00
% of net earned premium	3.91	5.92	5.37	5.54	3.88
Pre-tax profit/loss (IDR mn)	5,982,077.00	6,387,197.00	7,502,829.00	6,856,040.00	6,770,458.00
% of net earned premium	21.49	18.34	19.21	16.41	15.11

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The deterioration in technical profitability in 2017 largely reflects the rising expense ratios, with market sources suggesting that over 30 companies made an underwriting loss in that year, with little sign of improvement in 2018.

Retentions

The following table shows the retention ratios (net written premiums against gross written premiums) by major class over the last available five years.

Line of business	2013	2014	2015	2016	2017
Property	24.05	29.24	29.81	30.19	30.46
Construction and engineering	25.05	33.43	32.01	32.51	31.05
Motor	95.60	95.94	96.50	96.47	94.79
Liability	40.19	35.82	37.66	47.35	33.31
Surety, bonds and credit	86.25	83.40	84.09	77.47	92.12
Marine, aviation and transit	28.45	33.62	31.98	34.59	33.55
Personal accident and healthcare	86.85	88.03	87.17	82.66	77.00
Total non-life market	**57.99**	**59.05**	**59.58**	**55.67**	**57.15**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Overall retention levels have not varied greatly over the five-year period, although there are some marked variations in some classes of business.

Pools

Indonesia has a number of pools, which are described below.

- Priority property quota share of 2.5% managed by Reasuransi Internasional Indonesia (ReINDO) now part of Indonesia Re.
- Property Pool (Konsorsium Asuransi Risiko Khusus - KARK) for pasars (markets) administered by Tugu Re. The pool handles property risks in respect of markets, which were and still are considered by insurers and reinsurers to be undesirable risks, and which were at the time of establishment of KARK prone to very heavy loss experience. It is reported that, subsequent to establishment, the pool has produced consistently satisfactory results for its participants and its reinsurers.

- Pool for Custom Bonds (Pool Kerjasama Custom Bond Indonesia - Pool KCBI) administered by ReINDO now part of Indonesia Re.
- Oil and Gas Pool (Konsorsium Pengembangan Industri Asuransi Indonesia - Migas - KPIAI). This pool had seven members in 2018, led by Tugu Pratama and Jasindo. Reinsurance is placed mainly in Asia and at Lloyd's.
- Terrorism Pool managed by Maskapai Reasuransi Indonesia (MAREIN) has nearly 50 pool members. Risks are underwritten by a technical committee using the London scale as a guide.
- Crop Pool for standing timber - little or no activity.

Membership of most of the pools is voluntary, and varies depending on the type of business written. It is understood that membership of all but the obligatory reinsurance pools is made up of domestic insurance companies.

Circulars SE 6087/LK/2001 of 28 December 2001 and *SE 1505/LK 2002* issued by the Ministry of Finance established an earthquake pool which commenced on 1 January 2003. The pool was subsequently transformed into a public liability company, Asuransi Maipark and a compulsory cession was introduced. The current compulsory earthquake cession is 25% of the total sum insured subject to a maximum of IDR 60bn (USD 4.15mn) any one risk. A compulsory earthquake tariff applies.

Insurance Association

The insurance association (Dewan Asuransi Indonesia - DAI) represents the interests of life and non-life insurance companies. The association was established in 1957 and acts as the interface between insurers, government and the public. It also acts in partnership with the regulator in its day-to-day supervision of the insurance market.

DAI consists of four associations:

- Indonesian Life Insurance Association - Asosiasi Asuransi Jiwa Indonesia (AAJI)
- General Insurance Association of Indonesia - Asosiasi Asuransi Umum Indonesia (AAUI)
- Indonesian Social Insurance Association - Asosiasi Asuransi Jaminan Sosial Indonesia (AAJSI)
- Islamic Insurance Association of Indonesia - Asosiasi Asuransi Syariah Indonesia (AASI).

Insurance companies are members of one or other of the associations, each of which is a member of DAI.

Companies are required to pay an annual levy to their specific association plus a fee to DAI based on a sliding scale according to their written premium, subject to an overall annual maximum.

The AAUI, established in June 2002, has as its overall mission "to serve all members in needs and interests" with a leadership style orientated towards a balance between public interest and members' interests. It is the non-life insurance association and all companies writing non-life are members. The current executive director is Mr Dody Dalimunthe.

Organisational goals are for the AAUI to be a:

- vehicle and avenue of aspiration for members
- communication and consulting vehicle for members
- means to enhance members' professionalism
- body representing the interests of members in national and international forums
- government partner in developing the general insurance industry
- formal information centre for all general insurance industry activities.

The association is organised into five divisions - technical, membership, legal, regulatory and claims, statistics and general affairs.

Local Reinsurance Market

Summary and Trends

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.*This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" and also exceptions to the rules.

==

In general Indonesian insurance companies (from the largest to the smallest) have significant reinsurance needs, especially considering the acute natural catastrophe hazards present in the country.

Insurance companies are required to cede 2.5% to Reasuransi International Indonesia (ReINDO, now part of Indonesia Re) on all property risks, under the government central statistics department (BPPDAN) scheme, which ReINDO in turn retrocedes to participating insurance companies after deducting its own retention.

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016, inter alia, set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. These regulations, which replaced previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*, require non-life insurance companies to obtain reinsurance for each line of business; for coverage that is classed as "simple risk" it must be obtained from at least two domestic reinsurance companies, except where the risk cannot be covered in the domestic market. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The regulator has confirmed that, in the context of the 2015 regulations, foreign reinsurance brokers are allowed to continue to work directly with Indonesian insurance and reinsurance ceding companies.

The impact of the 2015 regulations to concentrate significantly more premium income (and exposure) in the local market is reflected in the statistics for 2016 and 2017, which show that local inwards gross premium income to the country's major professional reinsurers grew by 90.6% and 37% respectively in those years, with a consequent effect on local reinsurer requirements to purchase adequate retrocession cover, due to a much greater concentration of accumulated catastrophe exposure in the local reinsurance market. Anecdotal evidence suggests that although these trends indicate potentially profound changes affecting mainly the local reinsurance market, it has been able to deal with them without significant capacity and retrocession placement issues.

In response to the growth opportunities created by *Regulation No 14/POJK.05/2015* and *Circular Letter No 31/SEOJK.05/2015* most of the major reinsurers in the market have been involved in supplementary capital-raising exercises. The most recent was a rights issue by Maskapai Reasuransi Indonesia (MAREIN) in 2017, aimed at raising an additional USD 41mn of capital. Market sources suggest that, even allowing for the setting up of a sixth reinsurer, PT Reasuransi Nusantara Makmur, in 2017, there is still insufficient reinsurance capacity in the local market.

Since at least 2017 the government has been considering the formation of one or more state-owned insurance holding companies, with a view to enhancing their ability to raise capital and achieve greater operational efficiency, particularly in terms of reducing the amount of business ceded to foreign reinsurers. In February 2019 it was reported that the state-owned insurer PT Asuransi Jasa Indonesia (Jasindo) was to be the lead company in the setting up of a single holding company for a group of nine companies which would include the existing state-owned PT Asuransi Kredit Indonesia (Askrindo), PT Reasuransi Nasional Indonesia and PT Reasuransi Indonesia Utama (Indonesia Re).

In April 2017, the compulsory earthquake cession to Asuransi Maipark was increased from 15% to 25% of the total sum insured subject to a maximum of IDR 60bn (USD 4.15mn) any one risk (defined as the total sum insured of all risks at the same location for each insurance company). Unlike previous increases in this cession, this was done by agreement with the insurance association, the AAUI, and not at the direct instigation of the regulator, the OJK.

Local Reinsurance Company Operating Requirements

==

Update November 2019

Reinsurance

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.*This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Operating regulations for reinsurers are generally identical or similar to those applying to insurance companies with a few exceptions such as capital requirements.

The minimum capital/equity requirements for existing reinsurers with effect from 31 December 2014 were as follows (these still apply):

- reinsurance companies (conventional) - IDR 200bn (USD 13.85mn)
- sharia reinsurance companies - IDR 100bn (USD 6.92mn)
- sharia reinsurance units operating within a conventional reinsurance company - IDR 50bn (USD 3.46mn).

In December 2016, however, the regulator issued several implementing regulations for *Law No 40/2014*, including *OJK Regulation No 67/POJK.05/2016, on the Licensing and Institution of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies and Sharia Reinsurance Companies.* The regulation contains increased paid-up capital requirements as follows:

- conventional reinsurance companies - IDR 300bn (USD 20.77mn)
- sharia reinsurance companies - IDR 175bn (USD 12.12mn).

The requirements apply to new companies while existing companies are expected to comply when there is a change of ownership or a transfer of shares to a new shareholder. The regulation also lists the information to be submitted to the OJK in case of change of ownership.

In addition reinsurance companies are required to maintain a guarantee fund of the greater of not less than 20% of the minimum paid-up capital or equity or 1% of net premium plus 0.25% of retrocession premium ceded as prescribed by *Ministry of Finance Regulation No 53/PMK 010/2012* effective from 1 January 2013. *Law No 40/2014* specifies that amounts in this fund must be adjusted in line with the size of the reinsurance business provided that the guarantee fund always exceeds the initial fund set up on establishment of the company. Permitted guarantee fund assets are cash deposits or Indonesian government-issued securities of one year or more in duration. The fund must be held by a custodian bank. The OJK has restricted the ways in which paid-up capital may be increased to cash injections, profit reinvestment, loan conversions and share dividends.

Chapter VI, Article 8 of *Law No 40/2014* lists the procedure to obtain a business licence from the regulator. The requirements are the same for all business licences granted by the regulator to insurance and reinsurance companies (see Company Registration and Operating Requirements - Establishing a Local Company in the Supervision and Control section of this report for details).

According to *Law No 40/2014* every reinsurance company has to appoint at least one "controller". A controller is defined as a party which directly or indirectly has the authority to determine the management and policies of the reinsurance company. The regulator is granted the right to approve or disapprove of a controller's appointment or to appoint a person who is deemed to be more suitable.

A ruling which is already in effect for sharia reinsurance companies requiring separation of investment and risk funds was extended by *Law No 40/2014* to apply to conventional reinsurance companies.

Law No 40/2014 also extended fit and proper test requirements to controllers, members of sharia supervisory boards, actuaries and auditors of insurance and reinsurance companies.

Law No 40/2014 provides that conventional reinsurance companies and sharia reinsurance companies must be members of a mediation body through which they should settle any disputes arising with ceding companies and other participants or any parties entitled to receive reinsurance benefits.

The regulations relating to solvency, reserves and investments for reinsurers are identical to those applying to insurers (see Company Registration and Operating Requirements in the Supervision and Control section of this report for details).

Reinsurance/Retrocession

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations replace previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012.* The regulator has confirmed that, in the context of the 2015 regulations, foreign reinsurance brokers are allowed to continue to work directly with Indonesian insurance and reinsurance ceding companies.

Company Reporting

Requirements for insurance and reinsurance companies are identical. Please see Statutory Returns in the Supervision and Control section of this report for details.

State Reinsurance Company

PT Reasuransi Utama Indonesia (Indonesia Re) is wholly owned by the state and it commenced active operations in October 2016 following a merger with PT Reasuransi Umum Indonesia (the holding company of PT Reasuransi Internasional Indonesia - ReINDO). It is reported that after the merger Indonesia Re had total assets of IDR 6trn (USD 415.42mn) and in 2017 was the second largest reinsurance company in the local market. Indonesia Re also has an Islamic reinsurance subsidiary, Reasuransi Syariah Indonesia.

Since at least 2017 the government has been considering the formation of one or more state-owned insurance holding companies, with a view to enhancing their ability to raise capital and achieve greater operational efficiency, particularly in terms of reducing the amount of business ceded to foreign reinsurers. In February 2019 it was reported that the state-owned insurer PT Asuransi Jasa Indonesia (Jasindo) was to be the lead company in the setting up of a single holding company for a group of nine companies which would include the existing state-owned PT Asuransi Kredit Indonesia (Askrindo), PT Reasuransi Nasional Indonesia and PT Reasuransi Indonesia Utama (Indonesia Re).

In any event Indonesia Re already claims to be the biggest reinsurance company in the ASEAN countries and it is reported to be planning to raise USD 1bn in equity by 2020, thus becoming what it terms "a giant reinsurer".

Local Reinsurance Companies

In addition to the state-owned PT Reasuransi Utama Indonesia (Indonesia Re) Indonesia currently has five private domestic reinsurance companies: PT Reasuransi Nasional Indonesia, Maskapai Reasuransi Indonesia (MAREIN), Reasuransi Tugu, Maipark and PT Reasuransi Nusantara Makmur.

PT Reasuransi Nasional Indonesia is majority owned by PT Asuransi Kredit Indonesia (Askrindo).

MAREIN is in fact the only true private reinsurance company as shareholdings in PT Reasuransi Nasional Indonesia and Tugu Re are linked through their main shareholders to the state.

Tugu Re's major shareholder is Tugu Pratama, which in turn is owned by Pertamina, the state-owned petroleum company.

Maipark is a company specialising in catastrophe reinsurance, including earthquake (also see the Market Participants - Pools heading within the Insurance Market Overview section of this report).

PT Reasuransi Nusantara Makmur is the newest and smallest of the local reinsurers, having been established in July 2017. It is owned by the Sinar Mas conglomerate.

The leading reinsurers and their premium income are shown below.

Company	Premium income 2017 (IDR mn)
PT Reasuransi Nasional Indonesia	5,613,402
PT Reasuransi Indonesia Utama	5,392,500
PT Tugu Reasuransi Indonesia	3,007,567
PT Maskapai Reasuransi Indonesia	1,805,139
PT Reasuransi Maipark Indonesia	300,643

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Domestic reinsurers are not allowed to write any direct insurance business and are thought to have little or no involvement in alternative risk transfer (ART).

Reinsurance Written by Direct Companies

Facultative reinsurance is written by a significant number of direct-writing companies in the market.

International Reinsurance (Inwards)

Indonesia is not a major market for inwards international reinsurance acceptance.

Company Changes

PT Reasuransi Nusantara Makmur is the newest and smallest of the local reinsurers, having been established in July 2017. It is owned by the Sinar Mas conglomerate.

Local Reinsurance Arrangements

Summary and Trends

A trend which has progressively emerged in the market in the last 10 years has been the replacement of previous proportional treaty arrangements by excess of loss coverage. One major broker estimates that less than half of the companies by number in the market now have proportional treaty arrangements in respect of their property reinsurance programmes. Working excess of loss cover has also been progressively replacing proportional treaty placements in the marine cargo and miscellaneous accident classes. Facultative excess of loss cover is not yet particularly popular in this market, however.

Market sources suggest that, even allowing for the setting up of a sixth reinsurer, PT Reasuransi Nusantara Makmur, in 2017, there is still insufficient reinsurance capacity in the local market.

Regulatory Considerations

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations, replace previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*.

The table below sets out the mandatory retention requirements prescribed by *OJK Circular Letter No 31/SEOJK.05/2015*.

Type of Insurance	Equity (IDR)	Minimum per risk retention	Maximum per risk retention
Aviation		0.375% of equity	10% of equity
Satellite		0.075% of equity	10% of equity
Onshore energy	<500bn	1.5% of equity	10% of equity
	>500bn to 1trn	1.125% of equity, minimum IDR 7.5bn	
	>1trn to 2trn	0.75% of equity, minimum IDR 11.25bn	
	>2trn	IDR 15bn	
Offshore energy	<500bn	0.75% of equity	10% of equity
	>500bn to 1trn	0.56% of equity, minimum IDR 3.75bn	
	>1trn to 2trn	0.375% of equity, minimum IDR 5.625bn	

Type of Insurance	Equity (IDR)	Minimum per risk retention	Maximum per risk retention
	>2trn	IDR 7.5bn	
Engineering	<500bn	1.5% of equity	10% of equity
	>500bn to 1trn	1.125% of equity, minimum IDR 7.5bn	
	>1trn to 2trn	0.75% of equity, minimum IDR 11.25bn	
	>2trn	IDR 15bn	
Liability		IDR 750mn	10% of equity
PA and health		IDR 150mn	10% of equity
Credit		IDR 750mn	10% of equity
Surety		IDR 750mn	10% of equity
Miscellaneous		IDR 750mn	10% of equity
Property	<500bn	1.5% of equity	10% of equity
	>500bn to 1trn	1.125% of equity, minimum IDR 7.5bn	
	>1trn to 2trn	0.75% of equity, minimum IDR 11.25bn	
	>2trn	IDR 15bn	
Motor		IDR 150mn	10% of equity
Marine cargo	<500bn	1.5% of equity	10% of equity
	>500bn to 1trn	1.125% of equity, minimum IDR 7.5bn	
	>1trn to 2trn	0.75% of equity, minimum IDR 11.25bn	
	>2trn	IDR 15bn	
Marine hull	<500bn	0.6% of equity	10% of equity
	>500bn to 1trn	0.45% of equity, minimum IDR 3bn	
	>1trn to 2trn	0.3% of equity, minimum IDR 4.5bn	
	>2trn	IDR 6bn	

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The minimum retention limit in respect of the property line of business must be adjusted for bad risks to at least 30% of the minimum stipulated. The definition of a bad risk includes hazardous occupations (chemical, oil, gas, paper leather, rubber, wood bamboo, rattan and motor vehicle repair shops) and risks of third class construction as stipulated in the tariff regulations issued by the OJK.

OJK Circular Letter No 31/SEOJK.05/2015 stipulates that the priority reinsurance in the local market must be a minimum of either 25% (of the automatic reinsurance capacity in case of treaty reinsurance or of the sum insured in case of facultative reinsurance) or the amounts stated below, whichever is the higher. Amounts stated by the regulator by individual class of business in respect of sharia reinsurance are lower than those cited in the table below which is solely relative to conventional reinsurance business.

LOB	Mandatory domestic priority treaty placement (IDR bn)		Mandatory domestic priority facultative placement (IDR bn)
	Proportional	Non-proportional	
Property*	210	185	620
Marine cargo	150	140	250
Marine hull	80	75	140
Aviation	75	60	180
Satellite	40	40	40
Onshore energy	100	100	640
Offshore energy	170	170	620
Engineering	210	185	620
Liability	85	100	175
Miscellaneous	125	100	300

*Note: * excluding cessions to Maipark.*

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

In respect of motor, PA, health, credit and surety reinsurance support must be provided 100% by domestic reinsurers.

The regulator has confirmed that, in the context of the above regulations, foreign reinsurance brokers are allowed to continue to work directly with Indonesian insurance and reinsurance ceding companies.

The regulations require non-life insurance companies to obtain reinsurance for each line of business; it must be obtained from at least two domestic reinsurance companies, except where the risk cannot be covered in the domestic market.

Companies are required to cede 2.5% to Reasuransi International Indonesia (ReINDO, now part of Indonesia Re) on all property risks, under the government central statistics department (BPPDAN) scheme, which ReINDO in turn retrocedes to participating insurance companies after deducting its own retention.

Circulars SE 6087/LK/2001 of 28 December 2001 and *SE 1505/LK 2002* issued by the Ministry of Finance established an earthquake pool which commenced on 1 January 2003. The pool was subsequently transformed into a public liability company, Asuransi Maipark and a compulsory cession was introduced. The current compulsory earthquake cession is 25% of the total sum insured subject to a maximum of IDR 60bn (USD 4.15mn) any one risk. A compulsory earthquake tariff applies.

Reinsurance and retrocession receivables are treated as admissible assets in the balance sheets of insurance and reinsurance companies. This being the case the insurer or reinsurer may represent in the balance sheet technical reserves on a net of reinsurance (or retrocession in the case of reinsurers) basis. It is not customary for reinsurers to deposit with ceding companies technical reserves relating to proportional or non-proportional reinsurance treaties.

Where a reinsurer does not have a bank account in Indonesian rupiah, local insurance and reinsurance companies transfer balances in US dollars or other hard currencies at the rate of exchange ruling on the date of the transaction.

Non-admitted

There is no current requirement for overseas reinsurance companies to be licensed in Indonesia in order to be able to reinsure Indonesian insurance or reinsurance companies.

The regulator has confirmed that, in the context of *OJK Regulation No 14/POJK.05/2015* foreign reinsurance brokers are allowed to continue to work directly with Indonesian insurance and reinsurance ceding companies.

Reinsurance Statistics

Premiums ceded by non-life insurers locally and abroad over the last available five years are shown below.

	2013	2014	2015	2016	2017
Premiums ceded locally (IDR mn)	6,862,121.00	7,887,613.00	12,256,008.00	15,825,767.00	17,030,306.00
% of gross written premiums	15.36	15.26	21.03	26.34	26.77
Premiums ceded abroad (IDR mn)	12,610,012.00	13,822,205.00	13,433,945.00	11,764,300.00	10,745,725.00
% of gross written premiums	27.20	25.69	23.05	19.58	16.89

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The following table shows the reinsurance ratios (premiums ceded against gross written premiums) by major class over the last available five years. This table shows cessions by primary insurers and reinsurers combined.

Line of business	2013	2014	2015	2016	2017
Property	75.95	70.76	70.19	69.81	69.54
Construction and engineering	74.95	66.57	67.99	67.49	68.95
Motor	4.40	4.06	3.50	3.53	5.21
Liability	59.81	64.18	62.34	52.65	66.69
Surety, bonds and credit	13.75	16.60	15.91	22.53	7.88
Marine, aviation and transit	71.55	66.38	68.02	65.41	66.45

Line of business	2013	2014	2015	2016	2017
Personal accident and healthcare	13.15	11.97	12.83	17.34	23.00
Total non-life market	**42.01**	**40.95**	**40.42**	**44.33**	**42.85**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The following table shows the reinsurance loss ratios (reinsurance recoveries against ceded premiums) by major class over the last available five years.

Line of business	2013	2014	2015	2016	2017
Property	30.21	31.67	33.20	28.07	25.00
Construction and engineering	32.35	43.32	47.39	62.82	45.25
Motor	39.75	32.84	35.57	41.60	27.93
Liability	4.97	25.41	9.33	21.11	4.40
Surety, bonds and credit	29.49	28.19	60.24	50.19	55.28
Marine, aviation and transit	31.00	52.15	44.04	36.94	61.57
Personal accident and healthcare	71.12	48.52	57.09	57.79	46.97
Total non-life market	**31.36**	**39.72**	**39.89**	**32.99**	**34.28**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Retentions

The following table shows the retention ratios (net written premiums against gross written premiums) by major class over the last available five years.

Line of business	2013	2014	2015	2016	2017
Property	24.05	29.24	29.81	30.19	30.46
Construction and engineering	25.05	33.43	32.01	32.51	31.05
Motor	95.60	95.94	96.50	96.47	94.79
Liability	40.19	35.82	37.66	47.35	33.31
Surety, bonds and credit	86.25	83.40	84.09	77.47	92.12
Marine, aviation and transit	28.45	33.62	31.98	34.59	33.55
Personal accident and healthcare	86.85	88.03	87.17	82.66	77.00
Total non-life market	**57.99**	**59.05**	**59.58**	**55.67**	**57.15**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Overall retention levels have not varied greatly over the five-year period although there are some marked variations in some classes of business.

Local Risk Sharing

Market sources suggest that, even allowing for the setting up of a sixth reinsurer, PT Reasuransi Nusantara Makmur, in 2017, there is still insufficient reinsurance capacity in the local market.

Coinsurance has been a widespread practice in the market and applies to many large and medium-size accounts, but its use is reported to have been waning over the last few years.

Coinsurance is used mainly for property, CAR/EAR, engineering, marine cargo and the very occasional large miscellaneous accident account. The panel of coinsurers can be extensive, with some participants having shares as small as 5% to 10%. Coinsurance is usually, but not always, arranged by brokers: on occasions it may be arranged directly. Agents do not arrange coinsurance. The coinsurance policy form is of the classic type, in which it is specified that each coinsurer is liable only for its own share. Companies have to issue separate earthquake policies and are not permitted to coinsure them.

Reinsurers writing automatic proportional treaties in this market inevitably encounter some degree of accumulation on one and the same risk due to the practice of coinsurance and the consequent multiple individual cessions to the proportional treaties of the coinsurance participants. On the other hand, coinsurance is a positive primary method of maximising premium retained in the market, since it gives rise to multiple retentions on each and every coinsured risk.

Local facultative reinsurance placements are popular through the domestic professional reinsurance companies. The domestic companies also arrange facultative reinsurance among themselves.

A number of pools have also been formed to accommodate selected classes of risk, some of which would otherwise be difficult to place due to a history of poor results. These are shared among participating companies only.

The impact of the 2015 regulations to concentrate significantly more premium income (and exposure) in the local market is reflected in the statistics for 2016 and 2017, which show that local inwards gross premium income to the country's major professional reinsurers grew by 90.6% and 37% respectively in those years, with a consequent effect on local reinsurer requirements to purchase adequate retrocession cover, due to a much greater concentration of accumulated catastrophe exposure in the local reinsurance market. Anecdotal evidence suggests that although these trends indicate potentially profound changes, the local reinsurance market has been able to deal with them without significant capacity and retrocession placement issues.

Treaty Reinsurance

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Property, miscellaneous accident and marine cargo treaty reinsurance arrangements were historically a mixture of quota share and surplus agreements but many such arrangements are being gradually replaced with pure excess of loss programmes.

In all classes of business minimum and maximum net retentions apply per class of non-life business as per *OJK Regulation No 14/POJK.05/2015.* The latter increased the minimum per risk retention limits by 1.5 times compared to previous limits set out in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* but left the previous maximum retention limit for all classes of business unchanged at 10% of equity. Minimum retentions are expressed as a percentage of equity for companies with equities lower than IRD 500bn (USD 34.62mn) up to IRD 2trn (USD 138.47mn). For companies with equities greater than IRD 2trn (USD 138.47mn) minimum retentions are expressed as flat monetary amounts for each class of business. It therefore follows that generally minimum retentions are related to the financial strength of the individual company in relation to the size of its equity. The regulation requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover.

OJK Circular Letter No 31/SEOJK.05/2015 stipulates, however, that the minimum retention limit in respect of the property line of business must be adjusted for bad risks to at least 30% of the minimum stipulated. The definition of a bad risk includes hazardous occupations (chemical, oil, gas, paper leather, rubber, wood bamboo, rattan and motor vehicle repair shops) and risks of third class construction as stipulated in the tariff regulations issued by the OJK.

Typical current treaty reinsurance arrangements are detailed below.

