INSURANCE MARKET REPORT

INDONESIA: LIFE & BENEFITS

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.
105ºE
120ºE
135ºE
0º
15ºS
MYANMAR
BANGKOK
CAMBODIA
PHNOM PENH
VIETNAM
Ho Chi Minh
THAILAND
MANILA
PHILIPPINES
FEDERATED STATES OF MICRONESIA
KOROR
PALAU ISLANDS
South China Sea
Sulu Sea
Celebes Sea
Philippine Sea
PACIFIC OCEAN
BANDAR SERI BEGAWAN
BRUNEI
M A L A Y S I A
KUALA LUMPUR
SINGAPORE
Banda Aceh
Medan
Pekanbaru
Padang
Jambi
Palembang
Bengkulu
Tanjungkarang
Pangkalpinang
Pontianak
Palangkaraya
Bandjarmasin
Samarinda
Manado
Gorontalo
Palu
Kendari
Makasar
Ternate
Ambon
Manokwari
Jayapura
JAKARTA
Serang
Bandung
Semarang
Yogyakarta
Surabaya
Denpasar
Mataram
Kupang
DILI
EAST TIMOR
Java Sea
Banda Sea
Arafura Sea
Timor Sea
I N D O N E S I A
INDIAN OCEAN
PAPUA NEW GUINEA
Darwin
AUSTRALIA
Christmas Island (Aust.)
The Settlement

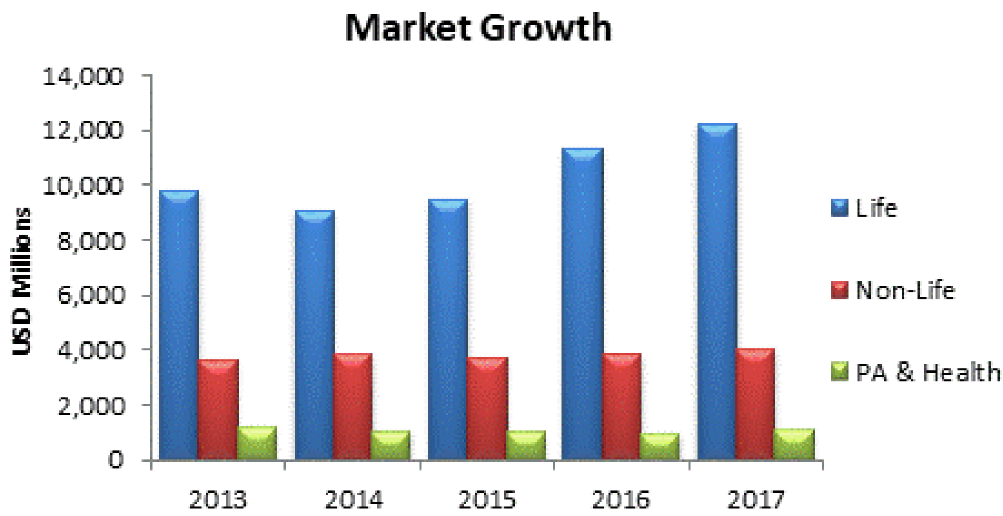
Map of the Area

Market Developments

- Life market premium growth stalled in 2018 and declined 10.3% in H1 2019 as reported by the insurance industry trade body (AAJI). Decline was attributed to a weaker economy and the restructuring of guaranteed savings policies offering high fixed interest returns.
- S & P Global Ratings raised Indonesia's sovereign credit rating by one grade from BBB- stable to BBB stable, following the re-election of president Joko Widodo in May 2019.
- Liberalising current labour law is a policy priority for the re-elected president according to press news reports. This includes termination payments (severance), a significant employer expense.
- Social insurance contributions are expected to increase substantially from 2020 to plug a ballooning budget deficit in the new universal health cover scheme, the National Health Insurance Program (Jaminan Kesehatan Nasional/JKN).
- *POJK Regulation No 13/POJK.02/2018 about Digital Innovation in the Financial Services Sector* in effect from 16 September 2018 established a regulatory sandbox for fintech development.
- A major restructuring of state-owned life insurer, PT Asuransi Jiwasraya (Persero), is reported to be underway following a liquidity squeeze which forced postponement of maturity claim payments in October 2018.
- The Commonwealth Bank of Australia (CBA) announced the sale of its 80% stake in PT Commonwealth Life to the fast-growing Hong Kong-based FWD Group in October 2018.
- China Life entered the Indonesian market following the purchase in July 2018 of 80% of PT Asuransi Jiwa Sinansari Indonesia, through its subsidiary China Life Insurance (Overseas) Co. Ltd. The company began operations in August 2018.
- *Government Regulation No 14/2018* confirmed the foreign ownership limit for Indonesian insurance companies remains at 80%. Existing joint venture insurers with foreign ownership exceeding 80% were granted a grandfathering exemption.
- The constitution of a policyholder protection scheme mandated under *Chapter XI* of *Law No 40/2014* and now overdue remained outstanding at the time this report was in preparation, though a draft bill was reported to be in process in early 2019.
- According to a survey of the local insurance market dating February 2019, insurers are now prioritising profitability over top line growth, but digital innovation lags and recruiting and retaining talent is a challenge.