- Property - for larger companies, working and catastrophe excess of loss programmes are used. For smaller companies, 50% to 60% quota share is the norm plus a surplus treaty of seven to 12 lines. In property proportional treaties there is usually an event limit of five times the maximum sum insured limit. The minimum retention for large companies with equities exceeding IDR 2trn (USD 138.47mn) is IDR 15bn (USD 1.04mn).

- Engineering - all companies writing this class of business have treaty facilities. Surplus coverage is usually between five and 10 lines. There is little evidence of quota share treaty reinsurance in this class of business. The minimum retention for large companies with equities exceeding IDR 2trn (USD 138.47mn) is IDR 15bn (USD 1.04mn).

- Marine cargo - for larger companies, pure excess of loss coverage is deployed. For smaller companies, a combination of quota share and surplus is typical. The minimum retention for large companies with equities exceeding IDR 2trn (USD 138.47mn) is IDR 15bn (USD 1.04mn).

- Marine hull is normally reinsured by way of surplus treaties. Gross capacity ranges from USD 2mn to USD 3mn. Some companies have up to 20 lines of surplus cover. A few quota share treaties exist but are tending to be replaced with working excess of loss treaties. The minimum retention for large companies with equities exceeding IDR 2trn (USD 138.47mn) is IDR 6bn (USD 415,418).

- Miscellaneous accident - for larger companies, working and catastrophe excess of loss programmes are used. For smaller companies quota share/surplus treaties (with surplus capacity of between to five and 10 lines) are standard. The minimum retention limit for large companies with equities exceeding IDR 2trn (USD 138.47mn) is IDR 750mn (USD 51,927).

- Medical expenses reinsurance in respect of business written in the non-life account is normally on a quota share basis. Some companies have excess of loss facilities.

Motor insurance is protected by excess of loss arrangements with a deductible of a minimum IDR 150mn (USD 10,385) as per *OJK Regulation No 14/POJK.05/2015*, up to a general maximum of IDR 500mn (USD 34,618). Individual bodily injury and death claims do not normally exceed IDR 5mn (USD 346.18) and are not regarded by reinsurers as a particular threat to excess of loss covers, except in cases of major multiple victim accidents. On the other hand large material damage multiple collision claims in respect of high-value vehicles are regarded as more likely to affect excess of loss treaties.

Property proportional and engineering treaties exclude terrorism. Some companies use the terrorism pool to obtain coverage (see the Insurance Market Overview section of this report - Market Participants - Pools).

Facultative Reinsurance

Facultative reinsurance is being placed locally in Indonesia on an increasing number of risks other than the major exposures where support is required from the international reinsurance markets. ASEAN markets such as Singapore and Malaysia are used on a regular basis, but other international markets still provide most of the reinsurance capacity in respect of aviation and energy risks.

Most facultative reinsurance is placed on a proportional basis, and it is quite rare for facultative risk excess of loss arrangements to be purchased. Nevertheless property facultative excess of loss reinsurance does exist in a small number of cases (such as the state-owned telecoms company) and layering techniques are deployed in respect of some very large property risks.

Catastrophe Reinsurance

Indonesia is exposed to a number of catastrophic perils such as earthquake and volcanic eruption, flood and riot, strike and malicious damage.

Circulars SE 6087/LK/2001 of 28 December 2001 and *SE 1505/LK 2002* issued by the Ministry of Finance established an earthquake pool which commenced on 1 January 2003. The pool was subsequently transformed into a public liability company, Asuransi Maipark, and a compulsory cession was introduced. The current compulsory earthquake cession is 25% of the total sum insured subject to a maximum of IDR 60bn (USD 4.15mn) any one risk. A compulsory earthquake tariff applies.

Joint venture companies have access to their overseas principals' worldwide reinsurance programmes.

Usually catastrophe deductibles amount to the equivalent of two or three net retentions, varying from one company to another. Separate catastrophe covers are normally arranged for marine and non-marine. Marine may include cash-in-transit and contract works.

Multi-year programmes are not the norm. The markets used are mainly Asian and other overseas markets such as London.

Alternative Risk Transfer

Alternative risk transfer (ART) does not yet appear to play a part in reinsurance arrangements in Indonesia, except that Indonesian business may be included in ART arrangements deployed by the major international partners of joint venture companies.

Treaty Reinsurance Commission

Current typical treaty reinsurance commission levels by class are shown in the table below.

Line of business	Commission (%)
Property quota share	32.5 to 35.0
Property surplus	30.0 to 32.5
Engineering	25.0 to 27.5
Marine cargo	32.5 to 35.0
Marine hull	25.0
Miscellaneous accident	30.0 to 35.0

Source: Market sources

Facultative Reinsurance Commission

Current typical proportional facultative reinsurance commission levels by class are shown in the table below.

Line of business	Commission (%)
Property	25.0 to 30.0
Engineering	25.0 to 27.5
Marine cargo	20.0 to 30.0
Marine hull	20.0 to 30.0
Miscellaneous accident	30.0

Source: Market sources

In respect of proportional property facultative business only, the market is generally prepared to add an extra commission of 10% of gross ceded premium to the basic commission rates recorded in the table in order to compensate cedants for the high broker acquisition costs in this class of business, which generally include discounts credited by the broker to the insured. Market sources suggest that in practice the facultative commission rates can be higher than those shown, but that they are trending downwards.

Distribution

Facultative reinsurance is usually placed direct with both direct insurance companies and reinsurance companies within Indonesia. Local reinsurance brokers also place facultative reinsurance in the market. A typical local professional reinsurer's acquisition split of inwards facultative business would be 80% to 90% direct and 10% to 20% through brokers.

Overseas facultative placements almost always involve brokers, specifically in respect of energy, aviation, engineering business and major property risks and especially those requiring rating guidance and capacity from international markets.

Proportional treaty reinsurance and some non-proportional treaty programmes are arranged direct and through local reinsurance brokers. The latter will often enjoy a share of a proportional programme placement alongside direct placement.

The regulator has confirmed that, in the context of the 2015 regulations, foreign reinsurance brokers are allowed to continue to work directly with Indonesian insurance and reinsurance ceding companies.

Summary and Trends

The table below shows the estimated percentage of non-life premium written through various distribution channels for the last available five years.

	2014	2015	2016	2017	2018
Direct marketing (%)	31.9	26.9	28.4	27.0	27.7
Broker (%)	30.0	27.4	28.6	26.7	26.2
Agent (%)	12.1	11.7	9.8	17.5	18.8
Bancassurance (%)	3.2	3.6	4.3	4.0	5.6
Affinity (%)	0.1	0.1	0.1	0.1	0.1
Telemarketing (%)	0.4	0.5	0.1	0.3	2.7
Other (%) *	22.3	29.8	28.8	24.4	18.8

*Note: * includes finance companies and internet.*
Due to rounding the breakdown above may not equal 100%.
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies / OJK

OJK Regulation No 23/POJK.05/2015 on Insurance Products and Marketing of Insurance Products stipulates that insurers can only distribute insurance products through the following channels:

- direct marketing
- insurance agents
- bancassurance
- a business entity other than a bank.

The increasing share of business handled by agents, accompanied by a slightly reducing share handled by brokers is somewhat surprising, running contrary to the trends in many other markets.

Most of the major companies in the market use a multiple distribution approach exploiting every available channel.

Insurance is generally sold in Indonesia as opposed to being bought, although there are exceptions. Insurance penetration in the country is low compared with most adjacent markets, but statistics indicate a progressive improvement in recent years. Brokers are involved in most of the larger general insurance accounts, and anecdotal evidence suggests that they are becoming increasingly influential in the SME sector. There are differences as between the distribution of motor and non-motor business. Motor tends to be dominated by agents and direct sales whereas in the non-motor market brokers are thought to have a leading role equivalent to more than 50% of non-motor gross premium written.

Much motor business is acquired through car dealerships and leasing companies acting as agents, because people buying cars on credit terms are obliged to purchase comprehensive insurance. Normally insurance is part of an inclusive leasing deal. Therefore in a country where motor third party insurance is not compulsory (and therefore a significant percentage of motor insurance purchase is linked to the sale of new or leased vehicles) this is an important source of business for all motor insurers and is one reason why insurers like Astra Buana (which is within a group having a very large automotive sales division) have comparatively large motor accounts.

In the major centres such as Jakarta, insurers are increasingly seeking to develop individual business through call centres and through bancassurance, as many have links with banks through shareholdings and otherwise. Although bancassurance is a major distribution channel for life business its impact on the non-life account is much more modest.

Although the trend of rising commission ratios appears to have been stemmed in 2017, it is believed that many companies are disguising incentive payments under the heading of general expenses, for which the ratio continues to increase. Following pressure from the regulator, the insurance association, the AAUI, has been trying to remove or at least reduce hidden commissions. This resulted in its issuing a communique to all members with effect from 1 January 2019, limiting commission rates to 15% on property and 25% on motor, at the same time advising against the use of "excessive" (undefined) additional incentives.

It is understood that the regulator, Otoritas Jasa Keuangan (OJK) is in the process of preparing draft regulations on digital-based insurance, although it is presently thought unlikely that these will come into force in the near future.

Direct Handling

The major companies have direct sales teams and generate 20% to 25% or more of their business in this way through corporate clients, including well-placed shareholders such as industrial conglomerates.

Branch offices outside Jakarta sell direct to clients and also service local agents. The productivity of branch offices is not considered to be high and the quality of business generated tends to be below average. Most branch offices service mainly motor business, with some industrial and commercial property.

E-Commerce

E-commerce is not yet a highly prominent feature of the insurance distribution system in Indonesia. Most insurance company websites provide information on products but are not designed as interactive sales tools. The larger companies, however, run call centres where assistance can be sourced on the telephone, and some companies sell simple products via telemarketing.

The number of internet users in Indonesia is estimated at 104.96 million in 2017 (Indonesia accounts for about 3.5% of the world's total population). More than half of internet users are reported to be between 12 and 34 years of age and the most popular usage is access to social media. Estimates of penetration vary significantly, but 2016 indications appear to be between 40% and 50% of the population.

The most popular non-life insurance product sold via the internet is reported to be travel insurance.

It is understood that the OJK is in the process of preparing draft regulations on digital-based insurance, although it is presently thought unlikely that these will come into force in the near future.

Law No 11/2008 Regarding Electronic Information and Transactions came into force on 21 April 2008. The law regulates the following:

- the use of electronic documents and/or information as evidence before Indonesian courts
- electronic signatures
- electronic transactions
- domain name, intellectual property and protection of personal rights
- illegal acts and sanctions.

Other Direct Marketing

Direct marketing has been tested by a number of companies. Bintang is regarded as one of the most innovative in this regard, having established a telephone and SMS telemarketing and assistance operation. The company reports some success in the sale of motor, home and healthcare insurance through this medium.

A few companies specialise in direct marketing of products such as personal accident and healthcare (cash plans) through credit cards and call centres. Other companies are developing direct marketing strategies through telesales, making use of their banking connections where they have call centres.

Direct mailing is seldom used as the postal service is not reliable.

Bancassurance

Bancassurance is regulated by *BI Circular Letter No 12/35/DPNP* (BI means Bank Indonesia). Although there is some growing bancassurance activity in non-life business the circular is aimed mainly at bancassurance relationships in life business: nevertheless the principles apply to all classes of insurance business.

The circular classifies bancassurance activities into three business models, as detailed below.

- The referral model where the bank has a limited involvement in sales, its main role being to refer/recommend products to customers. Two distinct types of products are defined: packaged or unpackaged products. In the case of packaged products the bank must inform the customer that insurance must be purchased in conjunction with the banking product in order to safeguard the bank from associated risks (such as the credit risk). In respect of unpackaged products (ie insurance products which are not an integral or bundled feature of the banking product) banks can use leaflets, brochures or websites to promote insurers' products, but must refer customers directly to the insurer in respect of sales.
- The joint distribution model involves the bank in providing insurance advice to customers via insurance advisers, telemarketing or other media on the basis that the bank is responsible for explaining the products to customers.
- The integrated model relates to cases where the insurance product is integrated with the banking product and is therefore sold as one product with the bank being directly involved in marketing the product to its customers.

BI Circular Letter No 12/35/DPNP states that banks are only permitted to distribute insurance products that are defined in an agreement between the bank and the insurer. The letter also states that banks conducting bancassurance activities are required to review and develop such activities within a defined risk management framework.

Continuous requirements in the legislation include:

- in respect of both existing and new bancassurance activities a business plan and routine operational reports have to be submitted to Bank Indonesia in a format as outlined in *BI Circular Letter No 12/35/DPNP*
- ongoing bancassurance reports must be prepared internally once a month and reported to Bank Indonesia on a quarterly basis.

BI Circular Letter No 12/35/DPNP imposes penalties for non-compliance and it gave a six-month grace period to ensure that bancassurance policies and practices meet its requirements.

Although bancassurance is a major distribution channel for life business its impact on the non-life account is much more modest, currently estimated at about 10% of all sales.

Motor insurance is sold through bancassurance schemes with a somewhat modest degree of success as are simple risk property or householders' insurance policies protecting the buildings risk for the benefit of the bank acting as a mortgage lender.

Many companies in the market (estimated at possibly more than 70) have active non-life insurance relationships with banks. Most Islamic banks have bancassurance relationships with sharia insurers. Some idea of the banking relationships of the leading non-life companies can be gained from examination of the major groups table to be found in the Market Participants - Market Structure section within Insurance Market Overview.

Agencies

OJK Regulation No 69/POJK.05/2016, on Business Organization of Insurance, Sharia Insurance, Reinsurance and Sharia Reinsurance Companies, requires agents to obtain the consent of the insurers they are acting for before entering into agency agreements with other insurers. The regulation also, inter alia, provides for the following:

- a provision requiring insurers to provide their agents with training on their products and claims procedures twice a year
- a provision requiring insurers to inform their policyholders if an agent is no longer acting for them
- specification of the mandatory content of an agency agreement
- details of the obligations incumbent upon agents and the delivery of policies.

Previous prohibitions on agents working for more than one insurance company were partially relaxed by *OJK Regulation No 69/POJK.05/2016,* essentially providing that an agent can act for more than one insurer, but in distinctly separate business lines and providing that agreement is forthcoming from the insurer initially engaging the agent. The regulation also provides that agents can operate on behalf of an insurance group (which may have several subsidiaries, for instance transacting conventional and Islamic (sharia) insurance. A previous provision requiring agents to desist from acting as such for six months after ceasing to be an agent of a particular insurance company has been removed from the regulations.

The latest available information from AAUI indicates that about 3,500 registered insurance agents handle non-life insurance business in all parts of Indonesia.

Insurance companies are prohibited from employing an insurance agent who does not have an agency certificate issued by either the Indonesian Life Insurance Association (AAJI) or the General Insurance Association of Indonesia (AAUI).

Agents handle small to medium-size industrial and commercial business as well as individual personal lines, mostly motor. Corporate agents which have freedom to represent up to three principals often rebate commission for tied accounts.

Insurance Brokers

The Insurance and Reinsurance Broker Association of Indonesia (Asosiasi Perusahaan Pialang dan Reasuransi Indonesia - APPARINDO) represents the interests of insurance brokers. The latest available information indicated that it has 163 insurance broker members, 43 reinsurance broker members and eight joint venture members, making up a total membership of 214. Brokers are required to have a separate licence for the conduct of reinsurance, and the capitalisation requirements are the same as for direct brokers so the list of reinsurance brokers includes a number of separately registered firms which have the same ownership as direct brokers.

OJK Regulation 68/POJK./2016 governs the requirements for insurance brokers, reinsurance brokers and loss adjusters, all of which are subject to mandatory licensing requirements by the regulator. The regulation lists the documentary requirements to be submitted to enable a licence to be issued. Brokers are now required to have attained the highest level of certification in order to sign a slip.

OJK Regulation 68/POJK./2016 stipulates a minimum capital of IDR 3bn (USD 207,709) for domestic broking companies and IDR 5bn (USD 346,182) for reinsurance brokers.

OJK Regulation No 68/POJK.05/2016 stipulates that insurance and reinsurance brokers applying for a licence after this regulation must provide evidence of professional indemnity (PI) cover with a minimum limit equivalent to the paid-up capital. Insurance and reinsurance brokers who were already licensed before *OJK Regulation No 68/POJK.05/2016* are required to adhere to a previous (1999) regulation requiring a minimum limit for PI cover of IDR 1bn (USD 69,236) placed in the local market.

The major joint venture brokers are:

- Jardine Lloyd Thompson - established in Indonesia in 1976 (joint venture with Rajawali Group from 1991)
- Marsh Indonesia - established 1992 (joint venture with Dharmala Group)
- Aon Indonesia - established 1997 (joint venture with Lippo Group)
- Willis Towers Watson Indonesia - first established in 1997
- Aon Benfield Indonesia Reinsurance Brokers (joint venture with Lippo Group).

Other regulations require brokers to appoint fellows of the local insurance institute with at least three years' experience in insurance and to invest at least 5% of their total manpower expenses in education and training of employees, in order to upgrade the skills, knowledge and expertise of staff within the broking industry. Brokers are required to report to the regulator not later than 31 January each year all training and education activities in the previous year.

The leading independent national insurance broker is IBS. The company also has a separate locally licensed reinsurance broking company. IBS is not the largest broker in Indonesia: several others command larger premiums and commission earnings, but these are in-house brokers which act as commission rebating agents for their principals. Although the insurance broking arm of IBS is a domestic broker, it employs a number of expatriate staff and has close relations with the Alexander Forbes group.

Intermediaries' Commissions

The trend of rising commission ratios appears to have been stemmed in 2017 following the imposition by the regulator, the OJK, of maximum commissions for tariff rated property and motor business at 15% for property and 25% for motor, in accordance with *OJK Circular Letter No 6/2017*. These are maximum commissions and in specific cases they may be lower. Although the insurance association, the AAUI, is understood to have advised its members against the use of "excessive" (undefined) additional incentives, it is believed that many companies are disguising incentive payments under the heading of general expenses, for which the ratio continues to increase.

Intermediaries' commission levels by class are shown in the table below.

Line of business	Commission (%)
Property (regulated maximum)	15.0
Construction and engineering	15.0 to 20.0
Motor (regulated maximum)	25.0
Workers' compensation (top-up to state scheme cover)	15.0 to 17.5
Liability	15.0 to 25.0
Fidelity and surety	15.0
Trade credit	15.0
Marine hull	10.0 to 15.0
Marine cargo	20.0 to 25.0
Aviation	10.0 to 20.0
Personal accident and healthcare	10.0 to 25.0

Source: Market sources

It may be noted that brokers may rebate up to 10% of gross premium to the insured in respect of industrial and commercial property insurance business.

Consumer Protection

Circular Letter No 2/SEOJK.07/2014 on Services and the Settlement of Complaints from Consumers of Financial Services Businesses implemented *OJK Regulation No 1/POJK.07/2013* regarding consumer protection and took effect on 6 August 2014. A specific section of *OJK Regulation No 01/POJK 07/2013* deals with procedures for customers to address complaints and to achieve dispute resolution related to financial service sales and products. The regulations in *Circular letter No 2/SEOJK.07/2014* apply to financial service providers which definition includes insurance companies, but not insurance intermediaries. Insurance companies, however, take full legal responsibility for the actions of insurance agents but there is no specific consumer protection for policyholders purchasing insurance through brokers. Consumers are defined as insurance policyholders, investors and pension fund participants. Details of *Circular Letter No 2/SEOJK.07/2014* can be found in the Supervision and Control section of this report under the heading Supervision - Consumer Dispute Resolution.

OJK Regulation No 69/POJK.05/2016, on Business Organization of Insurance, Sharia Insurance, Reinsurance and Sharia Reinsurance Companies, requires agents to obtain the consent of the insurers they are acting for before entering into agency agreements with other insurers. The regulation also requires insurers to provide their agents with training on their products twice a year, and to inform their policyholders if an agent is no longer acting for them.

As mandated under *Chapter XI* of *Law No 40/2014*, the guarantee fund in each insurance company is to be replaced by a new policyholder protection scheme (to be called the Policy Holder Insurance Corporation - LPPP) to which all insurers will be obliged to contribute. Further implementing legislation in this respect was to follow within three years of enactment. As at the time of preparation of this report it is understood that this legislation was still in the process of being drafted.

Company Changes

As far as is known there have been no significant company changes.

Multinationals

Local Multinationals

Indonesia has a number of multinational companies operating in the Far East in countries such as China, but in most cases insurance is arranged in the host country under a global programme rather than in Indonesia.

Foreign Multinationals

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator (Otoritas Jasa Keuangan - OJK) in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks", but does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations, replace previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*. For further details, refer to the section headed Retentions under Company Registration and Operating Requirements in Supervision and Control.

Many foreign multinational companies operate in Indonesia. Their insurance needs may be met in a variety of ways, as described below.

- Local covers are issued in Indonesia with a domestic or joint-venture company and the risks are retained in Indonesia.

- Risks such as general public and product liability and business interruption may be insured offshore on a non-admitted basis with the client's global carrier, provided that no local company is prepared to write the risk and permission is obtained from the regulator.
- A local carrier may issue a full range of cover on global terms and conditions, and reinsure the non-statutory risks to global carriers and/or captives after offering an obligatory 2.5% reinsurance to ReINDO (now part of Indonesia Re) in respect of property insurance.
- A global carrier may issue a DIC/DIL cover on a non-admitted basis, provided that no local company is prepared to write the risk and permission is obtained from the regulator to use the non-admitted market.

Although it was once common for local insurance companies to front multinational business, this is no longer the case.

Indonesian companies with experience of servicing multinational accounts include Jasa Indonesia (Jasindo), Central Asia Insurance, Tugu Pratama and most of the joint venture companies.

Indonesian insurance companies are not prepared to reinsure overseas without knowing and being satisfied with reinsurance security as they are obliged to report to the regulator on such issues.

Handling fees range between 2.5% and 15% depending on the relationship between the fronting company and the global carriers.

Captives

Summary and Trends

With the exception of a number of pools, there are no captive or other risk retention groups. The large industrial and commercial groups see no advantage in establishing captives, as they are able to secure competitively priced insurance programmes. A number of large corporations are shareholders of insurance companies, which are thus in effect captive companies. Tax regulations do not promote or make allowance for captive insurers. Tax is collected from as many companies and individuals as possible as the country's tax base is narrow.

Indonesia is not expected to become a captive domicile in the near future. Jasa Indonesia (Jasindo), however, has an interest in a captive insurance company, ASEAN Forum G-G, in Labuan (federal territory of Malaysia) together with GSIS (of Philippines) and Malaysia National Insurance Company.

Local Legislation

There is no legislation covering captive insurance companies.

Locally Domiciled Captives

Indonesia does not have any locally domiciled captives.

Local Captive Owners

Jasindo is the only company known to have a shareholding interest in a captive, which is based in Labuan (Malaysia).

A.R.T. & Risk Management

Summary and Trends

There is no association of risk managers in Indonesia. The concept of financial risk management and alternative risk transfer (ART) is not well understood by many organisations other than large conglomerates and multinationals. There is no sign of a move towards increased risk retention other than when it is forced on companies by local regulation, international underwriters and/or reinsurers.

There have been several seminars on ART and financial risk management, but interest from the insurance market has never been ostensibly strong.

ART has few attractions for the average large company operating in Indonesia. The operational and taxation environment does not offer any incentives to develop non-traditional risk transfer alternatives.

No special legislation applies to alternative risk transfer and, as far as is known, no changes are under consideration. No specific forms are allowed or prohibited and no special accounting rules or tax issues apply.

Supervision

OJK Regulation No 23/POJK.05/2015 on Insurance Products and Marketing of Insurance Products classifies non-life products as follows:

- standard products which are the same as those issued by AAUI
- joint insurance products whose risks are designed to be covered or managed by two or more insurers
- microinsurance products.

Prior to sale standard products need to be reported to the regulator for registration and the other two types of products have to be reported to the regulator for approval.

Property and motor insurance premium rates are subject to the tariff regulations stipulated in *OJK Circular No SE-06/D.05/2013* as amended *by Circular No SE-05/2015* and *Circular No 6/SEOJK.05/2017* published on 26 January 2017, and effective from 1 April 2017.

Current reports from the market indicate that there has been full compliance with the property and motor tariffs, although in some instances this has been offset by rebates of commissions. Compliance is the subject of regular inspections by the regulator and the investigation of complaints made to the regulator by competitors of companies suspected of not complying and complaints from the public.

It is understood that the regulator, Otoritas Jasa Keuangan (OJK) is in the process of preparing draft regulations on digital-based insurance, although it is presently thought unlikely that these will come into force in the near future.

Policy Wordings

The *Commercial Code* regulates the interpretation of insurance policies. Local policies are written in Bahasa or English: the policy is required to stipulate the governing language when more than one language is used. Foreign market, manuscript and broad form wordings may be used, subject to filing requirements.

General conditions tend to mirror UK wordings.

Local Insurance Law

There is a duty of disclosure under the insurance law and the right of subrogation is enshrined in the *Commercial Code*. Arbitration and jurisdiction clauses are standard in all non-life policies, and innocent misrepresentation is usually covered by a clause attached to policies by brokers.

Jurisdiction is usually limited by domestic companies to Indonesia except in the case of some liability classes, marine and aviation insurance. Most joint venture companies can offer worldwide excluding US and Canada jurisdiction and in the case of joint venture companies with US-based foreign partners US and Canada can be included.

Provision for subrogation, arbitration and contribution tends to follow UK practice.

There is no legal or statutory requirement for companies to provide additional limits for defence costs in liability policies.

All non-life policies must contain the following information:

- the period of insurance
- benefits and sum insured
- method of premium payment
- grace period, if any, for premium payments
- exchange rates used for an insurance policy if denominated in foreign currency
- agreed deadline for receipt of premium
- conditions for termination of coverage by either party
- requirements and procedures for filing claims, including supporting evidence
- dispute resolution conditions
- governing language for policies written in more than one language.

Other clauses in common use are as follows:

- coinsurance clauses.
- reinstatement value clauses
- duty of disclosure
- sanctions in respect of fraudulent reporting.

Policy Issue

OJK Regulation No 23/POJK.05/2015 on Insurance Products and Marketing of Insurance Products regulates the form, issue and distribution of existing or new insurance products.

Insurance companies must ensure that customers have received insurance policies within 10 working days after payment is received by the companies. For non-microinsurance products and products with coverage of more than one year, the insurance company must give the customer a 14-day cooling off period to review the received policies.

Certificates of motor insurance are provided by insurance companies in order to show evidence of cover if a client is stopped or detained by the police while driving.

The insured's signature is not routinely required in non-life policies.

It is understood that the OJK is in the process of preparing draft regulations on digital-based insurance, although it is presently thought unlikely that these will come into force in the near future.

Policy Currency

Policies are issued in Indonesian rupiah, but policies may be issued in foreign currency provided premium is paid in the same currency. If a policy is denominated in a foreign currency exchange rates must be stipulated in the policy. This condition does not apply to reinsurance since where a reinsurer does not have a bank account in Indonesian rupiah, local reinsurance companies may transfer balances in US dollars or other hard currencies at the rate of exchange ruling on the date of the transaction.

Regulation No 17/3/PBI/2015 issued by the Bank of Indonesia prohibits, inter alia, the use of foreign currency for the pricing of goods and/or services and requires the use of the Indonesian rupiah for a broad range of cash and non-cash transactions (including transactions by electronic payment and bank transfers). According to local market sources, the insurance market regulator, in a letter to the insurance industry, has advised that insurers can continue to issue policies in foreign currency, where appropriate, on the basis that applied prior to the issuance of *Regulation No 17/3/PBI/2015*.

Premium Payment and Terms

Premiums can be expressed in either rupiah or a foreign currency (usually US dollars). US dollar policies have become more common, particularly for larger risks.

Regulations require that premiums be paid in accordance with policy conditions which must stipulate the deadline for premium payment. For example the standard fire policy wording provides for payment within 45 days of policy issuance or commencement of the insurance.

RBC regulations recognise outstanding premiums up to 60 days from inception of risk, which puts pressure on many companies as the prevailing credit period (of the market) is 90 days. Brokers often seek to pay premiums for large clients by instalment and in doing so the credit period may extend to 120 days.

Cancellation and Renewal

Cancellation provisions vary according to the class of policy issued. Examples are as follows:

- earthquake - seven calendar days
- standard fire policy - 72 hours
- standard motor policy - three working days
- employers' liability, workers' compensation, public liability - 30 days.

The policy must stipulate conditions for termination of coverage by either party.

For policies cancelled mid-term by the insurer the premium is normally charged pro-rata to time on cover; for those cancelled by the insured, short-period rates may be imposed.

Renewals are not tacit, and companies issue renewal notices. The onus is on the policyholder to advise insurers that renewal is required and companies issue new policies annually. There is no grace period and unless renewal instructions are received before expiry of the current period of insurance, cover lapses.

Types of Policy

The use of all risks wordings is common for medium and large commercial risks, in particular those controlled by brokers. Property all risks policies follow the Association of British Insurers (ABI) wording or LM7.

Earthquake risks are insured within a standard policy prescribed by Maipark.

Multi-line packages are not available other than for household or homeowners' risks as there is no real demand, but there are some limited commercial combined packages in the market.

Brokers tend to extend basic coverage by attaching many endorsements to closings. Most companies appear to go along with this practice.

Average

Average applies to property insurances although the standard clause is modified from time to time and waived in selected cases. Average relief clauses are very often found in broker covers, suspending the application of average where the sums insured represent at least 85% of the total values at risk.

Inflation

Automatic increase clauses are commonly used in IAR and some property policies limiting the uplift in sums insured to between 10% and 15% annually.

Earthquake and Other Geological Hazards

Exposure

The Indonesian archipelago is one of the most active volcanic regions of the world, located in the convergence zone of the three major lithospheric plates: the Indo-Australian plate, the Pacific plate and the Eurasian plate. The interaction of these major plates, as well as the Philippine Plate to the north, leads to extensive and intense seismic activity.

While much of western Indonesia is located on a stable extension of the Eurasian plate, the Sumatra fault zone runs the entire length of Sumatra, and is analogous to the San Andreas fault in California. It produces a significant number of shallow, destructive, high-magnitude events. The seismic hazard arising from the Sumatra fault zone is among the highest in Indonesia.

The severity of earthquake damage is not often reflected in insurance claims. In many cases earthquakes hit rural areas causing damage to property and loss of life, but there is little or no insurance exposure. The areas most vulnerable to earthquake are Sumatra, Java, Bali, Nusa Tenggara, Maluku, Sulawesi and West Papua (Irian Jaya). According to CRESTA, the earthquake hazard in Jakarta and Surabaya is regarded as low to average, with subsoil conditions generally regarded as normal: construction standards are considered to be average or below.

Following the tsunami affecting Aceh in 2004 and an earthquake in Java (west of Jakarta) in 2006, the government has made efforts to provide for better warning systems for citizens.

Volcanic eruption is an ever-present risk in Indonesia as there are numerous active volcanoes around the archipelago. The country is in what vulcanologists term "the ring of fire". In total there are approximately 127 active volcanoes with about five million people having activities within the danger zones. The best-known historic eruption was the one which destroyed a large part of the island of Krakatau, off the west coast of Java in 1883. Earthquakes occur at regular intervals every year, but 2018 was a particularly bad year for earthquakes and tsunamis, with three significant events in August, September and December together causing over 3,200 deaths and insured losses estimated at more than IDR 25trn (USD 1.73bn). Further details can be found under the Loss History heading in this section of the report.

In January 2018 the National Centre for Earthquake Studies (Pusat Studi Gempa Nasional - PuSGen) published an update of its 2010 Earthquake Map, identifying 53 new earthquake sources in addition to the 242 previously known sources. This led to a review of the earthquake tariffs by Asuransi Maipark, the local reinsurer of earthquake business, but did not result in any changes.

The 1989 *Indonesian Construction Code SNI 1726-1989-F* provides specifications for anti-seismic construction, but compliance with this cannot be regarded as automatic.

Tsunami is a major exposure in many coastal regions. This was demonstrated with appalling effect on 26 December 2004, when an earthquake measuring 9 on the Richter scale occurred under the sea off the north-west coast of Sumatra.

In April 2017, the compulsory earthquake cession to Asuransi Maipark was increased from 15% to 25% of the total sum insured subject to a maximum of IDR 60bn (USD 4.15mn) any one risk (defined as the total sum insured of all risks at the same location for each insurance company).

Earthquake insurance premium rates are subject to the tariff regulations stipulated in *OJK Circular No SE-06/D.05/2013* as amended by *Circular No SE-05/2015* and *Circular No 6/SEOJK.05/2017* published on 26 January 2017, and effective from 1 April 2017. It is understood that compliance is total.

Accumulations and PMLs

The exposures in West Java and Jakarta have been estimated in recent years to be in the region of USD 15bn to USD 20bn respectively. This includes major risks such as Krakatau Steel, petrochemical complexes, oil refineries and much of the foreign-invested manufacturing facilities. Energy risks in particular, as well as many of the other high-value exposures, are heavily reinsured overseas with a minimal local retention.

Other risk concentrations are found in Bandung (central Java) and Surabaya (industrial zone at the port area of Tanjung Perak).

Computer models are used by Asuransi Maipark, the local reinsurer of earthquake business, in order to monitor its global accumulations and it delineates exposures by CRESTA zones. Maipark uses its computer models for the arrangement of adequate retrocession and is reported to have increased its retroceded coverage following the increase in the compulsory cession which took effect from 1 January 2014.

In January 2018 the National Centre for Earthquake Studies (Pusat Studi Gempa Nasional - PuSGen) published an update of its 2010 Earthquake Map, identifying 53 new earthquake sources in addition to the 242 previously known sources. This led to a review of the earthquake tariffs by Asuransi Maipark, but did not result in any changes.

All of the major catastrophe modelling companies have developed models for this part of Asia.

Limits and Scope of Cover

A separate earthquake policy must be issued in a standard form and it covers material damage and business interruption arising from:

- earthquake which is defined as a shaking or trembling of the earth due to geological phenomena such as tectonic movement and volcanic eruptions
- fire and explosion following earthquake where the proximate cause is earthquake

- volcanic eruption defined as the issuance of molten or hot rock or steam, gas or liquid from a vent or vents in the earth's crust
- tsunami which is defined as a great sea wave produced by submarine earth movement such as subduction of crystal plates or by submarine volcanic eruption.

Earthquake sums insured are normally equivalent to the full buildings sum insured. Asuransi Maipark does permit first loss coverage, however, using a prescribed scale of insured values for such coverage.

Rating and Deductibles

The earthquake tariff introduced by *OJK Circular No SE-06/D.05/2013* is based on the five zones used by Asuransi Maipark and is currently as follows:

Construction class	Tariff (‰)				
	Zone 1	Zone 2	Zone 3	Zone 4	Zone 5
Steel, wood and concrete frame					
- up to 9 storeys	0.75	0.76	1.00	1.43	1.90
- above 9 storeys	1.12	1.15	1.22	1.53	2.00
Others	0.80	1.04	1.55	2.46	4.70

Source: Market sources

Jakarta, the area with the highest concentration of risk is situated in Zone 4.

Circular No SE-05/2015 regulations relative to discounts replaced those prescribed in *Circular No SE-06/D.05/2013*. *Circular No SE-05/2015* stated that no discounts are permitted in respect of earthquake coverage with a total sum insured of less than USD 1bn. For total sums insured exceeding USD 1bn, the international market rate can be applied.

The tariff applies to fire, IAR and business interruption insurance with minimum deductibles as follows:

- from 0 to USD 100mn - 2.5% of TSI
- from USD 100mn to USD 300mn - 2.5% of TSI with a maximum of USD 3mn
- above USD 300mn - minimum USD 2mn.

The maximum total permitted acquisition cost prescribed by *Circular No SE-05/2015* is 15% net of tax.

Loss History

==

Update November 2019

In November 2019 an earthquake of magnitude 7.1 on the Richter scale in the Moluccan Sea 138km off the northern coast of Ternate island caused the authorities to issue a tsunami warning which was subsequently lifted, with no reports of any damage.

In September 2019 an earthquake of magnitude 6.5 on the Richter scale struck the city of Ambon in the eastern province of Maluku, causing at least 19 deaths and injuring over 100 people, with damage to nearly 120 buildings .

In July 2019 a magnitude 7.2 on the Richter scale earthquake off Indonesia's North Maluku province reportedly resulted in six deaths and over 50 people injured, with nearly 1,000 houses destroyed.

On 2 August, an earthquake of magnitude 6.9 on the Richter scale struck West Java and Jakarta, damaging 550 structures. The following month, an earthquake of magnitude 6.5 on the Richter scale struck Ambon, the capital of Maluku. Several structures were damaged including the Merah Putih bridge and 30 people were killed, while scores were wounded.

==

Earthquakes occur at regular intervals every year throughout Indonesia, but 2018 was a particularly bad year for earthquakes and tsunamis.

On 22 December 2018 a tsunami following an eruption by the Anak Krakatoa volcano caused over 430 deaths in western Java and southern Sumatra, with insurance losses estimated at IDR 15.9trn (USD 1.10bn).

The most severe earthquake was on 28 September 2018, when one of magnitude 7.5 struck the mountainous region of Palu-donggala, Central Sulawesi. The earthquake and resulting tsunami led to the deaths of over 4,300 people and injuries to more than 10,600. Economic losses were estimated at IDR 22.8trn (USD 636.97mn).

The death toll arising from the magnitude 6.9 earthquake which hit the Indonesian island of Lombok on 5 and 6 August 2018 was reported to have surpassed 560 persons. Areas most affected were East Lombok Regency, North Lombok Regency, Central Lombok Regency, and Mataram City where aggregated loss exposure was initially estimated by Maipark to be IDR 4trn (USD 276.95mn), a figure which was subsequently raised to IDR 8.8trn (USD 609.28mn). The estimated insurance loss according to Asuransi Maipark is estimated to be IDR 204bn (USD 14.12mn). A further magnitude 6.9 earthquake on Lombok on 19 August 2018 was reported to have caused the deaths of at least 14 people.

In respect of years 2012 to 2016 Asuransi Maipark reported the following numbers of events in each year giving rise to insurance losses (the largest aggregation per event in each year is stated in brackets):

- 2012 - eight events in total (largest IDR 345mn (USD 23,887))
- 2013 - four events in total (largest IDR 1.12bn (USD 77,545))

- 2014 - five events in total (largest IDR 1.21bn (USD 83,776))
- 2015 - three events in total (largest IDR 3.28bn (USD 227,095))
- 2016 - 12 events in total (largest IDR 19.32mn (USD 1,338)).

There were no earthquakes causing major insured damage in 2016 and just one in 2017.

The following table shows the most recent earthquakes (above magnitude six) and volcanoes.

Date	Location	Magnitude (Richter)	Economic loss (IDR bn)	Economic loss (USD mn)	Insured loss (IDR bn)	Insured loss (USD mn)	Deaths
22 January 2019	Sumbawa	6.4	n/a	n/a	n/a	n/a	None reported
22 December 2018	Java and Sumatra	Tsunami following an eruption	n/a	n/a	15,900	1,101	400+
10 October 2018	Palu, Central Sulawesi	6.0	n/a	n/a	n/a	n/a	3
28 September 2018	Palu-donggala, Sulawesi	7.5	22,800	1,579	n/a	n/a	4,340
19 August 2018	Lombok	6.9	n/a	n/a	n/a	n/a	14
5 and 6 August 2018	Lombok	6.9	8,800	609	204	14	563
29 July 2018	Lombok	6.4	n/a	n/a	n/a	n/a	20
23 January 2018	Pelabuhanratu, West Java	6.0	n/a	n/a	n/a	n/a	2
15 December 2017	Singaparna, West Java	6.5	n/a	n/a	n/a	n/a	3
1 September 2017	Various	6.2	n/a	n/a	n/a	n/a	n/a
12 June 2016	Sumatra	6.5	n/a	n/a	n/a	n/a	104
2 March 2016	Sumatra	7.8	n/a	n/a	n/a	n/a	None reported
13 February 2014	Mount Kelud (volcanoe)	n/a	n/a	n/a	247	21	4
4 April 2011	South of Java	6.7	n/a	n/a	n/a	n/a	n/a
15 February 2011	East Luwu	6.1	n/a	n/a	n/a	n/a	n/a
25 October 2010	Mentawai	7.7	n/a	n/a	n/a	n/a	394
16 June 2010	Papua	7.0	n/a	n/a	n/a	n/a	2

Source: Market sources

Utilities

Indonesia does not have a piped domestic gas supply. Bottled gas or kerosene is used for cooking and any heating requirements.

Oil pipelines have cut-offs that can be activated in an emergency. There are dams in various parts of the country but it is not clear to what extent they might be affected by earthquakes or volcanic eruption, or indeed to what extent there would be an insured loss at all.

The electricity supply is on a grid, so power supplies can be diverted if necessary. The cities and most towns have piped water.

Cover for failure of public utilities following damage is available and freely given.

Disaster Planning

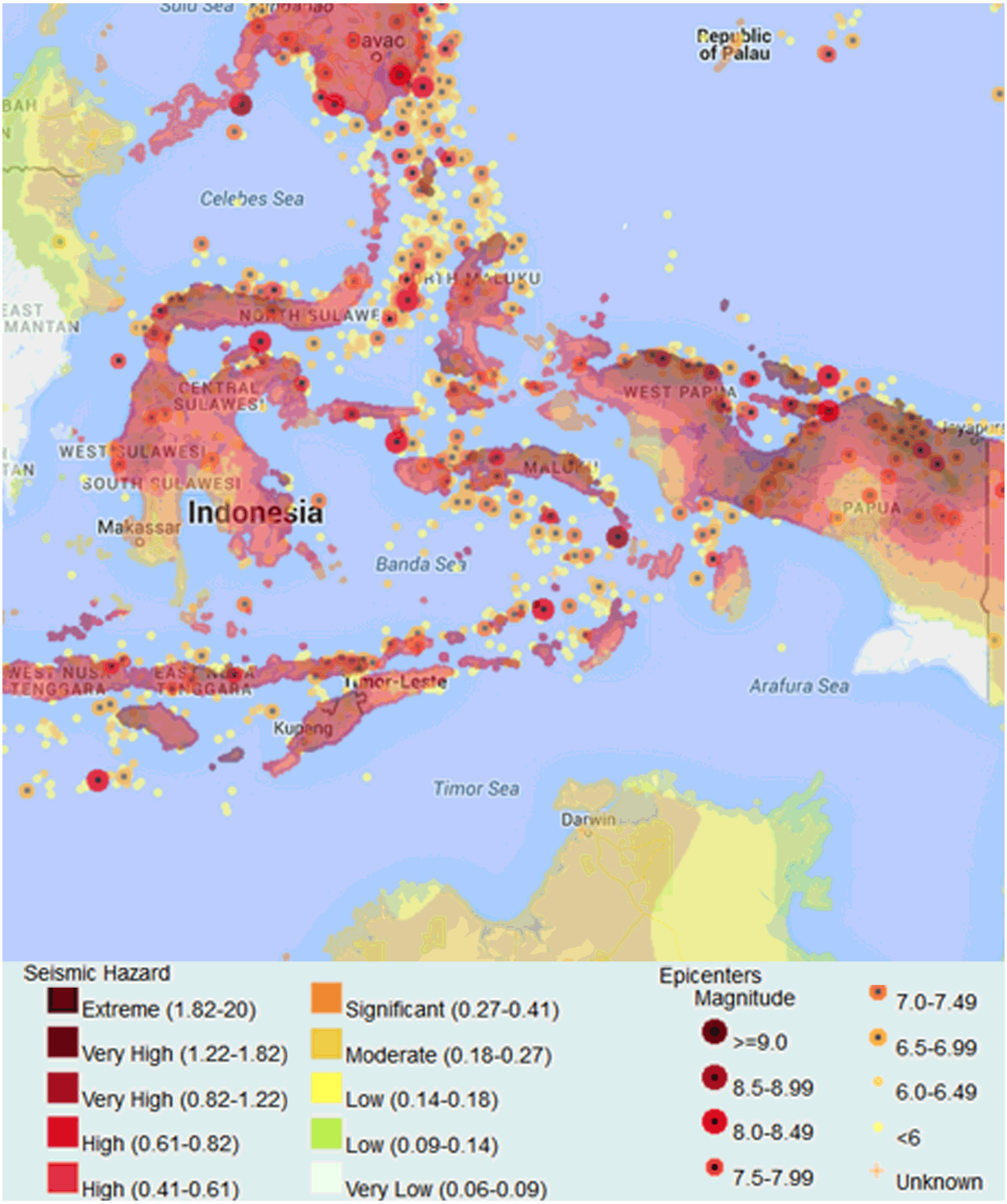
BAKORNAS PBP, the National Body for Co-ordination of Disaster Management, was established in 1979 to co-ordinate activities in the event of natural disasters. The effectiveness of any disaster plans at national and local level depends upon the availability of funds, which are often in short supply. There are reported to be few trained personnel who can respond adequately in times of emergency, although the armed services render assistance when disasters occur. Nevertheless, in the case of volcanic eruptions which can be predicted in advance, there is routine thorough evacuation of the surrounding area which has proved increasingly effective in minimising deaths and injuries (as was the case with the eruption at Mount Kelud in 2014).

In October 2018 the finance minister announced the government's intention to introduce a natural disaster risk-financing scheme in 2019 to deal with the impact of natural catastrophes. As part of this strategy, the government intends to start insuring its own buildings as from 2019. The initial proposal is that these risks should be covered by a consortium of insurers and managed by PT Asuransi Jasa Indonesia (Jasindo). In February 2019 the General Insurance Association of Indonesia (AAUI) announced that the consortium was still in the process of being formed.

Indonesia has a seismological network that consists of 28 non-telemeter and 31 telemeter stations. In addition, the Japan Indonesia Seismological Network (JISNET) project has installed 23 stations of broadband seismographs. A tsunami warning system, known as TREMORS (Tsunami Risk Evaluation through seismic Moment from a Real-time System) has been installed at the Tretes geophysical station, located in east Java. The system connects to the National Seismological Centre in Jakarta. In 2000 the State Ministry of Research and Technology (KMNRT) established a working group that deals with tsunami disaster mitigation.

In recent years the government has been making strenuous and public efforts to speed up future delivery of aid and to provide better warning systems.

CatNet(R) Earthquake Map



Source: Swiss Re CatNet® www.swissre.com/catnet
Map data ©2015 Google

Windstorm

Exposure

Indonesia is not in the windstorm or typhoon belt and these perils are of little concern to underwriters, except for flooding caused by monsoon rain.

High winds affect West Java from time to time but insured losses have been small.

Accumulations and PMLs

Companies record their accumulations in particular for fire and flood exposures. This has been the case in Jakarta and the major cities for many years where areas have been segmented. Treaty reinsurers require companies to report their accumulations and do not allow companies to accept business on a PML basis.

Computer models are not widely used by local direct insurance companies.

Limits and Scope of Cover

Windstorm is readily available without survey, as an additional peril to the standard policy. About 10% of policies include the cover, the majority of which would be for multinationals and large Indonesian industrial and commercial concerns.

In April 2017 IFC, a member of the World Bank Group, and PT Reasuransi MAIPARK announced that they had agreed jointly to develop index-based insurance products to hedge risks against adverse weather events affecting the agriculture sector.

Rating and Deductibles

Property (including storm, tempest and flood) premium rates are subject to the tariff regulations stipulated in *OJK Circular No SE-06/D.05/2013* as amended *by Circular No SE-05/2015* and *Circular No 6/SEOJK.05/2017* published on 26 January 2017, and effective from 1 April 2017.

Loss History

Although the most recent El Nino (2015 to 2016) delayed rice crop-cycles, impacting yields and food prices, no major losses have been suffered by the insurance industry.

Flood

Exposure

==

Update April 2020

In April 2020 landslides and flooding following heavy rains caused at least three deaths in the provinces of South Sulawesi, East Kalimantan and West Sumatra.

In January 2020 what were described as Indonesia's worst floods since 2013 led to the deaths of about 70 people in the capital, Jakarta, and surrounding areas, causing damage to over 1,300 homes. According to the General Insurance Association of Indonesia (AAUI), the cost to the insurance industry amounted to some USD 79mn.

==

In the past, flooding affected rural areas and was not an issue in towns and cities. With the development of urban areas over the last 20 years, however, much of the natural drainage has disappeared. Provision for drainage to cope with the enlargement of the urban conurbations has been inadequate. Deep excavation and piling and the realignment of watercourses has upset the natural lie of the land, making it susceptible to inundation following rainstorms. Since 2000 the drainage system in Jakarta has proved particularly ineffective following heavy rain and the city is reportedly sinking faster than any other city in the world.

In Jakarta itself, huge areas of greenbelt have been rapidly replaced over the last 20 years or more by high-rise office and residential blocks and the process continues.

Jakarta is a port city built on alluvial lowland, and is therefore prone to flooding. At least 12 rivers flow through the city into the sea. An extensive drainage system, including canals, exists to prevent flooding but it is poorly maintained and often clogged. Some USD 30mn was set aside in the city's budget for flood control but the money covered only limited dredging of rivers and improvements to the drainage system. Many of Jakarta's canals remain clogged by refuse. Under the National Capital Integrated Coastal Development (NCICD) plan, construction of a giant city wall along the coast began in 2014, with a projected termination date of 2025.

Severe floods took place in Jakarta in January 2013 and January 2014, initiated by exceptionally heavy rain, with the total economic cost of these events estimated at more than USD 1bn and USD 700mn respectively. Neither event, however, seems to have had a very significant or catastrophic effect on local market property loss ratios.

Dredging of the several rivers in Jakarta (the Cisadane, Sabi, Angke and Ledug), all of which regularly overflow in periods of heavy rain, commenced in 2015 and is still undertaken periodically.

Property (including storm, tempest and flood) premium rates are subject to the tariff regulations stipulated in *OJK Circular No SE-06/D.05/2013* as amended *by Circular No SE-05/2015* and *Circular No 6/SEOJK.05/2017* published on 26 January 2017, and effective from 1 April 2017.

Accumulations and PMLs

Companies record their accumulations. This has been the case in Jakarta and the major cities for many years where areas have been segmented. Treaty reinsurers require companies to report their accumulations, and do not allow companies to accept business on a PML basis.

Computer models are not widely used by the direct insurance market.

Limits and Scope of Cover

Full flood cover including the overflowing of natural and man-made water courses and the bursting and overflowing of tanks is included as an extended peril for most medium to large commercial and industrial properties that are insured.

Certain known inundation areas are avoided, in Jakarta for example.

In April 2017 IFC, a member of the World Bank Group, and PT Reasuransi MAIPARK announced that they had agreed jointly to develop index-based insurance products to hedge risks against adverse weather events affecting the agriculture sector.

Rating and Deductibles

A flood insurance tariff came into force on 1 February 2014 by *OJK Circular No SE-06/D.05/2013* covering storm, tempest and flood (STF) perils.

The tariff is as follows:

Zone	Jakarta, Banten, West Java		Other locations	
	Experience criteria	Tariff (%)	Experience criteria	Tariff (%)
1: Low	No flood / flood below 30 cm	0.050 to 0.055	Flood above 6 years	0.045 to 0.050
2: Moderate	Flood 30 cm to 60 cm	Z1 + loading*	Flood within 6 years	0.050 to 0.055
3: High	Flood 60 cm to 100 m	Z1 + loading*	Flood within 3 years	Z2 + loading
4: Very high	Flood above 100 cm	Z1 + loading*	Flood within 1 year	Z2 + loading

*Note: * loading as per insurer's discretion.*

Source: Market sources

The minimum tariff deductible for STF is 10% of the claim. The minimum business interruption deductible is seven days.

For tenants living on the second floor and above with no flood claims record, a discount of 20% may be applied.

Cases where the sum insured exceeds USD 300mn can be rated at up to 50% less than the rates in the table.

Maximum allowed total acquisition costs are 15%.

Loss History

==

Update April 2020

In April 2020 landslides and flooding following heavy rains caused at least three deaths in the provinces of South Sulawesi, East Kalimantan and West Sumatra.

In January 2020 what were described as Indonesia's worst floods since 2013 led to the deaths of about 70 people in the capital, Jakarta, and surrounding areas, causing damage to over 1,300 homes. According to the General Insurance Association of Indonesia (AAUI), the cost to the insurance industry amounted to some USD 79mn.

In June 2019 flooding was reported to have affected over 35,000 people in Samarinda City, East Kalimantan Province. This occurred just a couple of days after flooding on the island of Sulawesi reportedly displaced over 4,000 people from their homes.

In April 2019, nearly 40 people were killed in floods caused by torrential rain on the island of Sumatra. Insured property losses are thought to be very low.

==

The following table shows some of the most recent floods. There have been no major floods causing significant insured damage since 2014.