Key Facts

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



Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

- The current rate of exchange is IDR 14,183.29 : USD 1. Further details are provided within the Currency and Exchange Control subsection in the Politics and the Economy section of this report.
- Indonesia is the world's largest archipelago, consisting of some 13,677 islands stretching for 3,180 miles (5,120 kilometres), covering a land area of 741,102 square miles (1,919,445 square kilometres). The population was reported to be 237.6 million at the time of the national census in 2010 and was forecast to reach 269.54 million in 2019. More than half the country's population live on the island of Java, which includes the nation's capital, Jakarta.
- The Dutch established trading activities from 1602 and gradually extended their control over Indonesian territory after the British withdrawal from Java in 1816. Occupied by the Japanese during World War 2, the Dutch failed to reassert their influence afterwards with the country declaring independence in 1945. Joko Widodo became the president from 2014 and was re-elected in 2019.
- The Indonesian economy is broad based with considerable wealth in natural resources and a large domestic consumer market. Real GDP growth of 5.16% and 5.27% is forecast for 2019 and 2020 with inflation of 3.69% and 4.47%. Unemployment of 5.37% is forecast in 2019. In May 2019, S & P Global Ratings raised Indonesia's sovereign credit rating to BBB stable, following the re-election of president Joko Widodo in May 2019.
- The Financial Services Authority (Otoritas Jasa Keuangan - OJK) is the insurance market regulator.
- Indonesian life insurance market premium was IDR 186.0trn (USD 13.11bn) in 2018. PA and healthcare premium was IDR 14.2trn (USD 1bn).
- The OJK reported 53 licensed life insurance companies as of April 2019. There were a further 30 sharia licensees, 23 of which were life company sharia units with a further seven specialist sharia providers.
- The Indonesian life market is open to foreign entrants under joint venture arrangements with a domestic partner. Up to 80% foreign shareholdings are permitted with *Law No 40/2014* tightening regulation concerning the legal standing of minority Indonesian shareholders.

Key Facts

- The *National Social Security System Law 2004* (Sistem Jaminan Sosial Nasional/SJSN) established the legal basis for profound social security reform. This included the establishment of universal health cover (UHC) under the National Health Insurance Program implemented between 1 January 2014, and 1 January 2019. All other social security benefits (retirement, death, disability and work accident) were consolidated into a single administrative body established from 1 July 2015 with all to be included from 2029.
- A legislative framework for private pensions was established in 1992 but growth is slow and coverage levels are low, reported to be 6.6% of the eligible workforce in 2018. Regulatory reporting shows trend decline in defined benefit (DB) provision but growth in defined contribution (DC) led by licensed bank and life insurance company providers.
- Life product distribution is dominated by the agency and bancassurance channels. Leading providers retain large agency forces, but quality is variable and is a part-time profession for many.

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.

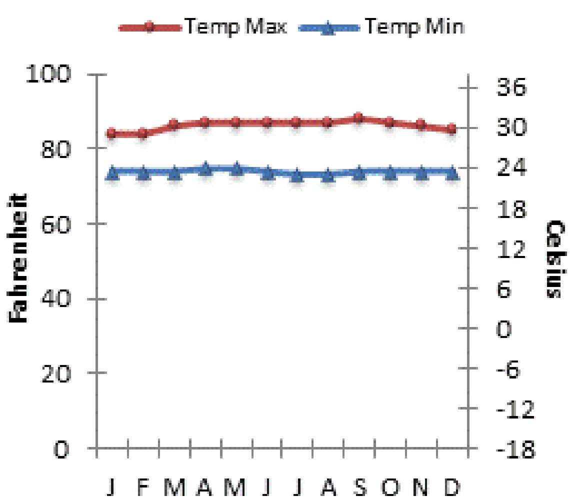
In contrast to other features of the climate, sea level temperatures throughout the country are uniform, averaging around 79ºF (26ºC).

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.

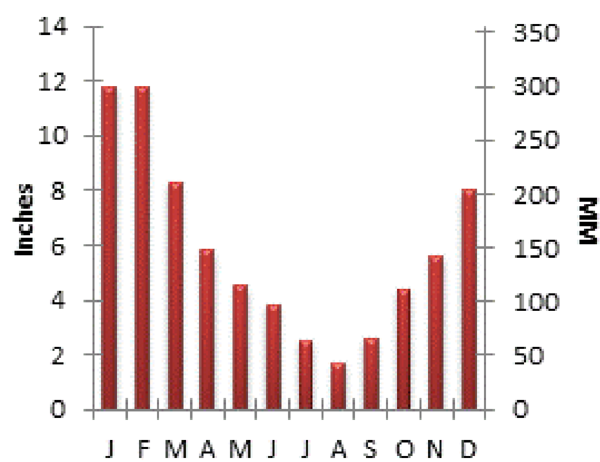
Further west in Padang (Sumatra) the situation is more extreme, with the annual rainfall reaching 164.3 inches (4,172 mm). Heavy rainfall peaks between October and January but can also occur from March to June and in August. September is the driest month, with an average of only 6 inches (152 mm) of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

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.