Date	Location	Event type	Economic loss (IDR bn)	Economic loss (USD mn)	Insured loss (IDR bn)	Insured loss (USD mn)	Deaths
October 2018	West Sumatra	Floods	n/a	n/a	n/a	n/a	5
January 2014	Jakarta	Flood	8,306*	700*	n/a	n/a	11
January 2013	Jakarta	Flood and dam collapse	10,461*	1,000*	n/a	n/a	47
March 2009	Cirendeu (near Jakarta)	Dam collapse	n/a	n/a	n/a	n/a	100
February 2007	Jakarta	Floods	4,141	453	1,818*	200*	29
January 2002	Jakarta	Floods	6,518	700	n/a	n/a	n/a

*Note: * estimates*

Source: Market sources

Bushfire

Exposure

==

Update April 2020

In December 2019 a report by the World Bank estimated the cost of forest fires in Indonesia at USD 5.2bn in 2019.

==

Bushfires or forest fires are a regular feature of rural life in Kalimantan and Sumatra. Shifting cultivators and foresters have traditionally cleared land in the dry season by firing and rice farmers frequently clear the stubble by burning off. Such fires often get out of control. They did so in spectacular fashion in 1997, when thousands of hectares of forest across Sumatra, Kalimantan and West Papua (Irian Jaya) burned, causing a haze across south-east Asia affecting in particular Singapore and Malaysia. Similar smoke hazes have recurred in subsequent years, with one report suggesting that one such haze in 2015 may have led to over 90,000 premature deaths in Indonesia alone. Despite pressure from other governments in the region, the Indonesian government has taken only limited action to control the problem.

Peat soil in Sumatra and Kalimantan adds to the risk of subterranean fire but this rarely threatens property other than standing timber. The advent of a crop pool for standing timber is testament to the existence of an exposure, but it is said to be redundant as few risks have been insured.

Bushfire cover is normally included in the basic fire policy without additional premium.

Loss History

Despite the number of fires in recent years there appear to have been no major recorded insured losses.

Subsidence

Exposure

Subsidence and landslide caused by heavy rainfall and flooding have been a problem in country areas, but the low penetration of insurance in the provinces limits the potential cost to the insurance industry. The islands of Java and Sumatra are most prone to landslides because of the unstable land, while the capital, Jakarta, is reportedly sinking faster than any other city in the world.

Landslides occur most often as a result of the methods of working on roads with cut and fill.

Loss History

There is no record of significant insurance losses in respect of subsidence.

Hail

Exposure

Hailstorms are not a feature of the Indonesian climate.

CRESTA

The Catastrophe Risk Evaluating and Standardising Target Accumulations (Cresta) organisation is an independent body that was established in 1977. It is responsible for the technical management of natural hazard coverage and sets out a uniform global system for transferring aggregated exposure data among insurers, reinsurers and brokers to facilitate accumulation control and risk modelling. Cresta fixes country-specific zones for reporting exposure data, promotes a standard template for exchanging that data and offers a mapping service. Its standards are used throughout the insurance industry.

With effect from 24 November 2009, Cresta introduced interactive zoning list and map viewer tools. The map viewer replaced PDF maps, which are still available in the Cresta archive but are no longer updated. Access to Cresta services is available through www.cresta.org.

All information reproduced here appears courtesy of Cresta.

Summary and Trends

Market property premium income decreased by 2.7% in 2017, the first year of negative growth in this sector since 2010. In 2017 property was the second largest class of non-life business (including PA and health business) with a market share of 26.7%.

Following the introduction of the revised property insurance tariffs, effective from 1 April 2017, premium rates have stabilised, although there are concerns that the effects are being at least partially undermined by the rebating of commissions.

It should be noted that current local rules and regulations do not permit the accumulation of catastrophe reserves on a favourable tax basis.

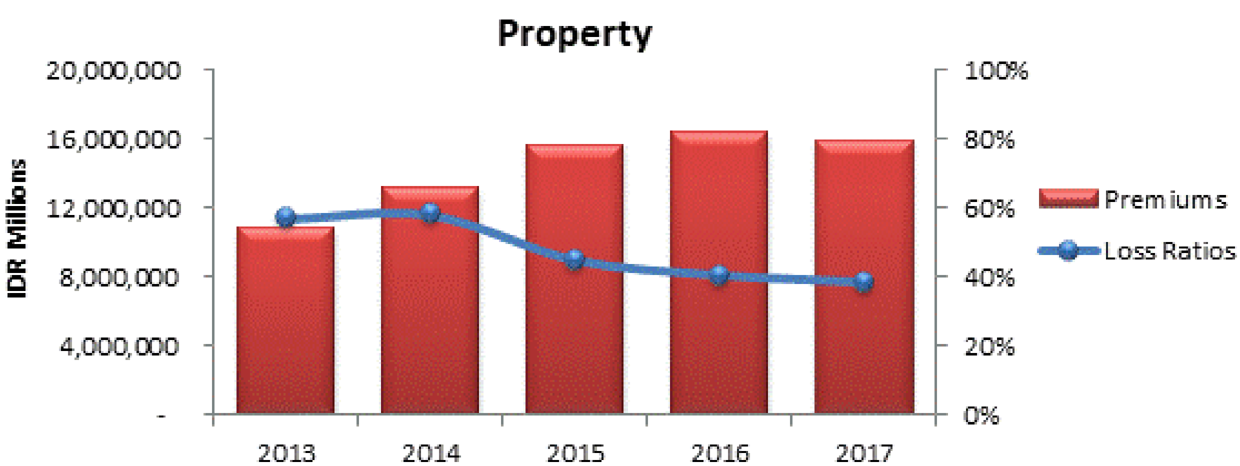
There are four pools in the property market, in addition to which there is a priority property quota share of 2.5% managed by Reasuransi Internasional Indonesia (ReINDO), now part of Indonesia Re. Further details can be found in the Pools section of this report within Insurance Market Overview.

In October 2018 the finance minister announced the government's intention to introduce a natural disaster risk-financing scheme in 2019 to deal with the impact of natural catastrophes. As part of this strategy, the government intends to start insuring its own buildings as from 2019. The initial proposal is that these risks should be covered by a consortium of insurers and managed by PT Asuransi Jasa Indonesia (Jasindo). In February 2019 the General Insurance Association of Indonesia (AAUI) announced that the consortium was still in the process of being formed.

Market participants are also required to cede a specified reinsured proportion of each and every earthquake risk to Maipark at agreed rates (see Natural Hazards section of this report for details).

Statistics

Direct written premiums and loss ratios (net incurred losses to net earned premiums) for the last available five years are shown below.



Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

New statistical information may have been included in the appendices.

Major Insurers

The leading property insurers and their market shares are shown below.

Company	Market share 2017 (%)
PT Asuransi Sinar Mas	12.91
PT Asuransi Jasa Indonesia (Jasindo)	9.58
PT Asuransi Central Asia	5.23
PT Asuransi Wahana Tata	4.56
PT Asuransi MSIG Indonesia	4.47

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Construction and Prevention

Building Regulations

The 1989 *Indonesian Construction Code SNI 1726-1989-F* provides specifications for anti-seismic construction, but compliance with this and other construction regulations cannot be considered as automatic.

The seismic code has been taken from both the British and American codes. Other building regulations exist for reinforced concrete structures, building load factors, timber construction, high-rise buildings and wind forces. A regulation also requires all buildings to be inspected by local governments and for building permits to be issued. Standards of enforcement vary from area to area. Indeed, it has been anecdotally suggested that over 60% of commercial buildings do not comply with the standards set by the Fire Department.

Building regulations are applied inconsistently. As a result safety is often jeopardised, and some consider it possible that in the event of a sizeable earthquake in Jakarta, much of the curtain-walling used on multi-storey buildings would collapse. It is considered by insurance industry insiders that few, if any, of the buildings of up to 10 storeys are built to standard and certainly not to withstand seismic shocks. Nevertheless it is also considered that most buildings in excess of 10 storeys generally do conform to the anti-seismic construction code.

Built Environment

Indonesia has experienced significant growth over the last 20 years or more but development has not always been particularly well planned, in particular in the cities. This has meant that multi-storey commercial buildings often stand adjacent to shanties and kampung (village) dwellings.

High-rise hotels, office and apartment blocks are seen throughout Jakarta, particularly in the central business district, the "Golden Triangle". As at December 2017 there were 90 skyscrapers in Jakarta exceeding 150 metres in height with over 50 more under construction.

Outside the cities, manufacturing industry is housed in modern metal and concrete structures in industrial estates, the approaches to which are frequently congested.

Residential property ranges from American-style condominiums in Jakarta's affluent suburbs to wood and thatch longhouses in the remote forests of Kalimantan and West Papua (the latter would not be insured).

Building Cost Index

The following table shows the building cost index for the last available five years, with 2012=100 being the base year.

	2013	2014	2015	2016	2017
Building cost index	103.87	105.60	108.23	109.85	112.88

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

It will be observed that there were increases in building costs within the reported period. Generally available information suggests, however, that construction costs in Indonesia are still among the lowest in Asia.

Fire Brigades

The standard of fire brigades is variable depending on where they are located.

Motorised appliances are old, and the municipal brigades are ill-equipped for high-rise fires: a fire in a building over 10 storeys might be difficult for them to deal with. The main problem in Jakarta is traffic congestion: frequent gridlock makes it impossible for appliances to reach a fire before it has burnt itself out. This is especially true for fires that occur in small back streets.

The fire brigade in Jakarta is said to be reasonably well equipped and trained. Snorkel equipment is unable to reach the upper floors of multi-storey buildings, however, and past high-rise fires have necessitated helicopter evacuations.

The Jakarta Fire Department is divided into six divisions, with less than 100 fire stations and no more than 2,500 fire fighters. The optimum staffing is said to be 4,500. Fire apparatus used by the fire department includes Isuzu 4000-litre pumpers, Mercedes 4000-litre pumpers, Dino/Hino diesel 3500-litre pumpers and Toyota Dyna diesel 1500-litre pumpers.

Some Indonesian cities and towns are short of public hydrants, and it is still common for water bowsers to accompany fire engines when on duty.

Physical Risk Management

The concept of risk management is understood by the multinational companies, particularly those from North America and Europe. Only the larger insurers employ loss prevention surveyors and engineers and some insurers rely upon technical assistance from major professional reinsurers.

Increased retentions are forcing insurance companies to pay more regard to risk management, and the imposition of higher deductibles is causing clients to re-evaluate loss prevention measures.

Among the local broking community, IBS appears to be the principal exponent of risk management practices. It operates a separate company, Risk Management Indonesia.

There is no local risk management association.

Risk Quality

Indonesia does not have a fire protection association, and fire safety comes within the jurisdiction of the fire brigade. Some insurance companies and brokers, particularly the joint venture operations, have survey and/or loss prevention capabilities, but it is difficult to persuade clients to upgrade fire protections unless it is absolutely necessary. Reinsurance companies, especially those in Singapore, provide loss prevention services to many of the national companies for large risks.

Foreign clients are more understanding and more receptive to risk improvement recommendations, but it is still difficult to enforce improvements unless cover is dependent upon reinsurance support in an environment where there is a fixed tariff. The petrochemical and energy industries with their sophisticated installations maintain high levels of risk protection within organised risk management programmes.

The installation of basic fire protection equipment such as hand-held fire extinguishers and hose reels is still not widespread. Poor housekeeping, defective electrical wiring and a lack of control over hot-work procedures are said to be the cause of many fires. Many of the modern office buildings, malls and hotels are fitted with smoke and heat detectors linked to an alarm system and sprinklers, but standards generally fall below countries like Singapore and Malaysia. Anecdotal evidence suggests that loss prevention standards have improved, and most high-rise buildings now have dry and/or wet risers and buildings have water tanks to provide emergency supplies.

City By-law No 3/1992 covering fire protection systems states that those who fail to abide by the by-law's requirements are subject to three months in jail or a fine of IDR 5mn (USD 346.18).

Moral hazard is not considered to be a major issue by underwriters.

Social Hazards

Burglary

Poverty and rising unemployment are the principal causes of crime and many people in the urban middle-income group feel particularly vulnerable. Violent theft is rare, however.

The extent to which burglary cover is taken up is difficult to assess, as there are no separate statistics for this class of business. It is believed there are few stand-alone burglary policies, but there is a good take-up rate under property all risks covers and a modest take-up rate in respect of householders' policies.

This and the general security situation have resulted in a move from detached residential property to apartment condominiums, many of which are gated, with 24-hour security guards and CCTV.

Typically an additional premium in the region of 0.03% to 0.05% is charged for theft cover on residential property or commercial and industrial risks. Stand-alone covers for higher risk categories such as electronic equipment stockists, gold shops and the like may attract rates as high as 5% to 10% depending upon the location, assuming cover can be secured. Burglary rates for other commercial and/or industrial risks vary between 5% and 15% of the basic fire rate for full value cover.

Arson

Arson is by no means unknown in Indonesia, and was prevalent in the 1998 riots. It is also frequent in the violent demonstrations or uprisings which occur in some of the more unstable parts of the country, while there are suggestions that it has occasionally been provoked by the slash-and-burn policies of plantation companies, even though this is prohibited in Indonesia. There is only intermittent evidence of arson being used as a means to secure an insurance payment for an ailing business, however, and underwriters do not consider the moral hazard to be unusually high for the region.

Strikes, Riots and Civil Commotions

==

Update November 2019

In September 2019 two people were killed and more than 200 injured following widespread demonstrations by students protesting against a series of controversial new laws. These include a one making it an offence to insult the president and another which, according to protesters, undermined the efficiency of the Corruption Eradication Commission.

In May 2019 eight protesters were killed and more than 700 wounded during three days of riots in the capital, Jakarta, following the result of the presidential election, which was won by the incumbent Joko Widodo.

==

The riots in Jakarta and Medan in May 1998 caused widespread damage and resulted in total insured claims of some USD 275mn. After adjustment, total incurred losses amounted to USD 193.1mn, the bulk of which was borne by reinsurers. The net loss to the Indonesian insurance industry was USD 26.8mn, according to a summary prepared by the Insurance Council. Although riots are not now common in Indonesia, demonstrations by various ethnic groups have occasionally been known to turn violent.

Following the May 1998 incidents, reinsurers were obliged to tighten policy wordings so that in any future disturbances, civil commotion would be specifically excluded. A new clause, 4.1.A, was introduced in December 1998 and provides cover according to a narrow definition of riot and excludes civil commotion, sabotage, war, terrorism and revolution. Coverage is therefore only currently available along the lines of the 4.1.A wording, although a number of reinsurers have introduced modifications to eliminate ambiguities in relation to terrorist attacks.

Separately quoted RSMD (riot, strike and malicious damage) rates vary substantially, depending on the nature of the insured property and its location. More generally RSMD will be combined with other additional perils at modest premiums.

Terrorism

There is a terrorism pool managed by MAREIN with nearly 50 pool members. Risks are underwritten by a technical committee using the London scale as a guide. It is said in the market that the pool is not particularly active, due to competition from other sources of terrorism coverage in the local and international market.

Otherwise terrorism cover is offered by some local companies with the support of local and international reinsurance facilities.

It is reported that the most popular terrorism wording in the market is the Munich Re wording, but manuscript wordings are used for large multinational clients. Coverage is usually on a reinstatement basis and is mainly requested by major multinational clients.

Terrorism is an ever-present threat but vigorous police action has tended to subdue it in recent years. There have been no serious terrorism incidents since 2012.

Householder/Homeowner

Summary and Trends

Very little householder and/or homeowner cover is written in Indonesia, and, with the departure of a large number of expatriates since 1997, the market has contracted. The Ministry of Manpower and Transmigration estimated that in 2017 there were about 86,000 foreign workers in Indonesia. Expatriates are also deterred from purchasing property by limitations on their property ownership rights to leasehold tenure only.

No separate statistics are available regarding simple risk and household property premium income.

A number of other factors such as cultural and religious attitudes, general mistrust of financial institutions and widespread poverty are the most likely reasons for the limited development of this class. Only a very small proportion of the population has any form of insurance. Banks market householder insurance to mortgage applicants. Small houses in the suburbs of Jakarta can cost between USD 5,000 and USD 20,000, but even this is viewed as costly for people living on low salaries, and in any case this is not the target group identified by banks and their insurance providers.

Takaful offers a potential means of interesting the Islamic middle classes in home insurance, but the prospects are still very limited.

Market participants are required to cede a specified reinsured proportion of each and every earthquake risk to Maipark at tariff rates (see Natural Hazards section of this report for details).

Statistics

No separate statistics are available regarding simple risk and household property premium income.

Limits and Scope of Cover

A typical policy includes:

- fire
- lightning
- explosion resulting from the pressure of gases or chemical reaction
- impact of falling aircraft or objects falling or dropped from aircraft
- smoke
- riot, strike, malicious damage plus civil commotion
- overflow of water
- burglary
- vehicle impact
- typhoon, windstorm and/or flood
- earthquake
- removal of debris.

Interests which can be insured include:

- buildings
- contents

- domestic servants' property
- loss of rent
- third party liability
- personal accident.

Cover is available on a new replacement value basis, and some companies are willing to provide all risks cover on valuables and personal effects. It appears, however, that many policies are sold covering fire and perils only on an indemnity basis.

Rating and Deductibles

Rates can vary according to the construction, insured perils and area, but in any event rates are regulated by the tariff introduced as a result of *OJK Circular No SE-06/D.05/2013* effective from 1 February 2014 and subsequently amended in 2015 and 2017. This tariff subdivides simple risks into some seven categories. The tariff rates (excluding earthquake and STF) vary from a low of 0.368‰ for a first class construction apartment block or condominium of less than six storeys to 3.077‰ for dwelling houses floating on the river/sea shore (regardless of construction class).

Earthquake and STF premiums are charged separately and in addition to fire and allied perils rates and details can be found in the Natural Hazards section of this report.

Maximum allowed total acquisition costs are limited to 15%.

The following table gives an indication of rate movements for homeowners' risk premiums in recent years, with 2012=100 being the base year.

Homeowners' risk rate movements	
2018	270
2017	270
2016	270
2015	270
2014	270

Source: Market sources

It should be noted that the compulsory property insurance tariff was introduced for all policies issued or renewed on or after 1 February 2014. As a result tariff application in 2014 was only partial, as the tariff was not applied in January 2014 and only progressively at renewals thereafter. Since then, it would seem that the tariff is being adhered to.

Loss Experience

==

Update October 2019

In June 2019 at least 30 people were suspected to have died in a fire in a house used as a small factory for producing matchsticks in North Sumatra province.

==

Separate statistics are not provided, but experience is believed to be good.

Reinsurance

Householder and/or homeowner risks are reinsured where appropriate under property treaty facilities. For larger companies with surplus reinsurance only, most householder risks are within net retentions. Many companies now carry only excess of loss cover in this class of business, which may in some cases cover single large risks in addition to the usual per event coverage.

Major Insurers

No specific statistics are available. The main insurance companies for this class of business appear to be the joint venture companies such as Allianz, AIU and AXA. Central Asia, Bintang, Astra and Sinar Mas are believed to be prominent among the local insurers offering cover.

Distribution

Business is generated through agents or on a direct basis. Some brokers run affinity programmes or schemes.

Industrial and Commercial

Summary and Trends

No splits are available between simple risk business and industrial commercial.

Market property premium income decreased by 2.7% in 2017, the first year of negative growth in this sector since 2010: most (about 95%) of the premium income relates to commercial and industrial business. From 2013 to 2015 property insurance growth was in high double-digit percentages.

In 2017 property was the second largest class of non-life business (including PA and health business) with a market share of 26.7%.

OJK Circular No SE-06/D.05/2013 mandated with effect from 1 February 2014 property, volcanic eruption, tsunami, flood, business interruption and machinery breakdown insurance premium rates. Changes to the property tariff announced in 2015 by *Circular No SE-05/2015* included percentage gross premium discounts from 10% to 50% for property insurance risks with very large total sum insureds exceeding USD 100mn in one or multiple locations.

On 26 January 2017 the regulator published *Circular No 6/SEOJK.05/2017* introducing revised property insurance tariffs, effective from 1 April 2017. Changes to the previous tariff related solely to basic perils cover and did not affect earthquake and machinery breakdown rates. Out of a total of approximately 500 risk classifications changes were made to 45 of them. Following the introduction of these revised tariffs, premium rates have stabilised, although there are concerns that the effects are being at least partially undermined by the rebating of commissions. Please see the heading Rating and Deductibles in this section for more detailed information regarding the tariff changes effective from 1 April 2017.

There are four pools in the property market, in addition to which there is a priority property quota share of 2.5% managed by Reasuransi Internasional Indonesia (ReINDO), now part of Indonesia Re. Further details are noted in the Pools section of this report within Insurance Market Overview.

In October 2018 the finance minister announced the government's intention to introduce a natural disaster risk-financing scheme in 2019 to deal with the impact of natural catastrophes. As part of this strategy, the government intends to start insuring its own buildings as from 2019. The initial proposal is that these risks should be covered by a consortium of insurers and managed by PT Asuransi Jasa Indonesia (Jasindo). In February 2019 the General Insurance Association of Indonesia (AAUI) announced that the consortium was still in the process of being formed.

Market participants are required to cede a specified reinsured proportion of each and every earthquake risk to Maipark at agreed rates (see Natural Hazards section of this report for details). The earthquake tariff introduced by *OJK Circular No SE-06/D.05/2013* is based on the five zones used by Asuransi Maipark.

Statistics

Published statistics do not separate homeowners' and industrial and commercial risks, but industrial and commercial business is believed to represent about 95% of the total property insurance premium income.

Limits and Scope of Cover

The market is polarised between smaller risks, which are insured against fire only and the larger risks, which are covered under industrial all risks policies. Simple fire policies (with or without extended perils) are becoming less and less common being replaced by package type policies, including IAR.

Outside the commercial and industrial all risks market it is estimated that between 5% and 10% of fire policies are extended to include special perils. These comprise explosion, aircraft, riots, strikes, civil commotion, malicious damage, windstorm, tempest, flood (STF), water damage, impact, smoke damage, spontaneous combustion, earthquake and electrical derangement.

In the past domestic companies preferred to issue separate fire, burglary and liability policies for small businesses rather than shopkeepers' combined packages. Package covers are becoming increasingly common, however, and are offered to small and/or medium enterprises, although cover is often on a named perils basis in the context of which extended perils coverage is an option.

Industrial all risks policies have no standard wording. Property all risks policies usually follow the Association of British Insurers (ABI) wording, LM7 or the standard Munich Re wording. Broker manuscript wordings are used for larger risks.

It is not uncommon for companies to issue a combined material damage and business interruption industrial all risks wording with extensions covering burglary and money subject to sub-limits plus machinery breakdown where the sum insured exceeds USD 300mn.

Automatic increase clauses are commonly used, limiting the uplift in sums insured to between 10% and 15%. Average relief clauses are very often found in broker covers, suspending the application of average where the sums insured represent at least 85% of the total values at risk.

New replacement value coverage is available, although in most cases cover is limited to indemnity.

Business Interruption

The demand for business interruption cover is driven by brokers who estimate that 40% to 50% of large property programmes include business interruption. It is of limited interest to the majority of SME clients, however. UK-type business interruption wordings are used. Earthquake business interruption is subject to the same minimum deductible as earthquake property, ie 2.5% of the sum insured per location.

Business interruption premium rates are expressed according to the tariff as percentages of basic property (fire) rates, dependent upon the period of indemnity. The options range from a one-month period of indemnity (at 20% of the fire rate) to a 12-month period of indemnity (at 100% of the fire rate). Periods of indemnity of more than 12 months are also catered for, ranging from 15 months (at 96% of the fire rate) to 48 months (at 83% of the fire rate).

Business interruption deductibles are left to underwriters' discretion except for heavy risks, such as mining, chemical, oil and gas, textile, paper, wood, power etc.

Suppliers' and customers' extensions are, where possible, limited to suppliers and customers in Indonesia and in all instances they are named and limited to 10%. A similar approach is adopted for denial of access where a limitation is required.

The material damage proviso is often waived except for public utilities.

Rating and Deductibles

OJK Circular No SE-06/D.05/2013 mandated with effect from 1 February 2014 property, volcanic eruption, tsunami, flood, business interruption and machinery breakdown insurance premium rates. Tariff rates are divided into three construction classes and further subdivided into minima and maxima in each construction class.

The rates in the tariff relate to the fire risk and separate additional rates are charged to cover the STF, RSMD and earthquake risk (see the Natural Hazards section of this report for details).

Changes to the property tariff announced in 2015 by *Circular No SE-05/2015* included the following:

- the introduction of allowed percentage discounts graded by size, expressed in terms of total sum insured (TSI), from 10% to 50% for property insurance risks with very large TSIs exceeding USD 100mn in one or multiple locations
- no permitted discounts in respect of earthquake risks up to USD 1bn: for risks with higher TSIs the international rate should be followed
- a ruling that insurers can grant commission not exceeding 15% net of tax to the intermediary, insured or client or a third party who was the source of business
- no claims discounts (NCD) were no longer permitted.

On 26 January 2017 the regulator published *Circular No 6/SEOJK.05/2017* introducing revised property insurance tariffs, effective from 1 April 2017. Changes to the previous tariff related solely to basic perils cover and did not affect earthquake and machinery breakdown rates. Out of a total of approximately 500 risk classifications changes were made to 45 of them: these changes can be analysed overall as noted below.

- In 15 industry segments, including manufacture and assembly of telecommunications, schools, motor service stations/repair shops and buildings in the course of construction rates were reduced by up to 5%.
- There were rate increases averaging 10% to 20% in 30 industry segments mostly affecting high-risk industries such as paper/cardboard manufacturing, chemicals, weaving and rubber.
- Public and private warehousing risk rates were increased by approximately 12.5%.
- Rates for certain non-defined chemical and pharmaceutical product risks could rise by up to 200% and by about 400% for certain leisure risks.

The following table shows approximate indicative tariff gross rating levels. Rates are inclusive of coverage in respect of fire, STF, earthquake and RSMD and do not include discounts permitted by *Circular No SE-05/2015*. These rates will vary according to location, particularly in relation to earthquake risk.

Property type	Rate (‰)
High-rise building	2.395
Private warehouse	3.012
Edible oil plant	2.686

Source: Market sources

The following table gives an indication of rate movements for industrial and commercial risk premiums in recent years, with 2012=100 being the base year.

Industrial and commercial risk rate movements	
2018	175
2017	175
2016	170
2015	170
2014	220

Note: the 2015 movement reflects discounts allowed by Circular No SE-05/2015 for sums insured exceeding USD 100mn.

Source: Market sources

Major Risks

Major property risks are shown below.

Insured	Occupancy
Asia Pulp and Paper	Pulp and paper
Pertamina	Oil and gas exploration and production / refining and distribution
Telkom	State-owned telecommunications company
Sampoerna	Manufacture of tobacco products, agriculture, finance, property, telecoms, timber
PLN	State-owned electricity generation and distribution company

Source: Market sources

Loss Experience and Largest Losses

==

Update October 2019

In June 2019 at least 30 people were suspected to have died in a fire in a house used as a small factory for producing matchsticks in North Sumatra province.

==

Property market loss ratios in 2016 and 2017 were 40.6% and 38.5%, with combined ratios of 50.7% and 47.9%, respectively, their lowest level since 2008, indicating that the business has been profitable in the recent past.

There were major flood losses in Jakarta in both 2013 and 2014 and further details can be found in the Natural Hazards section of this report within the Flood sub-section.

In January 2018 a huge fire caused extensive damage to Jakarta's 17th-century heritage maritime museum housed in Dutch colonial warehouses. No casualties were reported and it is thought unlikely that the building was insured.

Major Insurers

The leading property insurers and their market shares are shown below.

Company	Market share 2017 (%)
PT Asuransi Sinar Mas	12.91
PT Asuransi Jasa Indonesia (Jasindo)	9.58
PT Asuransi Central Asia	5.23
PT Asuransi Wahana Tata	4.56
PT Asuransi MSIG Indonesia	4.47

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Reinsurance

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations replaced previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*. For further details, refer to the section headed Retentions under Company Registration and Operating Requirements in Supervision and Control.

A market agreement sponsored by the government central statistics department (BPPDAN) seeks to promote national retention capacity by requiring all non-life insurance companies to make an obligatory cession of 2.5% of total sum insured, but not exceeding USD 500,000, to a pool managed by Reasuransi Internasional Indonesia (ReINDO, now part of Indonesia Re).

For larger companies, working and catastrophe excess of loss programmes are used. For smaller companies, 50% to 60% quota share is the norm plus a surplus treaty of seven to 12 lines. In property proportional treaties there is usually an event limit of five times the maximum sum insured limit. The minimum retention for large companies with equities exceeding IDR 2trn (USD 138.47mn) is IDR 15bn (USD 1.04mn).

There is a coinsurance market for large risks. Local facultative reinsurance is also placed extensively.

Distribution

Business is split between broker-controlled large and specialised risks, bank-controlled risks and agent-introduced risks. Companies also derive business through tied direct accounts.

Agriculture

Summary and Trends

This is a small class of business which is dominated by domestic companies. Agriculture insurance is currently limited to the insurance of standing timber such as rubber, oil palm, cocoa, coffee and coconut.

The government announced a plan in 2013 via *Law No 19/2013* to bring crop insurance to farmers, with the Ministry of Agriculture to be responsible for implementation. The insurance programme was launched in October 2015 targeting coverage of one million hectares of rice cultivation in 16 provinces by the end of 2015. The government appointed PT Asuransi Jasa Indonesia (Jasindo) to implement the program.

It was announced in October 2013 that Bank Indonesia, the Ministry of Agriculture and a consortium of insurers initiated a cattle insurance scheme covering 10 farmers from the Warga Mulia Cooperative and the Boyalali Cattle Farmers Association in Central Java. Coverage is reported to be in respect of death by disease or accident, incidents in the breeding process and theft of animals. The insurer consortium is led by Jasindo. Other members of the consortium are Asuransi Umum Bumiputera Muda and Asuransi Tri Pakarta.

In April 2017 IFC, a member of the World Bank Group, and PT Reasuransi MAIPARK announced that they had agreed jointly to develop index-based insurance products to hedge risks against adverse weather events affecting the agriculture sector.

Statistics

No separate statistics are available.

Loss Experience

There is no record of any major agriculture insurance losses.

Hail

Hail is not a hazard or an insured peril in Indonesia.

Construction and Erection all Risks

Summary and Trends

==

Update October 2019

In May 2019 the government announced its intention to spend more than USD 400bn on building projects, including new airports and power plants, in order to drive growth in the economy.

==

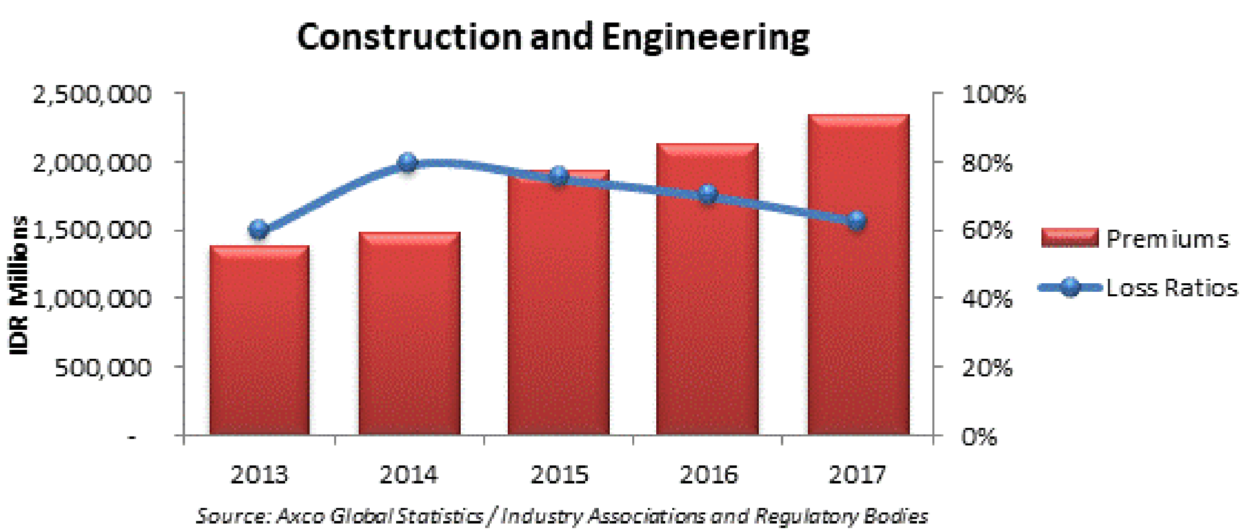
Construction and engineering gross written premium increased by 10% in 2016 and by 10.7% in 2017, down from the significant growth of 30.8% in 2015, when the principal sources of growth were reported to be infrastructural development including a rail transit system in Jakarta, major road improvements and construction in the power sector. In 2017 it represented just 3.9% of non-life business (including PA and health business).

Rates are reported to have softened in 2017 and 2018, with the market remaining competitive.

Coinsurance is deployed on occasions in respect of construction and engineering business. Coinsurance is usually, but not always, arranged by brokers: on occasions it may be arranged directly. Agents do not arrange coinsurance.

Statistics

Direct written premiums and loss ratios (net incurred losses to net earned premiums) for the last available five years are shown below.



Hazard

The major hazards are flooding and vibration, weakening and removal of support. Pile driving with consequent damage to third party property, causing cracking, weakening and removal of support, has been a regular cause of claims.

Subsidence and landslide are also risks to be considered, in particular on rural road construction projects.

Earthquake is a potential major hazard, depending on where work is located.

Theft of materials is a continual problem, and underwriters usually vet security measures.

Building Contract Conditions

Building contract wordings vary, although international wordings are in common use for large projects involving international contractors, including those developed by the International Federation of Consulting Engineers (FIDIC), the Royal Institute of British Architects (RIBA) and Institute of Mechanical Engineers (Imech).

The *Construction Services Law 18/1999* covers various construction services such as architectural, civil, mechanical and electrical services. The legislation provides that, in the case of large projects, the services must be provided by a limited liability company. To ensure a higher level of professional competence among service providers, there is a system of certification of professionals involved in the construction sector.

The legislation also stipulates the rights and obligations of parties in the case of a building failure, including provisions for the settlement of disputes without resorting to court action. There are also provisions allowing members of the public to initiate a class action where individuals have suffered loss because of unlawful construction works. The contractor also has to guarantee the work for a period of between five and 10 years, although insurance is not compulsory and does not appear to be purchased to any significant extent.

Limits and Scope of Cover

Cover generally follows the standard Munich Re policy wording with broker add-ons from time to time. Manuscript wordings are used only for large and very large projects. Open covers are not a common feature of the market although these are arranged for selected clients with a regular flow of work. Contractors' plant may be insured under a CAR policy, or a separate plant all risks policy may be issued, depending on the nature of the insurable interest.

Small projects tend not to be insured. There are no unusual exclusions.

Contractors' Liability

Limits of liability vary between the local equivalents of USD 1mn and USD 10mn, although much depends on the nature of the contract. Indonesian contractors are unlikely to insure unless it is obligatory, and even then limits can be very low. International banks involved in funding in Indonesia are known to request higher limits.

Decennial insurance is not a significant feature.

Rating and Deductibles

There is no tariff applying to construction and engineering business. Rates are reported to have softened in 2017 and 2018, with the market remaining competitive.

Average premium rates are indicated below:

- shopping mall (maximum five storeys) - rate 0.1% to 0.10%
- office/hotel - rate 0.08 % to 0.09%.

Deductibles generally range as follows, although market sources suggest that some of these may have reduced slightly during 2018:

- USD 2,500 to USD 50,000 for major perils
- earthquake 5% of loss, variable according to location
- USD 5,000 to USD 50,000 for vibration and weakening of support
- USD 2,500 to USD 15,000 for others
- nil for third party bodily injury to USD 5,000 for third party property damage.

Loss History

The government-led boom in infrastructure projects led to a series of accidents in the construction sector in late 2017 and early 2018, when 15 such losses were recorded, seven of them involving the state-owned company Waskita Karya. In February 2018 an underpass being constructed by Waskita near Soekarno-Hatta International Airport collapsed, killing one person. In March 2018, following the collapse of a concrete mould on a toll road project in Jakarta in which seven workers were seriously injured, the Public Works temporarily suspended 36 high-profile infrastructure projects for a safety audit. The amounts involved in these losses are not known.

Pile driving with consequent damage to third party property due to cracking, weakening and removal of support is said to be a regular cause of losses. Other losses have occurred due to contractors' inadequate engineering practices especially during testing.

Market incurred net loss ratios to net premium income were 70.1% in 2016 and 62.7% in 2017 with combined ratios, respectively, of 80.6% and 73.8%, suggesting that the losses mentioned above were unlikely to have been insured.

Major Insurers

The leading engineering insurers and their market shares are shown below.

Company	Market share 2017 (%)
PT Asuransi Jasa Indonesia (Jasindo)	13.84
PT Asuransi Sinar Mas	6.79
PT Asuransi Wahana Tata	6.07
PT Asuransi Tugu Kresna Pratama	5.21
PT Asuransi MSIG Indonesia	4.86

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Reinsurance

===

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

===

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations replace previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*. For further details, refer to the section headed Retentions under Company Registration and Operating Requirements in Supervision and Control.

All companies actively writing this class of business have treaty facilities. Surplus coverage is usually between five and 10 lines. There is little evidence of quota share treaty reinsurance in this class of business. The minimum retention for large companies with equities exceeding IDR 2trn (USD 138.47mn) is IDR 15bn (USD 1.04mn).

There is a coinsurance market for large risks. Local facultative reinsurance is also placed.

Distribution

Brokers are the principal distribution channel for large projects, with Aon, IBS, Jardine Lloyd Thompson, Willis and Marsh taking leading roles. A local broker Mitra Iswara & Rorimpandey (MIR) is involved in tendering for construction projects, especially in greater Jakarta.

Projects involving Japanese or Korean contractors are often arranged direct with preferred insurers.

Building Cost Index

The following table shows the building cost index for the last available five years, with 2012=100 being the base year.

	2013	2014	2015	2016	2017
Building cost index	103.87	105.60	108.23	109.85	112.88

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

It will be observed that there were increases in building costs within the reported period. Generally available information suggests, however, that construction costs in Indonesia are still among the lowest in Asia.

Principal Contractors

Many major contracts are undertaken by foreign companies, particularly in the oil and gas sector, although some no longer have local representation. Such contractors include:

- PT Halliburton Indonesia
- McDermott Indonesia
- PT PGS Nusantara
- PT Robertson Utama Indonesia
- PT Schlumberger Indonesia
- PT Kvaerner
- Bechtel
- PT ABB Jasa Indonesia.

Chinese contractors such as China National Machinery Equipment Corporation (Sinomac), China National Electric Equipment (CNEEC) and Sinohydro Corporation are active in the coal-fired power station sector.

The Indonesian Contractors Association is understood to have about 130 members, indicating a varied indigenous construction sector.

The major Indonesian contractors are noted below.

- PT Waskita Karya Tbk is a majority state-owned engineering, procurement and construction/investment conglomerate specialising in high-rise construction, mechanical and electrical contracting, power plant projects, road, bridge and rail infrastructure, concrete production and realty.
- Pembagunan Perumahan (PP Tbk) was previously state-owned but has been quoted on the stock exchange since 2009. This company specialises in large civil construction projects such as hotels, shopping malls and commercial developments.
- PT ADHI Karya (ADHI) is a majority (51%) state-owned company, quoted on the stock exchange since 2003 specialising in engineering, procurement and construction/ investment conglomerate and real estate activities.
- PT Hutama Karya (PT HK) is a wholly state-owned conglomerate specialising in major construction projects, road, bridge, dam, harbour projects and asphalt production.
- PT Total Bangun Persada is a private company specialising in high-rise construction, industrial and tourism projects.
- PT Jaya Konstruksi Manggala Pratama Tbk is quoted on the stock exchange. This company specialises in the construction of roads, toll roads, airports and industrial, commercial/residential buildings.
- PT Multi Structure is a private company which specialises in road and toll road construction, bridges, flyovers, tunnels, underpasses, irrigation projects, underground piping, airports, seaports, railways, procurement and general civil engineering.
- PT Nusa Raya Cipta is a private company providing full construction services especially related to the industrial and commercial sectors, also schools, hospitals and tourist resorts.
- PT Brantas Abipraya is a state-owned company specialising in the construction of dams, airports, roads, bridges and irrigation projects.
- PT Bangun Cipta Kontractor is a private company established in 1977 specialising in the construction of high-rise buildings, harbours, piers, dams, irrigation projects, bridges and roads.

Machinery Breakdown

Summary and Trends

Machinery breakdown insurance is rarely sold as a stand-alone cover, but is sold with industrial all risks coverage, particularly for hotels. Where stand-alone policies are arranged they tend to be on critical machinery only.

Statistics

No separate statistics in respect of machinery breakdown insurance are available.

Limits and Scope of Cover

Stand-alone cover follows the standard Munich Re policy wording excluding fire, natural perils and theft. Cover is sometimes taken out on a first loss basis.

Third party coverage is usually provided under a separate policy.

Rating and Deductibles

This class of business is not subject to a tariff, but the property tariff provided for in *OJK Circular No SE-06/D.05/2013* (as amended by the 2015 and 2017 circulars) stipulates that separate IAR and machinery policies must be issued for property all risks and machinery respectively, where the total sum insured does not exceed USD 300mn.

Whether covered by a separate policy (associated with an IAR policy) or inclusively in the IAR policy, rates for machinery cover are normally the equivalent of up to 30% of the combined property material damage and business interruption rate. Deductibles vary from USD 2,500 to USD 5,000 for material damage, and time deductibles from between two and seven days for small industries. The material damage deductible for a large risk may be USD 50,000 and in the case of a petrochemical plant it can be as high as USD 5mn to USD 10mn with time deductibles up to 60 days.

In the case of power plants where an operator's cover is arranged, deductibles can range from USD 15,000 to USD 500,000 in respect of machinery breakdown cover. Similar covers in respect of the petrochemical industry would be subject to deductibles between USD 1mn and USD 7.5mn.

Rates for separate policies, which are written with international wordings, are determined by overseas reinsurers in the international facultative market and are likely to range between 0.2% and 0.3%.

Loss History

As far as is known there have been no recent significant losses in this class of business.

Major Insurers

No specific ranking statistics are available in respect of machinery breakdown in isolation. Please refer to Major Insurers in the Property and Construction and Erection All Risks sections of this report for general indications relative to IAR and engineering business.

Reinsurance

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019*. This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations replace previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*. For further details, refer to the section headed Retentions under Company Registration and Operating Requirements in Supervision and Control.

Reinsurance is placed principally with professional reinsurers within treaties or in the facultative market, or both.

Distribution

Distribution of the class is mainly through brokers.

Statutory Inspection Requirements

Legislation exists covering the inspection of boilers, lifts etc, but compliance is inconsistent and easily circumvented. This is not the case in the energy and petrochemical sectors, where rigid standards are applicable and observed.

Relevant legislation in Indonesia includes the following:

- *Steam Ordinance of 1930*
- *Steam Regulation of 1930*
- *Regulation No PER-03/MEN/1978* - requirements for the appointment, authority and obligations of safety inspectors and experts
- *Regulation No PER-05/MEN/1978* - safety and health conditions in the use of electric lifts for the transportation of passengers and goods

- *Regulation No PER-01/MEN/1982* - pressure vessels.

Extended Warranty

It is understood that few local companies write extended warranty insurance on brown and white goods and it is thought that the major source of cover is from joint venture companies. Enquiries in the market indicate that this class is of minor importance and that statistics are included in the miscellaneous category.

Summary and Trends

Following the tariff-induced growth of 30.1% in 2015, the market gross motor account saw negative growth of 4% in 2016, following which it recovered to grow by 8.8% in 2017. In 2017 motor was the largest class of non-life business (including PA and health business) with a market share of 28.9%.

Motor third party cover is not compulsory in Indonesia, although some market participants are pushing for this situation to change, viewing it as a means of raising cultural awareness of insurance generally.

Law No 33/34/1964 on the Mandatory Insurance Fund for Passenger Accidents created a fund in respect of accidents occurring to passengers on any form of public transport (by road, rail, water or air) from departure to arrival. An individual contribution to the fund is included in the public transport ticket price. The fund, which is administered by PT Jasa Raharja, also receives contributions from all vehicle owners by way of a fee charged with the vehicle licence issuance and subsequent annual renewals. The standard annual contribution to the fund payable in respect of a private vehicle licence is IDR 143,000 (USD 9.90). The charge levied on the vehicle licence is used to increase income to the passenger accident fund and confers no benefits on the private vehicle licence holders, unless they happen to be injured or killed when travelling on public transport.

Most motor business in the private insurance market arises from the sale of new vehicles (and guaranteed second-hand vehicles) on credit terms, since all lenders require comprehensive insurance.

OJK Circular No SE-06/D.05/2013 introduced minimum and maximum rate tariffs and conditions in respect of comprehensive, third party only, flood, earthquake, strike, riot, malicious damage, civil commotion, terrorism and sabotage motor insurance-related coverage.

Circular No SE-05/2015 did not materially change basic motor tariff premium rates but it did introduce amendments to *Circular No SE-06/D.05/2013* in relation to motor insurance tariff conditions.

On 26 January 2017 the regulator published *Circular No 6/SEOJK.05/2017* introducing a revised motor insurance tariff, effective from 1 April 2017. For details please see the heading Rating and Deductibles in this section of the report.

Liability claims are low, and there is no long tail to claims in Indonesia, but the traffic congestion and lack of road discipline are such that frequent collisions are inevitable.

Legislative Update

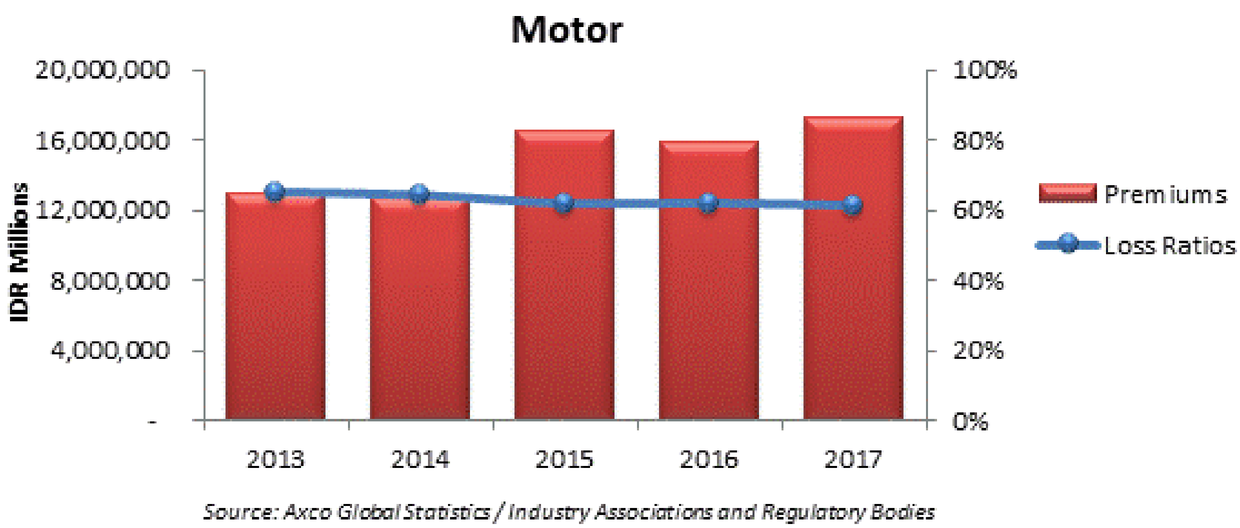
There has been no new legislation specific to this class of business recently.

Projected Legislation

As far as is known no specific legislation relative to motor business is currently projected.

Statistics

Direct written premiums and loss ratios (net incurred losses to net earned premiums) for the last available five years are shown below.



New statistical information may have been included in the appendices.

Statutory Third Party Limits

Motor third party insurance is not compulsory, although some market participants are pushing for this situation to change, viewing it as a means of raising cultural awareness of insurance generally.

Law No 33/34/1964 on the Mandatory Insurance Fund for Passenger Accidents created a fund in respect of accidents occurring to passengers on any form of public transport (by road, rail, water or air) from departure to arrival. An individual contribution to the fund is included in the public transport ticket price. The fund, which is administered by PT Jasa Raharja, also receives contributions from all vehicle owners by way of a fee charged with the vehicle licence issuance and subsequent annual renewals. Maximum compensation limits are as follows:

Max compensation	By road/water		By air	
	IDR mn	USD	IDR mn	USD
Death	25	1,873	50	3,747
Permanent disability	25	1,873	50	3,747
Medical expenses	10	749	25	1,873
Funeral expenses	2	149	2	149

Source: Market sources

The standard annual contribution to the fund payable in respect of a private vehicle licence issuance or renewal is IDR 143,000 (USD 9.90).

Other Regulatory Considerations

There is no bad risk pool and victims of hit-and-run accidents or uninsured vehicles are not provided for in any way.

Law No 33/1964 on the Mandatory Insurance Fund for Passenger Accidents is described under the heading Statutory Third Party Limits in this section.

International Motor

A protocol (*Protocol 5 - ASEAN Scheme of Compulsory Motor Vehicle Insurance*) signed in May 2001 provides for a common scheme of compulsory motor vehicle third party liability insurance for ASEAN countries. The Blue Card scheme was one of the protocols adopted by the ASEAN transport ministers under the *ASEAN Framework Agreement on the Facilitation of Goods in Transit between ASEAN Countries*. The formalised documentation for the operation of the scheme was completed and each member country or signatory to the protocol nominated a national bureau that will represent the country on the panel of offices that oversees the scheme. Although most national bureaux have reported that they are ready to operate the scheme, it has not yet been put fully into effect.

Foreign vehicles from other countries wishing to enter Indonesia may extend their local policies prior to departure or buy insurance on arrival there.

Limits and Scope of Cover

Voluntary insurance is available for third party liability (bodily injury and property damage), collision damage, fire and theft. Damage to vehicles from perils of nature and strike, riot and civil commotion including malicious damage are also available.

Third party cover is routinely included in comprehensive policies for a standard limit of IDR 10mn (USD 692.36), but policyholders can opt for higher cover limits up to IDR 100mn (USD 6,924) on payment of additional premium. Insureds wishing to purchase third party cover higher than IDR 100mn (USD 6,924) can purchase a specific motor third party liability policy from one of the joint venture companies for limits generally extending up to IDR 500mn (USD 34,618). This latter option is most usually taken up by corporate clients arranging fleet cover.

The insured and any licensed individual driving with the insured's permission and not under the influence of drugs or alcohol are covered under a motor policy. Passengers are not considered to be third parties. Passenger liability cover can be endorsed for an additional premium, however.

Cover may be limited to total loss only which is defined as when the vehicle is more than 75% damaged, or the cost of repair exceeds 75% of the insured value. The vehicle age limit for total loss only cover is subject to insurers' discretion.

Legal expenses cover is not available in Indonesia.

The insurance market in Indonesia does not sell extended warranties in respect of new and used motor vehicles.

Rating and Deductibles

On 26 January 2017 the regulator published *Circular No 6/SEOJK.05/2017* introducing a revised motor insurance tariff, effective from 1 April 2017. Within categories 1 to 5 (related to private cars) categories 2, 3 and 5 rates were increased by various percentages, the highest single increase being 43%. Increases for trucks and buses ranged from 24% to 83% and in respect of motorcycles increases ranged from nil for third party cover to 51% for comprehensive.

At the same time *Circular No 6/SEOJK.05/2017* increased the compulsory deductible for vehicles over five years from IDR 300,000 (USD 20.77) to IDR 500,000 (USD 34.62), whilst maintaining the IDR 300,000 (USD 20.77) deductible for vehicles less than five years old.

Comprehensive policies are rated as a percentage of insured vehicle value with tariff rates varying between 0.71% and 4.2%. There is also a table in the tariff showing rates for total loss only (TLO).

It should be noted that the comprehensive tariff covers rates for flood, earthquake and strike, riot, malicious damage, civil commotion, terrorism and sabotage in which respects the deductible is IDR 500,000 (USD 34.62).

The motor personal accident tariff stipulates a standard rate of 0.5% of the sum insured.

The following table gives an indication of rate movements for motor premiums in recent years, with 2012=100 being the base year.

Motor rate movements	
2018	105
2017	105
2016	100
2015	100
2014	100

Source: Market sources

No Claims Discount System

As per *Circular No SE-05/2015* no claims discounts are not permitted as from 1 January 2015.

Loss Experience and Trends in Court Awards

==

Update November 2019

In June 2019 12 people were killed and a dozen others were injured when a bus heading for Cirebon from Jakarta crashed into a truck and cars on the opposite carriageway.

==

Incurred loss ratios in the motor insurance market were 62.0% in 2016 and 61.3% in 2017. Motor third party cover is not compulsory in Indonesia, although some market participants are pushing for this situation to change, viewing it as a means of raising cultural awareness of insurance generally.

Few cases reach court due to the long processes involved in arriving at judgements. Civil cases often take more than six years to complete. Substantive remedies include financial compensation for material or non-material damage, but Indonesian law does not provide for the award of punitive damages.

Mainly for reasons of delay and costs, third party motor accidents rarely proceed to court. The injured party is unlikely to be able to afford to pay the legal costs and both the injured party and the insurer are usually happy to settle out of court. It is rare for death or permanent disability claims to exceed the local equivalent of USD 5,000 and many are settled for considerably less. Anecdotal evidence suggests that there have been little material increases in awards in recent years. Injury claims are often confined to the reimbursement of medical expenses incurred.

Under Indonesia's *Civil Procedural Code*, appeal procedures are not restricted by any monetary amount, affording the parties to any dispute the ability to pursue matters to the Supreme Court level, if they so desire.

In principle foreign judgements are not recognised or enforceable in Indonesia. A successful foreign judgement creditor is therefore obliged to file a new action in the Indonesian courts and to re-litigate the matter on its merits within the confines of Indonesian law. Once a judgement is obtained in the Indonesian courts it can then be enforced in Indonesia.

The table below shows road accident statistics for the last available five years.

	2012	2013	2014	2015	2016
Number of accidents	117,949	100,106	95,906	98,970	106,129
Number of fatalities	29,544	26,416	28,297	26,495	26,185
Number of injured	39,704	28,438	26,840	23,937	22,558

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Major Insurers

The leading motor insurers and their market shares are shown below.

Company	Market share 2017 (%)
PT Asuransi Astra Buana	16.18
PT Asuransi Sinar Mas	8.81
PT Asuransi Adira Dinamika	6.68
PT Asuransi Central Asia	6.26
PT Asuransi Bina Dana Arta	5.01

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Astra Buana has a dominant position in the motor insurance market because it owns a number of large dealerships (including Toyota, Nissan and Honda) which sell vehicles and motorcycles on credit terms (in respect of which comprehensive motor insurance is invariably a mandatory condition imposed by lenders). Since motor TP insurance is not compulsory, the majority of motor insurance premiums emanate from purchasers benefitting from credit facilities for the purchase of their vehicle or motorcycle.

Reinsurance

===

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

===

Motor insurance is protected by excess of loss arrangements with a deductible of a minimum of IDR 150mn (USD 10,385) as per *Regulation No 14/POJK.05/2015,* up to a general maximum of IDR 500mn (USD 34,618). Individual bodily injury and death claims do not normally exceed IDR 5mn (USD 346.18) and are not regarded by reinsurers as a particular threat to excess of loss covers, except in cases of major multiple victim accidents. On the other hand large material damage multiple collision claims in respect of high-value vehicles are regarded as more likely to affect excess of loss treaties.

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. For further details, refer to the section headed Retentions under Company Registration and Operating Requirements in Supervision and Control.

Distribution

Most new business is controlled by motor dealers, financial institutions and agents. It is estimated, however, that as much as 80% of all new business emanates from motor dealers and leasing companies selling or leasing new vehicles where compulsory comprehensive insurance cover is an integral part of the finance deal.

Vehicle Statistics

The table below shows the number of vehicles by type and growth for the last available five years.

Type of vehicle	2012	2013	2014	2015	2016
Motorcycles	76,381,183	84,732,652	92,976,240	98,881,267	105,150,082
Cars	10,432,259	11,484,514	12,599,038	13,480,973	14,580,666
Lorries	5,286,061	5,615,494	6,235,136	6,611,028	7,063,433
Buses	2,273,821	2,286,309	2,398,846	2,420,917	2,486,898
Total	**94,373,324**	**104,118,969**	**114,209,260**	**121,394,185**	**129,281,079**
Growth (%)	10.25	10.33	9.69	6.29	6.50

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Motor Fleets and Commercial Vehicles

Motor fleets and commercial vehicles are subject to the standard tariff and related conditions, originally published in *OJK Circular No SE-06/D.05/2013* and amended by *Circular No SE-05/2015* and *Circular No 6/SEOJK.05/2017.*

Circular No SE-05/2015 did not materially change basic motor tariff premium rates but it did introduce amendments to *Circular No SE-06/D.05/2013* in relation to motor insurance tariff conditions.

Rate increases for trucks and buses as prescribed by *Circular No 6/SEOJK.05/2017* ranged from 24% to 83%.

Cover for commercial vehicles is similar to that available for private cars, including third party bodily injury and material damage (with the option to extend to cover passenger liability and personal accident for the driver and passengers) and own damage (with an option to limit cover to total loss only). Some companies exclude theft of vehicles (company cars) by employees, as this is known to be a frequent occurrence.

Summary and Trends

Workers' compensation is provided through the National Social Security System (Sistem Jaminan Sosial Nasional - SJSN), administered by the Social Security Administrative Body for SJSN Employment Programs (Badan Penyelenggara Jaminan Sosial Ketenagakerjaan - BPJS) through the Work Accident Insurance Program (Program Jaminan Kecelakaan Kerja - JKK); the Work Accident Insurance Program has replaced benefits that were formerly provided through the Work-Related Accident Benefit Program.

Workers' compensation insurance is compulsory for all workers.

Private workers' compensation insurance tops up the benefits and compensation available under the state workers' compensation scheme. It indemnifies against liability at law for damages and claimants' costs and expenses in respect of bodily injury, other than liability attaching by virtue of the provisions of the *Government Regulations No 44 of 2015 concerning the Organization of Occupational Accident Insurance and Death Benefits* and *Law No 40/2004 on the National Social Security System*.

The legislation regarding the state workers' compensation scheme makes no reference to employers' liability incurred under civil law. Employers' liability insurance can be purchased on a voluntary basis under a separate policy, however.

Statistics

There are no separate statistics for business written in the private sector but the portfolio is believed to be small, since it is understood that few employers are willing to top up the benefits and compensation available under the state workers' compensation scheme.

Regulatory Considerations

Workers' compensation is payable under the state scheme to employees in case of occupational accidents or disease including travel to and from employment. Voluntary coverage is available for the self-employed.

Employer contributions covering workers' compensation are dependent upon the class of risk and are currently as follows:

Class of risk	Employer contribution (% of pensionable salary*)
I	0.24
II	0.54
III	0.89
IV	1.27
V	1.74

*Note: * pensionable salary for contribution purposes is based on the employee's basic salary including any fixed allowance.*
Source: Market sources

The self-employed contribution is 1% of monthly declared earnings.

Legislative Update

There has been no recent new legislation that might affect workers' compensation and employers' liability.

Projected Legislation

No projected legislation affecting workers' compensation and employers' liability was known of when this report was in preparation.

Expatriates

Expatriates are covered by Program Jaminan Kecelakaan Kerja. Indonesians working abroad are not covered by the scheme and need to obtain cover via the private sector.

It is understood that extra-territorial extensions of policy cover are available under local EL policies, usually limited to overseas visits of short duration.

Limits of Indemnity

There is no minimum qualifying period. To receive work injury benefits the worker has to be assessed with a total or partial disability before age 55.

A summary of current benefits under the Program Jaminan Kecelakaan Kerja scheme is given below.

Medical benefits

Medical benefits include:

- primary care and follow-up treatment
- hospitalisation (treatment equivalent to a first class public hospital)
- intensive care
- diagnostics
- prescription drugs
- medical devices and implants
- surgery
- transfusions
- rehabilitation.

Medical benefits include the following reimbursements:

- land transportation - up to IDR 1mn (USD 69.24)
- sea transportation - up to IDR 1.5mn (USD 103.85)
- air transportation - up to IDR 2.5mn (USD 173.09)

- orthoses and prosthetics - up to 140% of the prescribed price.

Temporary Disability

The temporary disability benefit is dependent upon the month of absence, as follows:

Period of absence (months)	Temporary disability benefit (% of the employee's wage or salary)
Up to 6	100
7 to 12	75
13 or more	50

Source: Market sources

Permanent Disability

The permanent total disability benefit is a lump sum equal to 70% times 80 months of the employee's salary.

In addition, a child(ren)'s education scholarship equal to IDR 12mn (USD 830.84) may be payable.

The permanent partial disability benefit is a lump sum equal to a prescribed percentage (based on the assessed disability) of 80 months of the employee's salary.

Death

Death in service benefits are payable as follows:

Benefit type	Lump sum benefit
Death benefit	60% of 80 months of the employee's salary
Funeral grant	IDR 3.0mn (USD 225)
Periodic death benefit	IDR 4.8mn* (USD 360)

*Note: * may be payable as a monthly benefit of IDR 200,000 (USD 13.85) for 24 months.*

Source: Market sources

In addition, a child(ren)'s education scholarship equal to IDR 12mn (USD 830.84) may be payable.

Workers' compensation coverage in the private sector

Workers' compensation cover (issued as a top-up to the state scheme) is issued with limits up to a maximum of USD 1mn, and a similar limit usually applies to employers' liability insurance. It is understood that few employers are willing to top up the benefits and compensation available under the state workers' compensation scheme, although occasionally employers have been known to buy personal accident and/or health covers.

Scope of Cover

Private workers' compensation insurance tops up the benefits and compensation available under the state workers' compensation scheme. It indemnifies against liability at law for damages and claimants' costs and expenses in respect of bodily injury, other than liability attaching by virtue of the provisions of the *Government Regulations No 44 of 2015 concerning the Organization of Occupational Accident Insurance and Death Benefits* and *Law No 40/2004 on the National Social Security System*. Some insurers will occasionally include occupational disease cover, excluding asbestosis and silicosis, by endorsement.

Workers' compensation and employers' liability policies are subject to Indonesian jurisdiction.

Employers' Liability

The legislation regarding the state workers' compensation scheme makes no reference to employers' liability incurred under civil law. Employers' liability insurance can be purchased on a voluntary basis under a separate policy, however. If employers' liability insurance is requested, limits vary between USD 500,000 and USD 1mn. Usually only foreign companies request such coverage, since it is understood that few employers are willing to top up the benefits and compensation available under the state workers' compensation scheme, although occasionally employers have been known to buy personal accident and/or health covers. As with private workers' compensation insurance, some insurers will occasionally include occupational disease cover, excluding asbestosis and silicosis, by endorsement.

Pertamina benefits coverage

Employers can choose to purchase private workers' compensation coverage based on Pertamina benefits. In any case, workers in the energy sector are subject to the Pertamina regulations. Typical non-energy sectors where coverage in accordance with Pertamina limits is purchased are contracting, heavy industry, mining and multinational companies.

Coverage is available from most insurance companies (especially joint venture companies) normally limiting the cover to Indonesian nationals hired by the named insured or through sub-contractors of the insured. It is common practice to bundle general third party liability, workers' compensation and employers' liability into one combined policy.

The benefits payable in accordance with Pertamina regulations are detailed below.

Death Benefits are calculated on the full actual salary for 72 months subject to the maxima noted below. Salary means total remuneration to the employee, including but not limited to basic salary, living allowances, room and board, offshore allowances, "bush" allowances, overtime, and income taxes paid by the employer on behalf of employees.

Maximum death benefits per employee classification range from USD 5,000 for an unskilled worker to USD 20,000 for a manager.

In addition there is a maximum funeral and burial expenses benefit of USD 1,500.

Permanent disability benefit is a lump sum calculated according to a schedule of compensation, subject to a minimum multiplied by the percentage of permanent disability.

Temporary disability benefits are payable until recovery or declaration of permanent disability as follows:

- 100% of total remuneration for the first 18 months
- 50% of total remuneration thereafter.

Rating

Rates for private sector workers' compensation and employers' liability average in the region of 0.2% on the limit of indemnity for each policy but vary dependent upon occupational hazard.

Loss Experience

Experience in respect of private workers' compensation and employers' liability insurance is said to be good.

Major Insurers

Most joint venture companies offer top-up cover, and there is no clear leader among them. Most national companies (such as such as Central Asia, Jasa Indonesia and Tugu Pratama) also offer cover.

Reinsurance

Business is not generally reinsured on a proportional treaty basis, although companies protect their gross retentions with excess of loss covers either separately or in combination with analogous classes of business.

Distribution

Most demand for employers' liability cover comes from multinational companies and brokers are the main distributors of this and private workers' compensation insurance.

General Third Party

Summary and Trends

Liability (all classes) market premium volume grew in 2016 by 31% and by 17% in 2017. In 2017 it represented just 3% of non-life business (including PA and health business).

Most demand for public liability coverage emanates from either joint venture companies or contractors working for major clients such as Pertamina or major national corporations. Lenders may also require liability cover to be effected as a condition of a loan. Limits of indemnity are generally modest by international standards as Indonesians are not litigious and court awards are low.

Local commercial and industrial companies purchase covers with limits of indemnity that average IDR 100mn (USD 6,924). Limits of USD 1mn and upwards are most often requested by foreign companies and demand in this respect can be satisfied by both locally owned and joint venture companies.

Most demand for insurance is from shopping malls, hotels, office blocks, pulp and paper mills and the energy and petrochemical sectors. Punitive damages and pollution are standard exclusions.

Liability business is not subject to premium tariffs.

Legislative Update

There have been no recent changes in legislation.

Projected Legislation

No projected legislation affecting general third party liability was known of when this report was in preparation.

Statistics

Direct written premiums and loss ratios for all classes of liability business for the last available five years are shown below.

New statistical information may have been included in the appendices.

Limits and Scope of Cover

A standard general third party liability policy is used with similar wordings to those used in the UK market. Policy cover is provided on a losses occurring basis.

A major broker estimates that about 70% to 80% of policies are issued with worldwide jurisdiction which is routinely provided by all of the major joint venture companies. Limits granted by joint venture companies for most of their major clients are between USD 1mn and USD 2mn.

Punitive damages are excluded, but are not an issue in this market. Pollution is excluded from standard public liability policies (including sudden and accidental). Legal costs coverage is normally included in the limit of liability.

Rating and Deductibles

Flat premiums are often charged for small exposures, while larger risks are rated by domestic companies in consultation with their reinsurers. Joint venture companies rate major risks with underwriting guidance from the foreign partner.

In early 2019 market sources reported that liability rates were decreasing slightly in response to the increased rates being charged in the property classes following the tariff increases.

Loss Experience

Loss experience for general third party liability in Indonesia has been consistently good, and no major losses have been reported in the last five years up to and including 2015. The market gross incurred loss ratio in 2016 was 15.0% and just 7.9% in 2017.

Major Insurers

The leading liability insurers and their market shares are shown below.

Company	Market share 2017 (%)
PT Asuransi Jasa Raharja Putera	19.66
PT Asuransi Sinar Mas	12.68
PT Asuransi Asoka Mas	11.34
PT Asuransi Dayin Mitra	10.98
PT AIG Insurance Indonesia	8.54

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Reinsurance

===

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019*. This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Companies use either their miscellaneous accident treaties or purchase excess of loss coverage in conjunction with motor, but for large risks such as petrochemicals, airport and port liabilities the facultative reinsurance market is used.

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations replace previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*. For further details, refer to the section headed Retentions under Company Registration and Operating Requirements in Supervision and Control.

Distribution

Brokers play the most important role in the distribution of general liability business although it is also distributed on a direct basis and to a minor extent by agents and banks.

Product Liability

Summary and Trends

Indonesia exports most of its manufactured goods. The North American market is important to the country, but most exports are sold FOB and manufacturers consider their responsibility over at this point, regardless of legal considerations. It would be very difficult to successfully attach a foreign court order against an Indonesian party in the Indonesian courts. It is reported that worldwide jurisdiction including the US and Canada is not always easy to obtain and would generally only be available, subject to acceptance criteria, from joint venture companies with US connections. Worldwide jurisdiction excluding the US and Canada is reported to be available relatively freely if required.

Multinational companies stimulate most demand for product cover.

Legislative Update

There have been no recent changes in legislation.

Projected Legislation
No projected legislation affecting product liability was known of when this report was in preparation.

Statistics
No separate statistics are available in respect of product liability business.

Limits and Scope of Cover
Cover provided by local companies and joint ventures is generally on a claims-made basis.

Limits generally range from USD 1mn to USD 2mn excluding punitive damages. Legal costs coverage is normally included in the limit of liability.

Retroactive cover is subject to negotiation: there is no standard retroactive period of cover in claims-made policies. Extended reporting periods normally do not exceed two months unless a longer period can be negotiated.

Rating and Deductibles
Rating is normally carried out on a case by case basis.

Loss Experience
As far as is known no major losses have been reported.

Major Insurers
The majority of the business is written by the companies listed under the heading General Third Party - Major Insurers.

Reinsurance

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Reinsurance is generally placed on a facultative basis, but small and medium-size local risks can be covered under some treaties.

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations replace previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*. For further details, refer to the section headed Retentions under Company Registration and Operating Requirements in Supervision and Control.

Distribution

Distribution is generally through brokers.

Territorial Limits

Domestic insurance companies limit cover to Indonesia in accordance with their treaty reinsurance. If necessary they will consult their reinsurance leaders for cover outside Indonesia and, if agreed, will then cede the cover to treaty in the usual way.

It is reported that worldwide jurisdiction including US and Canada is not always easy to obtain and would generally only be available, subject to acceptance criteria, from joint venture companies with US connections. Worldwide jurisdiction excluding US and Canada is reported to be available relatively freely if required.

Special Risks

Indonesia manufactures and exports a wide range of goods from garments to electronic equipment, pulp and paper products, pharmaceuticals (mainly generic), foodstuffs, toys, automotive wheels and tiles.

Underwriters do not appear to favour insuring children's toys.

Product Guarantee, Recall and Malicious Product Tamper

There is no reported demand for product guarantee, recall and malicious product tamper covers which do not appear to be generally available from underwriters based in Indonesia.

Professional Indemnity

Summary and Trends

Professional liability insurance is not actively sold, but non-life insurance companies respond to occasional demand usually from doctors, engineers and lawyers. Demand has been historically low, however, and claims from the public are rare. This is partly because proving a loss would be difficult, with expert witnesses from the professional body involved likely to be reluctant to testify against colleagues. Medical malpractice coverage is reported to remain difficult to obtain.

OJK Regulation No 68/POJK.05/2016 stipulates that insurance and reinsurance brokers applying for a licence after this regulation must provide evidence of professional indemnity (PI) cover with a minimum limit equivalent to the paid-up capital. Insurance and reinsurance brokers who were already licensed before *OJK Regulation No 68/POJK.05/2016* are required to adhere to a previous (1999) regulation requiring a minimum limit for PI cover of IDR 1bn (USD 69,236) placed in the local market.

International companies rely on global programmes arranged by their principals offshore. This is especially so for international legal firms, engineers and architects.

There is limited local underwriting capability, and many cases are referred to reinsurers for underwriting guidance and capacity purposes. Most of the capacity provided locally emanates from the joint venture companies.

Legislative Update

OJK Regulation No 68/POJK.05/2016 stipulates that insurance and reinsurance brokers applying for a licence after this regulation must provide evidence of professional indemnity (PI) cover with a minimum limit equivalent to the paid-up capital. Insurance and reinsurance brokers who were already licensed before *OJK Regulation No 68/POJK.05/2016* are required to adhere to a previous (1999) regulation requiring a minimum limit for PI cover of IDR 1bn (USD 69,236) placed in the local market.

Projected Legislation

No projected legislation affecting professional indemnity was known of when this report was in preparation.

Statistics

No separate statistics are available in respect of professional indemnity.

Limits and Scope of Cover

OJK Regulation No 68/POJK.05/2016 stipulates that insurance and reinsurance brokers applying for a licence after this regulation must provide evidence of professional indemnity (PI) cover with a minimum limit equivalent to the paid-up capital. Insurance and reinsurance brokers who were already licensed before *OJK Regulation No 68/POJK.05/2016* are required to adhere to a previous (1999) regulation requiring a minimum limit for PI cover of IDR 1bn (USD 69,236) placed in the local market.

Where cover can be obtained, limits for doctors and physicians are up to USD 500,000 subject to deductibles of at least USD 50.

Cover is invariably on a claims-made basis. Retroactive cover is available on a case by case basis usually for 12 months or from the date of establishment of the insured firm.

An additional premium of 50% of total annual premium is often charged to provide for extended period coverage in respect of claims made 12 months after expiry in respect of acts committed within 12 months prior to expiry. According to a major broker, however, extended reporting cover is difficult to obtain.

Legal costs coverage is normally included in the limit of liability.

Rating and Deductibles

No specific information is available regarding rating. Each company uses its own methods.

Loss Experience

There do not appear to have been any recent significant losses in this class of business.

Major Insurers

The major insurers are joint venture companies.

Reinsurance

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Some of the joint venture companies and major domestic companies have automatic facilities. Otherwise reinsurance for significant risks is conducted on a facultative basis.

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations replace previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*. For further details, refer to the section headed Retentions under Company Registration and Operating Requirements in Supervision and Control.

Distribution

Distribution is mainly through brokers.

Professions

The principal purchasers of cover are insurance and reinsurance brokers, architects, lawyers and the medical profession.

The *Construction Services Law 18/1999* covers various construction services such as architectural, civil, mechanical and electrical services. The legislation provides that the contractor has to guarantee work for a period of between five and 10 years, although it is not compulsory for them to arrange insurance and few do so. Insurance for building contractors is sold on an annual rather than a single contract basis.

OJK Regulation No 68/POJK.05/2016 stipulates that insurance and reinsurance brokers applying for a licence after this regulation must provide evidence of professional indemnity (PI) cover with a minimum limit equivalent to the paid-up capital. Insurance and reinsurance brokers who were already licensed before *OJK Regulation No 68/POJK.05/2016* are required to adhere to a previous (1999) regulation requiring a minimum limit for PI cover of IDR 1bn (USD 69,236) placed in the local market.

Directors' and Officers' Liability

Summary and Trends

Reports from the market indicate that, although interest in protection from potential clients emanates on a regular basis from the corporate sector, the conclusion of completed contracts has been modest, mainly for reasons of cost. There are therefore no particular signs of dynamic growth in this class of business for the time being, in spite of the fact that the latest version of the companies law (*Law No 40/2007*) stipulates that directors may be personally liable up to the total value of their assets if they fail to perform their duties.

The principal purchasers of directors' and officers' (D&O) cover include commercial companies, financial institutions, banks, auditors and some state corporations.

Company Law

The latest legislation is *Law No 40/2007.*

The law states that directors may be personally liable up to the total value of their assets if they fail to perform their duties.

A director or directors will not be liable for losses if he or she or they can prove that:

- the losses did not result from error or negligence on the part of a director or directors
- the director(s) managed the company in good faith with due care for its interests and in line with its purposes and objectives
- the director(s) did not have a conflict of interest which may have caused losses
- the director(s) took appropriate action to avoid losses.

Directors and officers can be personally sued by

- shareholders
- employees
- creditors
- customers
- competitors
- liquidators/receivers
- regulatory authorities
- members of the public.

There are no regulations preventing companies from buying cover and from paying D&O premiums on behalf of their directors and officers.

Limits and Scope of Cover

Usually cover follows US policy wordings, as the leading insurers of this class are joint ventures with US interests. Claims by majority shareholders are excluded, with the definition of majority shareholder being one who holds 15% or more of the company's shares. Other exclusions include creditor-related claims and acts of government. Legal costs coverage is normally included in the limit of liability.

Limits of cover are generally between USD 5mn and USD 10mn. Retroactive cover is given on a case by case basis and can extend up to five years or more. Proof of previous insurance is not normally required.

Discovery periods after expiry can be granted for 12 months covering only claims arising from acts occurring prior to expiry for an additional premium of 50% of the expiring premium.

Rating and Deductibles

Each company uses its own proprietary methods of rating.

Deductibles are commonly in the region of USD 20,000 per loss occurrence.

Loss Experience

Loss experience appears to have been good.

Major Insurers

The major insurers are the joint venture companies.

Generally speaking most local domestic companies (with the exception of the leading players such as Sinar Mas and Jasindo) do not have the requisite capacity, experience or appetite to major in this class of business.

Reinsurance

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

The leading insurers for this class have their own worldwide treaty arrangements. Local companies would probably have recourse to facultative reinsurance in respect of specific enquiries.

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations replace previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*. For further details, refer to the section headed Retentions under Company Registration and Operating Requirements in Supervision and Control.

Distribution

Distribution is through brokers (in particular the joint venture firms) although IBS is also active in this area.

Pollution and Environmental Liability

Summary and Trends

==

Update October 2019

In July 2019 environmental campaigners filed a lawsuit against the government for the worsening air pollution in the capital, Jakarta. This followed reports that the city had been recorded as the world's most polluted city on at least six occasions during the previous month.

==

Indonesia has experienced rapid urbanisation and an increasing population has put considerable strain on environmental resources. Industrial development has been very uneven with a heavy bias towards Java (and Jakarta in particular). Pollution is a major and growing social problem, particularly from deforestation (much of it illegal) and related wildfires causing heavy smog over the western parts of the country.

Industrial waste and sewage is allowed to pollute rivers and coastal waters as the concentration of people and industry increases. It poses a serious risk to health for urban dwellers dependent on rivers for fish and water supply. Industry has also contributed significantly to Indonesia's environmental woes, with untreated waste water, toxic and hazardous waste discharge and discharge of industrial air pollutants.

Water resource management is essential to meet growing demand. It is hampered by institutional weaknesses in river basin management, weak water pollution control measures, lack of a framework for water allocation and pricing and problems in maintaining and operating water infrastructure, including water supply and irrigation facilities. Several regions, including the capital, Jakarta, face risks of floods and low water quality.

Several air pollutants in the largest cities exceed ambient air quality standards, with Jakarta frequently figuring amongst the most polluted cities in the world. Indonesia produces more than 45mn cubic metres of waste per year and waste generated in Jakarta would fill more than 10 Olympic-sized swimming pools per day. The Indonesian government has generally accorded low priority to environmental protection in favour of economic development. With continuing pressure from a well-developed middle class and several high-profile NGOs, however, the government has been gradually stepping up enforcement activity, making industries more accountable for environmental degradation.

The office of the minister of state for the environment (KLH), established in 1978, oversees environmental policy. On 19 September 1997 *Act No 23/1997* (the *Environmental Management Act 1997*) concerning the management of the living environment was passed to replace the *Environmental Management Act No 4/1982. Chapter V* of the *Environmental Management Act 1997* (EMA) prohibits every business and/or activity from breaching environmental quality standards and criteria. Projects with impact on the environment must possess an environmental impact assessment. Businesses and activities must manage their waste, including hazardous and toxic waste. Supervision, compliance control, environmental audits and administrative sanctions at provincial and district levels are also included in the legislation. The latter includes sanctions in the form of revocation of business licences. This act was in turn replaced by *Law No 32/2009 on Environmental Protection and Management* which came into force on 3 October 2009, aimed at promoting environmentally sustainable development by means of an environmental planning policy.

Chapter VII of the EMA provides for environmental dispute settlement either through judicial or extra-judicial means. Judicial settlement anticipates the payment of compensation and the issuance of orders to carry out certain actions. Strict liability is prescribed for violations involving hazardous and toxic materials which cause significant impact to the environment. Community and environmental organisations are permitted to bring class actions in court and/or to report on environmental violations.

Modelled after the US Environmental Protection Agency, the Environmental Impact Management Agency (BAPEDAL) was established in 1990 to implement environmental policy. Both BAPEDAL and KLH develop pollution control and other industry standards.

Legislative Update

There have been no recent changes in legislation.

Projected Legislation

No projected legislation affecting pollution and environmental liability was known of when this report was in preparation.

Statistics
There are no separate statistics relating to environmental impairment insurance.

Limits and Scope of Cover
Cover is given by some joint venture companies for "sudden and accidental" pollution subject to a 72-hour clause. Clean-up costs may or may not be covered at the insurer's discretion.

Gradual pollution and seepage cover is thought not to be generally available, although, subject to risk and prevention warranties it is reported to be sold by a few joint venture companies, principally to the energy sector.

Rating and Deductibles
Rating is carried out on a case by case basis where deletion of the pollution exclusion is requested.

Loss Experience
In spite of Indonesia's poor record on pollution, as far as is known there have been no major insurance claims in the last five years.

Major Insurers
The principal providers of cover are the joint venture companies.

Reinsurance

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Reinsurance can either be through treaties (in those instances where cover is available) or through facultative reinsurance.

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations replace previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*. For further details, refer to the section headed Retentions under Company Registration and Operating Requirements in Supervision and Control.

Distribution

Distribution is carried out largely by brokers.

Exposure

The main exposure to seepage and pollution is river, coastal, surface and ground water which has been contaminated for years by domestic sewage, agricultural waste and industrial effluents. The problem is especially acute in and around Jakarta. The canals of the capital are all heavily polluted.

The presence of heavy industry such as petrochemical works and chemical factories also gives rise to heavy pollution exposure.

According to research conducted by the Ministry of Environment, up to 50% of all river pollution is caused by industry.

Indonesia does not have a culture of litigation, and scant interest has historically been shown in preserving the environment. The activities of waste management companies are covered by the *Waste Management Law No 18/2008* of 2008. The main companies are PT Prasadha Pamunan Limbah Industry (PPLI) and SGS.

Financial and Professional Risks

Summary and Trends

Conventional money and fidelity guarantee coverage is sold by most companies.

Scope of Cover and Rating

Bankers' blanket bonds

There is little demand from locally domiciled banks for bankers' blanket bonds (BBB).

International banks do not arrange local covers and rely upon their worldwide covers which are placed in the international market. Policies do not include fraudulent transfers, counterfeiting and the like, and focus more on money and fidelity guarantee. Bank fraud is alleged to be relatively common.

Fidelity guarantee

Fidelity guarantee is treated on an accommodation basis by most underwriters as experience has been poor. Despite this, few companies appear to ask questions of systems of supervision, and do not underwrite fidelity risks according to experience.

Cover can be arranged on a blanket basis with a loss limit for one or more category of employee, or insured on a named basis with a limit per person.

Deductible levels are modest because of resistance from policyholders to any form of self-insurance.

Many losses are said to result from sales representatives in rural areas going out for weeks on end collecting from customers and then absconding with the proceeds. The problem affects trading companies in particular. Difficulties are encountered also with bill collectors and cashiers.

Kidnap and ransom

Indonesia is viewed as a high-risk area by kidnap and ransom underwriters. Those interested in taking out insurance are likely to approach one of the brokers with contacts with overseas specialist markets, or to arrange the cover overseas on a non-admitted basis.

E-risks/copyright

E-commerce is developing, but as yet there is no demand for insurance. Indonesia is well known for its infringement of copyright, and while covers are written offshore for some of the foreign companies operating in Indonesia, no local covers so far appear to have been arranged by domestic companies.

Cyber risks

There is currently little evidence of awareness of or interest in cyber risk insurance and major brokers report little growth in this sector, although some fronted covers are believed to exist.

Major Insurers

Most companies write modest volumes of money and fidelity business.

Liability

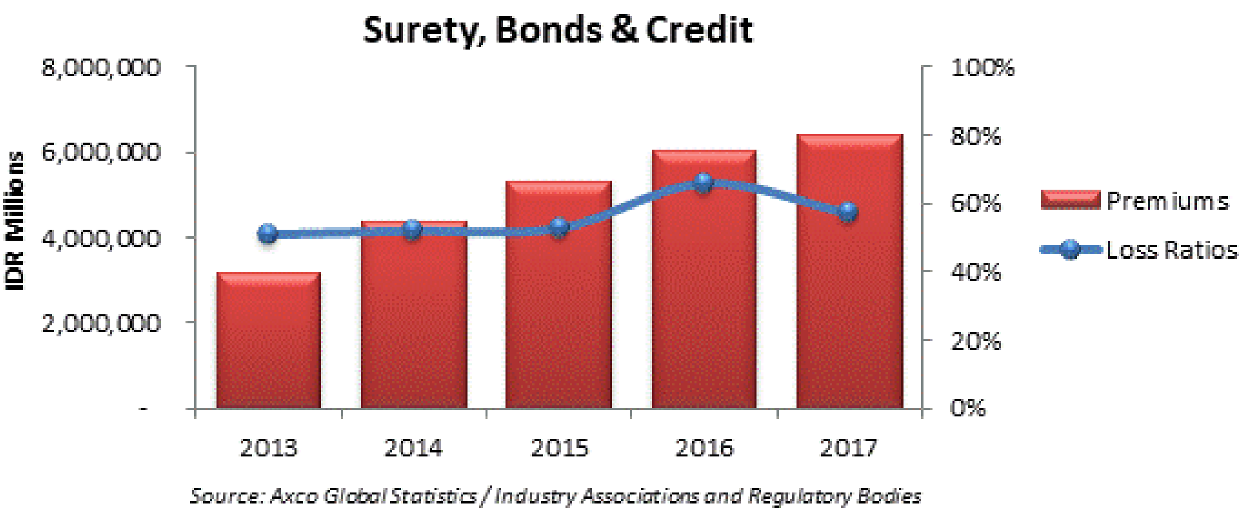
Bankers' blanket coverage (limited availability locally) is provided by the major locally owned and joint venture companies.

Summary and Trends

Market gross premium income increased in 2016 by 14.2% and by 5.3% in 2017, the lowest rate of growth since 2010. In 2017 it represented 10.7% of non-life business (including PA and health business). Growth prior to this is ascribed to bonding required in respect of major infrastructural development, growth in bank credit business and growth in domestic and export credit business. Askrindo, a state-owned company writing all classes of domestic credit insurance and the fourth largest non-life insurer in the market, is reported to account for about 50% of market premium income. In 2017 Askrindo's gross premium income increased 5.9%.

Statistics

Direct written premiums and loss ratios (net incurred losses to net earned premiums) for the last available five years are shown below.



New statistical information may have been included in the appendices.

Construction/Other Bonds

Banks are very active in the bond market, particularly in respect of performance bonds. Banks and insurance companies are qualified to issue bid, maintenance and advance payment bonds. Insurance companies are generally cautious about issuing construction-related bonds. Statistics for surety, bonds and credit indicate that, apart from a minimal involvement by one company, none of the joint venture insurance companies are involved in this class of business.

The market has a pool for custom bonds (Pool Kerjasama Custom Bond Indonesia - Pool KSCBI), administered by ReINDO (now part of Indonesia Re). Joint venture insurance companies are not allowed to participate in the pool. Details of the pool's writings are not available. Risks are rated either by ReINDO or by the originating insurer.

Askrindo, a state-owned company writing all classes of domestic credit insurance and the fourth largest non-life insurer in the market, operates in the surety bond and customs bond sectors.

Export Credit

PT Asuransi Ekspor Indonesia was incorporated in 1985 to provide export credit insurance and to guarantee export credit. It changed its name in 2014 to PT Asei Reasuransi Indonesia Persero (ASEI). The company is a subsidiary of PT Reasuransi Indonesia Utama Persero (Indonesia Re).

ASEI's products include export credit insurance, capital goods export insurance, factoring insurance, leasing payment insurance, export credit guarantee, guarantees for building contractors operating overseas, counter guarantee of bank guarantees and securities underwriting. The credits extended by ASEI are usually short term (generally less than six months) and involve mainly raw materials and agricultural exports. In addition, *Regulation No 1/1982 on the Implementation of Export, Import and Foreign Exchange Transactions* has made Bank Indonesia (Central Bank) assume to some extent the functions of an export credit agency.

Domestic Trade Credit

Companies operating in this sector include ASEI and Askrindo, a state-owned company which has four business lines, namely bank credit insurance, trade credit insurance, surety bonds and customs bonds.

In 2014 Allianz Utama in conjunction with Euler Hermes started offering commercial credit insurance solutions to the corporate sector in Indonesia.

Mortgage Indemnity Insurance

There is no insurance market for mortgage indemnity.

Marine, Aviation and Transit

Summary and Trends

The gross marine, aviation and transit (MAT) account showed an increase in total premium volume in 2016 of 2.4% and a decrease of 7.9% in 2017. In 2017 it represented 11.5% of non-life business (including PA and health business).

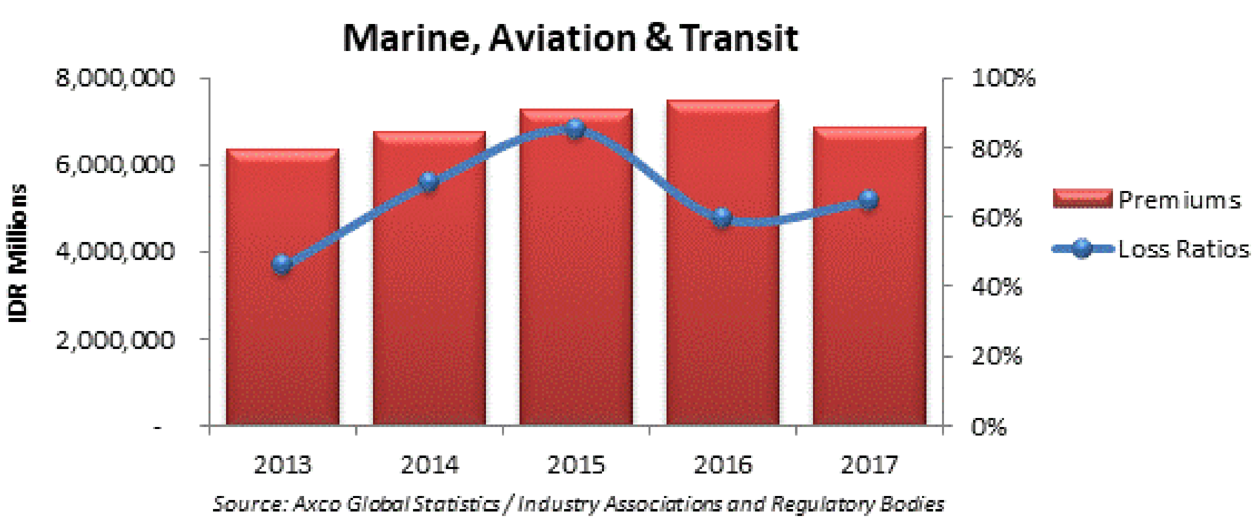
Indonesia has a merchant marine fleet comprising 9,053 vessels, being seagoing propelled merchant ships of 100 gross tons and above, floating production, storage/offloading vessels and drillships (but excluding inland waterway vessels, fishing vessels, military vessels, yachts, offshore fixed and mobile platforms and barges).

The capital, Jakarta, has neither a significant seafront area nor an important international commercial port. Tanjung Priok, Jakarta's container port, handles only a fraction of the cargo routinely handled by Singapore.

Regulations on marine insurance are found in the second book of the *Code of Commerce Parts IX* and *X* and the *Indonesian Shipping Act No 2 of 1992* contains several articles of relevance for marine insurance. The regulations apply to both hull and cargo insurance. Indonesian law stipulates that all imports should be insured in the country by a licensed Indonesian insurance company. This regulation has not been enforced by the regulator for many years, however, as importers often purchase goods CIF and then arrange for a local insurance company to issue a policy for customs declaration purposes only.

Statistics

Direct written premiums and loss ratios (net incurred losses to net earned premiums) for the last available five years are shown below.



New statistical information may have been included in the appendices.

Marine Hull

Summary and Trends

Marine hull showed an increase of 6.8% in total premium volume in 2016 and a decrease of 9.1% in 2017. In 2017 it represented 2.6% of non-life business (including PA and health business).

The local fleet expanded as a result of legislation introduced in January 2009 following some years of lobbying by the Indonesian National Ship Owners Association (INSA). The legislation was intended to prohibit foreign ships from carrying Indonesian cargo within the country's maritime borders. Previously, partially due to high corporation tax, local shipping companies had been unable to compete with foreign operators in this respect.

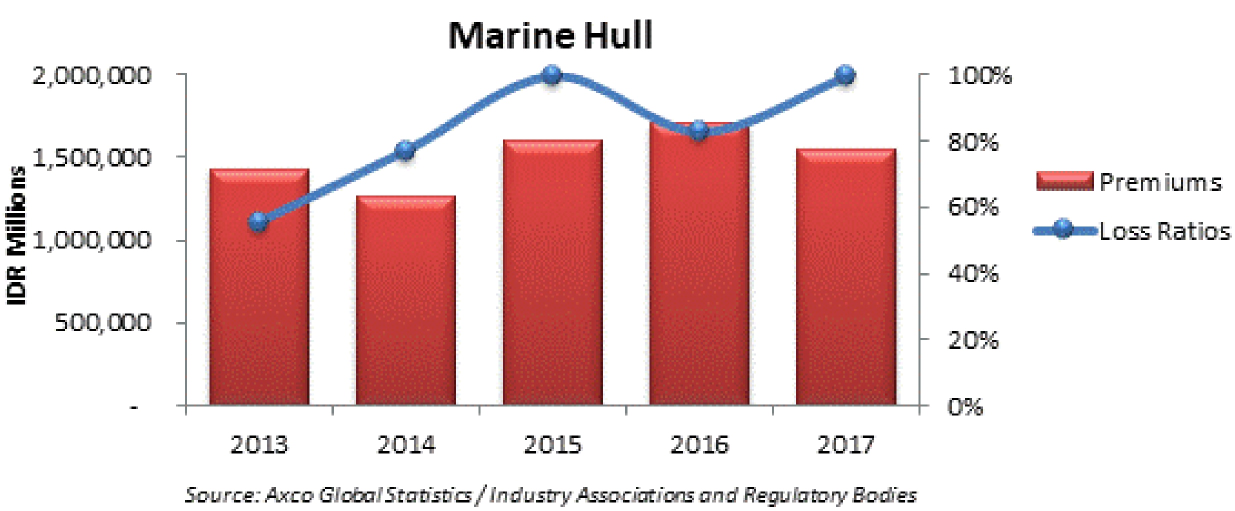
Inter-island transport systems are a strategic component of the national transport system, although it appears that ferry services are suffering from increased competition from low-cost airlines. Ferries still, however, provide an economic and social lifeline to the poor and remote areas of the outer islands of eastern Indonesia. Sea passenger and ferry passenger and vehicle services have different route and vessel characteristics. Ferries operate short routes, with frequent services, carrying vehicles and passengers on old, slow and frequently overcrowded vessels, often with minimum safety standards. The private sector operates few ferry services in eastern Indonesia, preferring to concentrate on the denser routes in western Indonesia. Sea passenger routes are generally long distance, with infrequent and passenger-only services using more modern and larger vessels.

Shipbuilding forms an important part of the marine sector, although the average hull risk is said to be in the region of only 50,000 grt.

Groundings and collisions are commonplace, and although piracy has been tackled in recent years with vigorous preventative measures, it is still said to be a source of losses.

Statistics

Direct written premiums and loss ratios (net incurred losses to net earned premiums) for the last available five years are shown below.



New statistical information may have been included in the appendices.

Marine Hazard

There are few specific hazards in Indonesian waters apart from storms in the monsoon season but modern vessels are able to cope with these conditions. Ferries, however, are frequently overloaded and this is a contributory cause of losses in bad weather.

Other concerns are the age and maintenance of the domestic vessels, and the lack of adequate navigation equipment for most of the vessels plying coastal waters.

South-east Asia has some of the most pirate-infested waters in the world. Parts of Indonesia and Indonesian waters are currently declared by the Joint War Committee of the Lloyd's Market Association as listed areas in respect of hull war, piracy, terrorism and related perils. There were reported to be 100 incidents of actual and attempted piracy in 2014, 108 in 2015, 49 in 2016 and 36 in 2018.

Many of the islands are surrounded by shallow coral reefs, which can also be a hazard to shipping.

Marine Risks

The table below shows the number of marine vessels by type for the last available year.

Type of marine vessel	2018
General cargo	2,203
Oil tankers	567
Container ships	205
Bulk carriers	97
Other	5,981
Total	**9,053**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The local fleet expanded as a result of legislation introduced in January 2009, following some years of lobbying by the Indonesian National Ship Owners Association (INSA). The legislation was intended to prohibit foreign ships from carrying Indonesian cargo within the country's maritime borders. Previously, partially due to high corporation tax, local shipping companies had been unable to compete with foreign operators in this respect. The first phase of the regulations which incepted in January 2009 prohibited foreign-owned chemical and other non-oil and gas vessels from operating in Indonesian coastal routes. From January 2010 the prohibition was extended to all types of tankers including crude and refined oil carriers and gas tankers.

The state-owned Pelayaran Nasional Indonesia (Pelni) operates most of the sea passenger vessels, and has a fleet of 25 passenger ships. The passenger ships carry variously up to 3,000, 2,000 and 1,000 passengers. The fleet also operates ro-ro vessels and a high-speed ferry with a total combined capacity of 36,913 passengers. The company has extensive interests in other shipping services, including loading and unloading and freight forwarding and is the principal shareholder of Purna Arthanugraha (Asuransi Aspan) through which its insurances are placed.

Another significant fleet is Pertamina oil and LNG tankers. Pertamina through its subsidiary Pertamina Shipping operated in 2017 a fleet of approximately 240 vessels of which 77 were owned vessels and 160 contracted.

Local shipping companies include Bumi Laut, Arpeni Pratama and Pelayaran Meratus, Gesuri Lloyd, Humpuss Intermoda, Trikora Lloyd and Samudera Lines.

PT Humpuss Intermoda Transportasi (which is a publicly quoted company) operates a number of owned and chartered vessels, including LNG and chemical carriers.

The Indonesian fleet also includes offshore supply vessels, dredgers, drilling rigs and survey ships.

With some exceptions, many Indonesian hulls are old and poorly maintained, and some owners have either opted for self-insurance or downgraded their covers to total loss only.

Much of the Indonesian hull business is placed direct in the Singapore market, although the French, Hong Kong and London markets are also used on occasions when substantial capacity is required.

Shipbuilding also forms an important part of the marine sector, although the average hull risk is said to be in the region of only 50,000 grt. The state-owned PT PAL in Surabaya is the largest shipyard. It builds a range of vessels including tankers, passenger liners, naval craft and fishing vessels, as well as carrying out general repair work.

Limits and Scope of Cover

Vessels over 15 years of age are insured on total loss only conditions, although some insurers will not cover such old vessels at all. Third party liability to hull and machinery value including sue and labour and pollution cover is secured by brokers. Newer vessels are insured on Institute Time Clauses.

Barges, lighters and tugs are generally insured on total loss terms only with no third party liability.

Rating

Rating is largely dictated by reinsurers, but where vessels are rated by the local market, rates for Institute Time Clauses tend to range from 1% to 3%. The average deductible is between USD 25,000 and USD 100,000, although deductibles can be as high as USD 1mn.

Loss Experience and Largest Losses

==

Update November 2019

In November 2019 the landing craft Maruni Pratama sank in the area of Manokwari Regency, northeast of West Papua. All 11 crew were evacuated.

In August 2019 seven people were killed and 4 others reported missing after a ferry caught fire off Sulawesi island.

In June 2019 at least 15 people died after a passenger ferry sank off the island of Java. This occurred just two weeks after the cargo ship KM Lintas Timur sank off Sulawesi island, eastern Indonesia, with 17 people reported missing.

==

Regular incidents involving ferries and small cargo vessels occur in Indonesia: most of the vessels involved are old and many ferries are overcrowded. The local governments are responsible for the safety of small boats and vessels but they do not have sufficient funds or human resources to enforce safety standards. The most recent serious incidents are listed below.

In February 2019 over 30 fishing vessels were destroyed in a major fire at the port of Muara Baru, North Jakarta after fire spread from welding operations on another fishing vessel. There were no fatalities.

In July 2018 the cargo ship Lestari Maju was grounded off the Selayar Islands after taking on water in high seas and listing while operating a passenger service, resulting in the deaths of 35 people.

In June 2018 the ferry Sinar Bangun sank on Lake Toba, North Sumatra, with over 160 people feared dead.

In May 2018 the tanker Srikandi 511 suffered a major fire while docked at the Banjarmarsin fuel terminal operated by the state-owned energy company Pertamina.

In January 2018 at least eight people died and more were reported missing when a speedboat capsized off the coast of Borneo.

Major Insurers

The leading marine hull insurers and their market shares are shown below.

Company	Market share 2017 (%)
PT Asuransi Jasa Indonesia (Jasindo)	12.24
PT Tugu Pratama Indonesia	11.38
PT QBE General Insurance Indonesia	8.66
PT Asuransi Multi Artha Guna	7.91
PT Asuransi Astra Buana	7.02

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Reinsurance

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Marine hull is normally reinsured by way of surplus treaties. Gross capacity ranges from USD 2mn to USD 3mn. Some companies have up to 20 lines of surplus cover. A few quota share treaties exist but are tending to be replaced with working excess of loss treaties. The minimum retention for large companies with equities exceeding IDR 2trn (USD 138.47mn) is IDR 6bn (USD 415,418).

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations replace previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*. For further details, refer to the section headed Retentions under Company Registration and Operating Requirements in Supervision and Control.

Distribution

Brokers play an important part in arranging insurance for the more important hull fleets. Agents also introduce small hull fleets, and some business is also placed direct.

Marine Cargo

Summary and Trends

Cargo is the largest class of MAT business by gross premium income. It showed a decrease of 13% in total premium volume in 2016 and an increase of 10.2% in 2017. In 2017 it represented 5.1% of non-life business (including PA and health business).

Marine cargo imports are not excluded from the legal texts prohibiting non-admitted insurance in Indonesia, but in this specific respect the prohibition on non-admitted insurance was until recently not enforced by the regulator in respect of CIF cargo shipments. This situation changed with the publication of *Ministry of Trade Regulation No 82/2017* (as amended), which contains a requirement to insure exports of crude palm oil and coal as well as imports of rice and other imports for government procurement (if transported by sea) with a locally licensed insurer or a consortium of locally licensed insurers authorised by the Ministry of Trade. The new insurance requirements took effect on 1 February 2019, with a one-month transition period for compliance. Following reports of significant export delays caused by compliance checks, it was announced that the transition period will be extended until 31 May 2019.

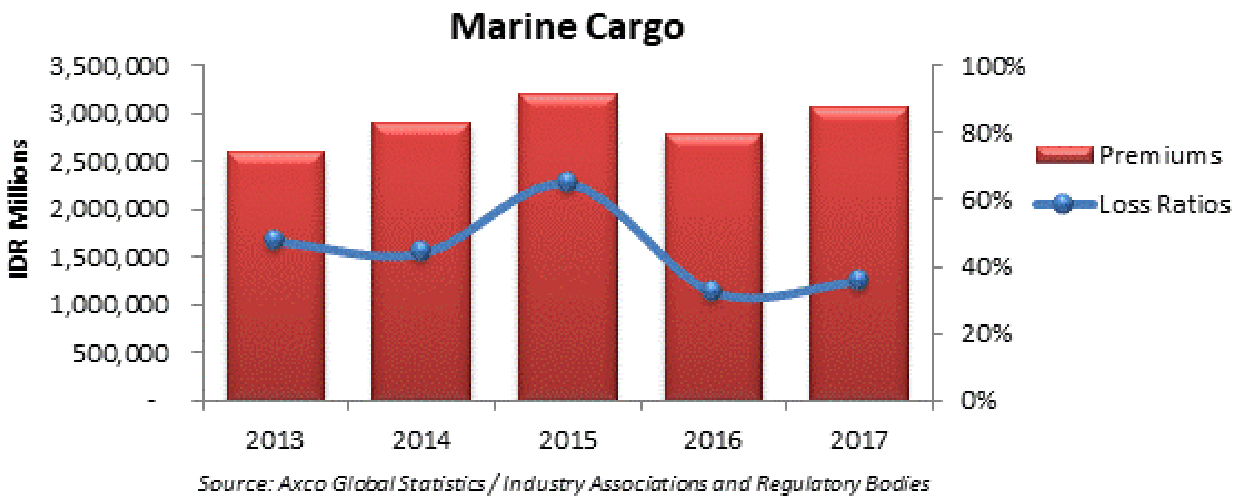
Certain goods are subject to a government counter-purchase order (barter) which requires overseas exporters to buy an equivalent amount of Indonesian goods.

Most exports are sold FOB. It is difficult for most Indonesian insurers (other than joint venture companies) to service claims on export goods because of their lack of an overseas network or agents, although this has not prevented the introduction of the new regulations mentioned above. Therefore, cargo insured in Indonesia has tended historically to be confined to imports and inter-island movements.

Inter-island shipments are subject to the vagaries of poorly managed and maintained vessels, inadequate packing, theft and pilferage and piracy. Recoveries from shipping companies are difficult and can take years to effect. Inland transits are subject to hijackings and theft.

Statistics

Direct written premiums and loss ratios (net incurred losses to net earned premiums) for the last available five years are shown below.



New statistical information may have been included in the appendices.

Hazard

The four major ports in Indonesia are:

- Tanjung Priok port in Jakarta, the largest port in the country
- Belawan port near Medan (Sumatra)
- Tanjung Perak in Surabaya
- Ujung Pandang, formerly Makassar in south-west Sulawesi.

While port management facilities have improved, security remains a concern to most underwriters. Theft and pilferage pose problems, although there have been no major claims. Port authority officials are often said to be corrupt. Accumulation hazard is also said to be severe in the most important ports.

Containerisation has improved the outturn of goods, but customs regulations require all in-bound containers to be opened at the port of entry and for goods to be de-stuffed. Special arrangements can be made with the customs authority for containers to be inspected at the consignee's premises.

Hijacking of trucks with cargoes of textiles, spare parts and cigarettes is high risk. Piracy is a hazard with the occasional mysterious disappearance of vessels and cargo.

Hutchison Port Holdings (HPH), a subsidiary of Hutchison Whampoa Limited, owns 51% of the previously state-owned Jakarta International Container Terminal at Tanjung Priok (Jakarta), with state-owned seaport company PT Pelindo II remaining as the minor stakeholder. HPH has also acquired a 49% interest in the adjoining port.

Stevedoring standards are not particularly high and tally records can be unreliable.

Limits and Scope of Cover

The market uses London Institute Cargo Clauses. Import and export shipments are subject to limits of liability specified in bills of lading. Indonesia does not have a carriers' act and internal sendings are subject to limits laid down in contracts of carriage.

Advance loss of profits (ALOP) cover is dictated by financiers, and has become more common, in particular for project risks. It is usual for a separate policy to be issued to cover debt servicing rather than loss of anticipated revenue. ALOP covers are arranged through international underwriters.

Rating

There are no tariffs in respect of marine cargo insurance and the market is highly competitive.

Inter-island shipments are covered on Institute Cargo Clauses C at rates which vary from 0.05% to 0.1%.

Surcharges may be applied for vessels over 25 years of age, but domestic companies often apply such loadings only in the event of a claim.

Land transit clauses including hijack attract rates from 0.25% upwards, depending on the cargo.

Loss Experience

==

Update October 2019

In June 2019 the cargo ship KM Lintas Timur sank off Sulawesi island, eastern Indonesia, with 17 people reported missing.

==

Experience is reported to have improved considerably in 2016 and 2017, in comparison with 2015 when the market loss ratio exceeded 60%, which is unusually high by historical standards.

Hijacking of trucks carrying cargoes within Indonesia continues to be prevalent and insurers routinely impose warranties relating to armed guards and satellite tracking devices, depending on the nature of the cargo.

Major Insurers

The leading marine cargo insurers and their market shares are shown below.

Company	Market share 2017 (%)
PT Asuransi Sinar Mas	14.15
PT Tugu Pratama Indonesia	9.14
PT Asuransi MSIG Indonesia	7.61
PT Asuransi Tokio Marine Indonesia	6.57
PT Asuransi AXA Indonesia	4.11

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Reinsurance

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

For larger companies, pure excess of loss coverage is deployed. For smaller companies, a combination of quota share and surplus is typical. The minimum retention for large companies with equities exceeding IDR 2trn (USD 138.47mn) is IDR 15bn (USD 1.04mn).

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations replace previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*. For further details, refer to the section headed Retentions under Company Registration and Operating Requirements in Supervision and Control.

Distribution

Most marine cargo business is believed to be placed through brokers, although a substantial volume of business is placed direct, particularly in respect of tied accounts.

Marine Liability

Summary and Trends

It is understood that most Indonesian-managed and operated ports and terminals do not carry insurance although liability insurance has been arranged for a number of private jetties. Where a foreign party such as Hutchison Port Holdings is involved in managing an operation such as Jakarta International Container Terminal (JICT), however, cover is likely to be arranged direct with a P&I club as part of the foreign partner's global arrangements.

Locally owned companies do not usually underwrite carriers', hauliers' or stevedores' legal liability cover. Some companies may write cargo while it is in the care, custody and control of carriers and hauliers, but this is effectively a goods-in-transit cover.

There is no Indonesian carriage of goods act, and carriers' liability is determined by individual contracts of affreightment which in most instances provide for small limits of liability.

Local Market

The local market is believed to be principally limited to joint venture companies but no specific figures are available.

Compulsory Covers

There is a requirement under the *International Convention on Civil Liability for Oil Pollution Damage 1969*, renewed in 1992 (and amended in 2000) to give evidence of an insurance or other financial guarantee in respect of oil pollution. Indonesia is a signatory to this convention. The convention requires owners of ships carrying more than 2,000 tonnes of oil in cargo to maintain "insurance or other financial security" sufficient to cover the maximum liability for one oil spill. Further details can be found in the separate Axco report on International Agreements.

Pollution

Insurance companies do not provide third party liability cover for vessels other than those in larger fleets. Where they do provide third party liability they prefer to exclude pollution. Pollution is mostly covered by P&I clubs.

There is a requirement under the *International Convention on Civil Liability for Oil Pollution Damage 1969*, renewed in 1992 (and amended in 2000) to give evidence of an insurance or other financial guarantee in respect of oil pollution. Indonesia is a signatory to this convention. Further details can be found in the separate Axco report on International Agreements.

P&I

The larger fleets are entered in P&I clubs.

Perkumpalan Proteksi Maritime Indonesia (PROMINDO) a local P&I club based in Jakarta, has signed an agreement with the Korea Shipowners Mutual Protection and Indemnity (P&I) Association to act as its agent in Indonesia.

P&I cover is generally arranged direct with P&I clubs in the Far East, Europe and London. Generally licensed insurers are little involved in mainstream fleet liability coverage, although QBE offers fixed-rate facilities.

Limits of Liability

Limits of liability for private jetties are from USD 1mn to USD 2mn.

Major Insurers

It is thought that the major locally licensed joint venture companies are the most involved in marine liability business where it is insured in the local market.

Energy

Summary and Trends

The energy account showed an increase in total premium volume in 2016 of 16.5% and a decrease of 9.8% in 2017. In 2017 it represented 2.2% of non-life business (including PA and health business).

Indonesia relies on oil to supply about half of its energy needs and is now a net importer. As oil production has levelled off in recent years, the country has tried to shift towards using its natural gas and coal resources for power generation, although the domestic natural gas distribution infrastructure is still not particularly extensive.

Indonesia had proven oil reserves of 3.3bn barrels in 2018, much of which is located onshore. Central Sumatra is the largest oil-producing province and the location of the large Duri and Minas oilfields. Other significant oilfield development and production is located in accessible areas such as offshore from north-western Java, East Kalimantan and the Natuna Sea. Indonesian crude oil production averaged about 786,000 barrels per day (bpd) in 2018. Indonesia left the OPEC cartel in May 2008, because it had become a net importer of oil. Besides crude oil, Indonesia had proven natural gas reserves of 135trn cubic feet in 2018, while reports in March 2019 suggested that 10 potential reserves had been discovered.

Oil and gas production in 2018 fell below the government's targets of 400,000 bpd and 3.07trn standard cubic feet of gas: actual production was averaging 384,000 bpd of crude oil and 3.06trn standard cubic feet of gas.

Indonesia also has a petrochemicals industry producing propylene, paraxylene, polypropylene and PTA (purified terephthalic acid).

Privatisation and a competitive environment have been introduced into the domestic fuel market. Pertamina no longer has a monopoly on upstream development or in the retail fuel market, which now includes BP and Petronas of Malaysia. The possibilities for much needed foreign investment in the wholesale and retail fuel markets have therefore been improving, although bureaucratic barriers to entry and development remain an impediment.

The removal of Pertamina's monopoly of the market opened up the energy sector to independent insurance brokers, and all the joint venture brokers quote regularly for parts of the energy insurance programme.

There is an oil and gas pool for onshore and offshore risks, the Konsorsium Pengembangan Industri Asuransi Indonesia - Migas (KPIAI), administered by Nasional Reasuransi. This pool had seven members in 2018, led by Tugu Pratama and Jasindo. Reinsurance is placed mainly in Asia and at Lloyd's.

Aviation

Summary and Trends

The gross aviation account showed an increase in total premium volume in 2016 of 22.8% and a large decrease of 38% in 2017. In 2017 it represented 1.6% of non-life business (including PA and health business).

Air transport plays an essential part in providing communication between the many islands that make up the country, besides providing access to some of its remotest regions in, for example, Kalimantan and West Papua (Irian Jaya). Numerous companies provide local scheduled services and other operators offer charter facilities, including air taxis. Both fixed-wing and rotor wing aircraft are used.

Indonesia is rated Category 2 in the US Federal Aviation Authority's International Aviation Safety Assessment Program (IASA), having been downgraded from Category 1 in 2007.

The Directorate General of Air Communications (DGAC) is responsible for the daily administration of civil aviation policy and is the overall regulator of the air transport industry. It sets and supervises airport and airworthiness standards as well as regulating air traffic control, air service licences and air route structures. The DGAC also manages all government-funded aviation development projects and is the nominated agency to the International Civil Aviation Organisation. *Regulation of the Ministry of Communications No 25) Concerning Air Transportation/2008* provides that scheduled commercial flight companies must own at least two aircraft and control (eg by way of lease) at least three others.

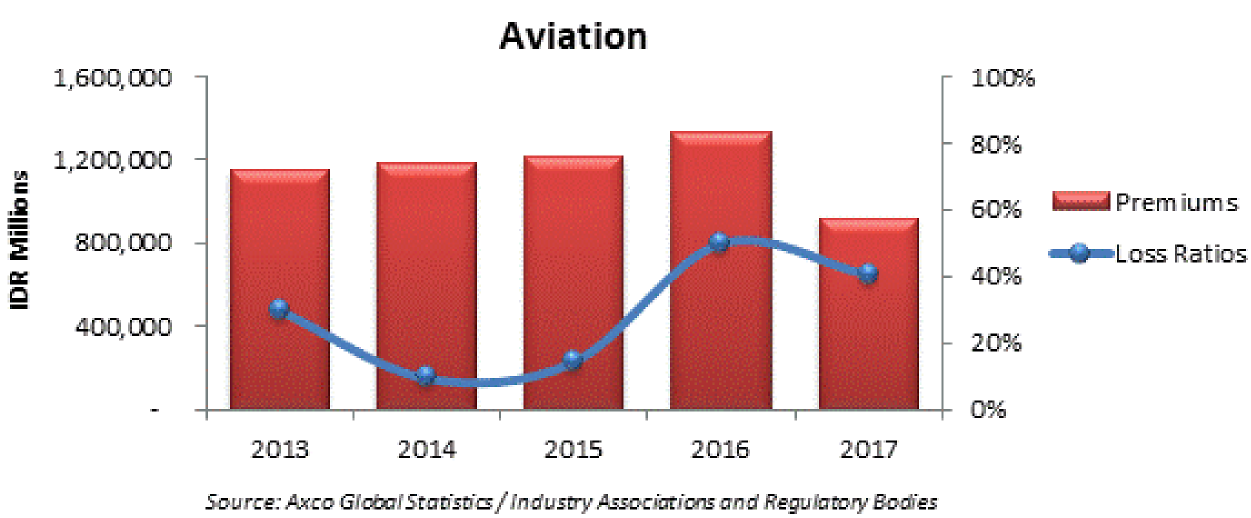
On 23 October 2018 a Lion Air Boeing 737 crashed into the Java Sea after taking off from Jakarta while en route to the western city of Pangkal Pinang. All 189 passengers and crew were killed. It is understood that the payments to beneficiaries estimated at IDR 8.9bn (USD 616,203) were made by the state-owned insurer PT Asuransi Jasa Raharja Putera as administrator of the *Mandatory Insurance Fund for Passenger Accidents,* while it is believed that primary hull and liability insurances of the airline were placed in the Indonesian market and substantially reinsured in the international market. According to some reports, the total cost to the insurance market was expected to be as high as USD 100mn, of which USD 60mn related to the hull.

There is a limited local insurance market for aviation, which in turn is very dependent upon international facultative reinsurance support from markets such as London. Reinsurance for satellites comes from the ASEAN market with no London involvement.

Minister of Transportation Regulation No PM 90 of 2015 stipulates (inter alia) licensing requirements for drones. One of these requirements is the presentation of insurance documents in order to apply for a licence, implying that liability insurance for licensed drones is obligatory. No minimum or maximum limits of cover are mentioned in the legislation.

Statistics

Direct written premiums and loss ratios (net incurred losses to net earned premiums) for the last available five years are shown below.



New statistical information may have been included in the appendices.

Airlines

Garuda Indonesian Airways (founded in 1949) is the national flag carrier. Garuda has a maintenance facility with the largest hangar in Asia at Soekarno Hatta International Airport in Jakarta. The standard of Garuda's aircraft and maintenance are considered to have undergone major improvements since 2009. Garuda's fleet as at August 2018 consisted of 156 aircraft.

Indonesia does not allow majority foreign ownership of domestic airlines.

PT Indonesia Air Asia (previously Awair) is based in Tangerang, Indonesia. The majority shareholder is Fersindo Nusaperkasa with Air Asia Berhad (Malaysia) as the other shareholder. As at August 2018 Indonesia Air Asia had a fleet of 18 Airbus 320-200 and two Boeing 737s.

PT Lion Mentari Airlines is based in Jakarta. As at August 2018 this airline had a fleet of some 125 aircraft.

A major non-scheduled airline is PT Indonesia Air Transport, part of the Bimantara Group, owned by former ex-president Suharto's second son.

General Aviation

Indonesia's aviation industry and policy is regulated under the *Aviation Act 1992*, as well as certain presidential and ministerial decrees. The Ministry of Communications (Transportation) governs the land, sea and air transport sectors, with responsibility for each sector being delegated to three directorates general.

Industry Pesawat Terbang Nusantara (IPTN), a state-owned company established in 1976, is the only designer, manufacturer or assembler of aircraft in Indonesia. It manufactures civil and military aircraft, both fixed-wing and helicopters, using locally made and imported parts and components. IPTN also has manufacturing under licence, technical co-operation, or offset agreements with a number of foreign aerospace companies.

The Indonesian aeronautical market is dominated by US and EU manufacturers. These countries supply 90% of the parts and components used by IPTN and are the traditional suppliers to the defence sector. Singapore dominates defence maintenance and refurbishment work.

Apart from general business and tourist travel, the energy industry is a major user of air services, particularly helicopters, for exploration and site development. Air transport is also vital to the forestry and mining industries, particularly for survey work. The use of aerial photography grew substantially following the issue of a regulation by the Ministry of Forestry in 1990 requiring aerial photos for the extension of forest concessions.

Minister of Transportation Regulation No PM 90 of 2015 stipulates (inter alia) licensing requirements for drones. One of these requirements is the presentation of insurance documents in order to apply for a licence, implying that liability insurance for licensed drones is obligatory. No minimum or maximum limits of cover are mentioned in the legislation.

Space

Indonesia was the first developing country to have its own operational domestic satellite communication system, when its first Palapa communication satellite was launched in 1976. Indonesia launched its first locally made satellite in 2007 and had six satellites in orbit in 2016.

Indonesia operates a ground receiving station for the acquisition and processing of data from various remote sensing satellites, such as Landsat, SPOT, ERS-1 and JERS-1. The country is also engaged in the development of its own aeronautical navigation satellite surveillance system.

Aviation Liabilities

Aviation liabilities are insured with the aircraft hulls and passenger liability covers. The aviation liability cover follows international convention limits.

It is not known whether or not airport and terminal liability cover is arranged. Companies like Shell cover refuelling liabilities under a global captive programme.

Market sources report that, despite it being a compulsory class of insurance, there is presently little interest in liability cover for drones.

Loss Experience

There have been numerous accidents over the years involving Indonesian aircraft.

Garuda, the state airline, has had a number of major accidents in the past but none since 2007 when a Boeing 737-400, carrying 133 passengers (of which 19 were foreign nationals, principally Australian journalists) and seven crew members crashed and burst into flames on landing at Adisucipto International Airport in Yogyakarta, en route from Jakarta.

There have also been numerous accidents involving the smaller airlines and private aircraft.

There was one major aircraft crash in 2012, this being the loss of a Sukhoi Superjet 100 on a demonstration tour resulting in 53 fatalities.

On 28 December 2014 Air Asia Flight 8501 (an Airbus A320-200) crashed into the sea in bad weather in the Karimata Strait near Borneo (off the island of Belitung) during a flight from Surabaya (Indonesia) to Singapore. The incident resulted in the deaths of 162 passengers and crew. It is understood that the primary insurances of Indonesia Air Asia were placed in the Indonesian market and were substantially reinsured in the international market with Allianz as leader.

On 23 October 2018 a Lion Air Boeing 737 crashed into the Java Sea after taking off from Jakarta while en route to the western city of Pangkal Pinang. All 189 passengers and crew were killed. It is understood that the payments to beneficiaries estimated at IDR 8.9bn (USD 616,203) were made by the state-owned insurer PT Asuransi Jasa Raharja Putera as administrator of the *Mandatory Insurance Fund for Passenger Accidents,* while it is believed that primary hull and liability insurances of the airline were placed in the Indonesian market and substantially reinsured in the international market. According to some reports, the total cost to the insurance market was expected to be as high as USD 100mn, of which USD 60mn related to the hull.

Major Insurers

The leading aviation insurers and their market shares are shown below.

Company	Market share 2017 (%)
PT Tugu Pratama Indonesia	51.25
PT Asuransi Jasa Indonesia (Jasindo)	23.31
PT Citra International Underwriters	17.43
PT Asuransi Wahana Tata	5.12
PT MNC Asuransi Indonesia	1.13

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Reinsurance

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

It is not thought that any local Indonesian insurance company has aviation treaty arrangements at present. Reinsurance is purely on a facultative basis and is placed by brokers.

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations replace previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*. For further details, refer to the section headed Retentions under Company Registration and Operating Requirements in Supervision and Control.

Distribution

Brokers such as Marsh, Aon, Jardine Lloyd Thompson, Willis Towers Watson and Bimantara Graha are all involved.

Personal Accident and Travel

Personal Accident

Summary and Trends

Market premium income in respect of PA and health business written by non-life companies reduced by 12.7% in 2016 and grew by 11.2% in 2017. In 2017 it represented 8.7% of the market non-life business.

It is impossible to gauge how much of the combined account is personal accident and what proportion is healthcare. Anecdotal evidence suggests that the bulk of the non-life account is personal accident. In general the account has been growing for several years except in 2014 and 2016.

Healthcare insurance is written by both life and non-life underwriters with most group healthcare insurance being placed with life companies which often offer term life riders.

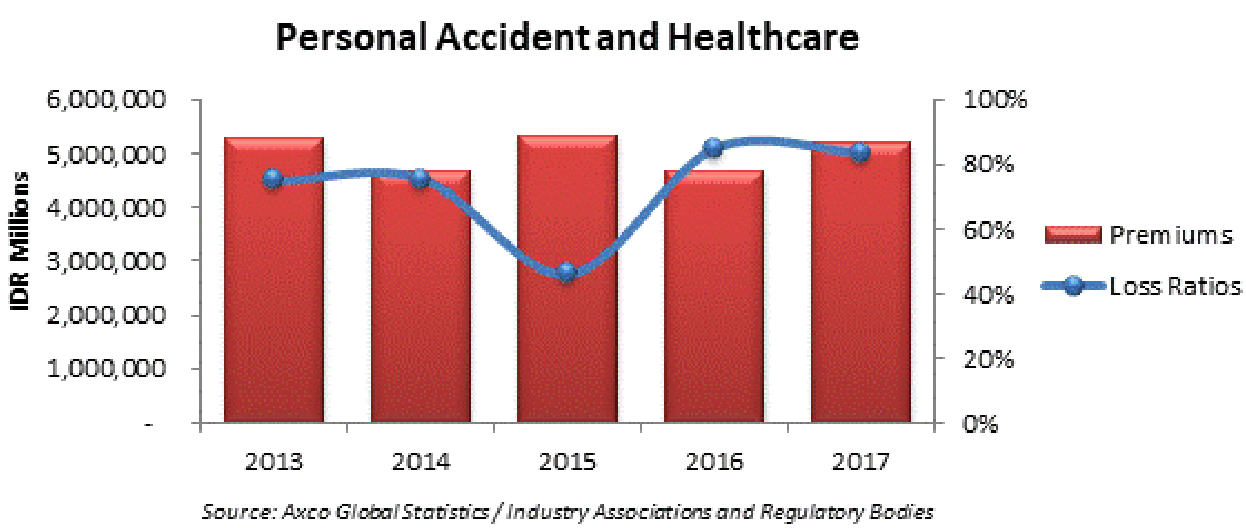
Non-life companies write a group personal accident account as a top-up or a substitute for the workers' compensation benefits provided by the social security scheme (Program Jaminan Kecelakaan Kerja): see also the Workers' Compensation and Employers' Liability section of this report. Group PA policies offer 24-hour cover: the basis of cover is death or disability arising out of an accident.

Domestic insurance companies dominate the individual PA market but joint ventures are strong and competitive in the group PA market.

The regulator imposes a tariff for motor PA business.

Statistics

Direct written premiums and loss ratios (net incurred losses to net earned premiums) for the last available five years are shown below.



New statistical information may have been included in the appendices.

Limits and Scope of Cover

Individual personal accident cover includes:

- death
- permanent disablement (lump sum payment, based on disability percentage table)
- temporary disablement (maximum payment 26 weeks)
- medical expenses (maximum payment of the insured liability)
- funeral expenses (lump sum payment up to maximum of IDR 1mn (USD 69.24).

Cover is worldwide, on a 24-hour basis.

Typical exclusions are:

- wilful act of the policyholder or beneficiary
- accident occurring while the insured is acting in the capacity of or under the direct orders of any branch of the armed forces, or police authorities
- war, military action of foreign nations, revolution, insurrection, civil commotion, armed rebellion or other similar disturbance or riot
- criminal act of the insured
- suicide or attempt thereat
- accident while the insured is driving an automobile or a motorcycle without a current valid licence or while under the influence of alcohol and/or drugs
- brain disease, sickness or insanity of the insured
- volcanic eruption or tsunami
- medical or surgical treatment except where such treatment is necessary solely for injuries for which the company is liable
- accident while engaged in hazardous sport activities.

Some of the above exclusions are removed upon payment of an additional premium. Earthquake is normally covered in the standard policy.

Capital benefits (death and permanent disablement) are expressed in group policies as a multiple of earnings, for example 12 to 48 months, with 36 months being the norm.

Rating and Deductibles

Every company applies its own rates to PA (except motor PA) business and there are no standard rates. Indicative rates are, however, as follows:

- office workers - 0.03%
- manual workers - 0.12%

- supervisory - 0.08%
- extra hazardous - 0.25%.

Deductibles are not usual for personal accident.

The motor personal accident tariff stipulates a standard rate of 0.5% of the sum insured.

Rates for group PA vary between insurers.

Loss Experience

Loss ratios for PA and health business which had been in the region of 50% up to 2010 have increased in subsequent years, especially in 2016 and 2017, when it exceeded 80% in both years. It is not known whether this was due to PA or health business specifically as the regulator does not provide a split in the figures.

Major Insurers

The leading personal accident insurers and their market shares are shown below.

Company	Market share 2017 (%)
PT Lippo General Insurance	13.93
PT Asuransi Sinar Mas	13.06
PT Asuransi Astra Buana	12.47
PT Asuransi Adira Dinamika	7.36
PT Chubb General Insurance Indonesia	6.24

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Reinsurance

==

Update November 2019

In August 2019 the Financial Services Authority (Otoritas Jasa Keuangan - OJK) issued *Regulation No 19/POJK.05/2019.* This clarified *Regulation No 14/POJK.05/2015 on Own Retention and Domestic Reinsurance Support*, which requires 100% domestic reinsurance of "simple risks". The new regulation states that this may be in the form of either treaty or facultative placements with domestic reinsurers. In addition, it defines "simple risks" as the following lines of business: all motor, health insurance, personal accident insurance, credit and surety insurance. It also clarifies that the following will not be classified as "simple risks": property, marine cargo, marine and aviation hull, space, onshore and offshore energy, engineering and liability risks as well as risks for which the amount of cover is greater than the minimum amounts to be ceded to domestic reinsurers.

==

Domestic companies use their general accident quota share and surplus treaties, or pure excess of loss arrangements. Facultative reinsurance is placed in the local market. The joint venture companies usually cede to their worldwide treaties.

Regulation No 14/POJK.05/2015 and *Circular Letter No 31/SEOJK.05/2015* which were issued by the regulator in November 2015 and came into effect on 1 January 2016 set out new requirements regarding own retention limits, priority cessions to domestic reinsurers and reporting of reinsurance/retrocession. *Regulation No 14/POJK.05/2015* requires 100% domestic reinsurance of "simple risks". It does not apply to multinational insurance programmes or insurance products that provide worldwide cover. The new regulations replace previous requirements contained in *Regulation of Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Number PER-11/BL/2012* and *Ministry of Finance Regulation No 53/PMK 010/2012*. For further details, refer to the section headed Retentions under Company Registration and Operating Requirements in Supervision and Control.

Distribution

Agents, including banks, are the main producers of individual business, while brokers place group business on behalf of multinational companies.

Creditor Insurance

Creditor insurance is not written by insurance companies in Indonesia.

Travel

Summary and Trends

Individual travel insurance is available in the local market, and has been developing modestly as increasing numbers of local people travel abroad, including many Muslims making the Haj pilgrimage to Mecca.

A number of life companies incorporate a travel section in major medical insurance packages which includes travel personal accident plus loss of baggage, money, personal liability and similar.

Non-life companies are more inclined to issue travel personal accident covers either for travel within the country or for overseas trips. There is some demand from travel agents for insurance packages to be sold with airline tickets.

Statistics

There are no separate statistics for travel insurance which is either included in personal accident and healthcare or under "miscellaneous".

Limits and Scope of Cover

The range of coverage follows general standards applying in Asia. Limits are normally in the range of USD 25,000 to USD 35,000 for PA with personal liability limits being in a range of USD 12,000 to USD 14,000.

Rating and Deductibles

Premiums per person are said to range from USD 9 for four days cover to USD 46 for 30 days.

Loss Experience

Loss experience is believed to be satisfactory, although separate statistics are not available.

Major Insurers

This is a small class and there are no major insurers as such. All the major domestically owned and joint venture insurance companies offer travel insurance.

Reinsurance

Reinsurance for this class would be included under the insurer's personal accident protection.

Distribution

Travel products are distributed by agents, brokers and travel agents.