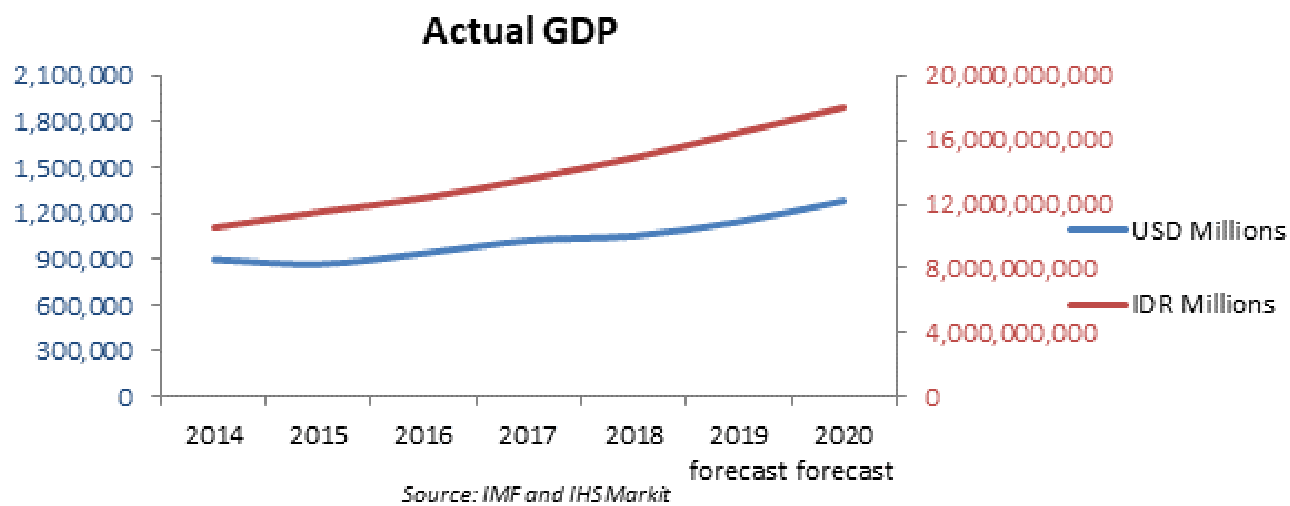
Notwithstanding a near-term outlook for moderated growth, investors have welcomed the president's commitment to structural reforms. Successive packages of initiatives have focused on rationalising licensing procedures, lowering taxes and opening sectors to foreign investment. The limited success of the 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.

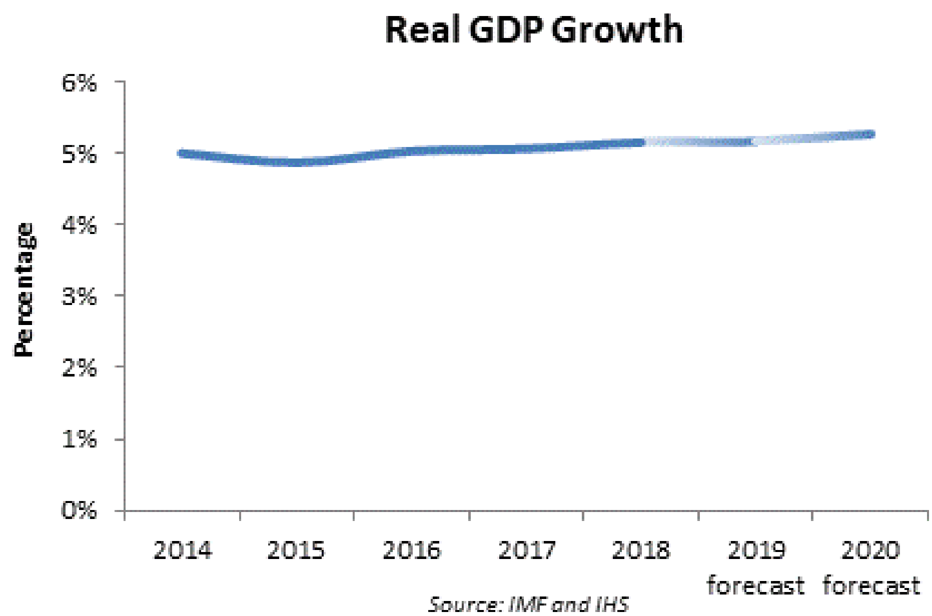
In June 2019, S & P Global Ratings upgraded Indonesia's sovereign debt rating to "BBB" with a stable outlook.

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

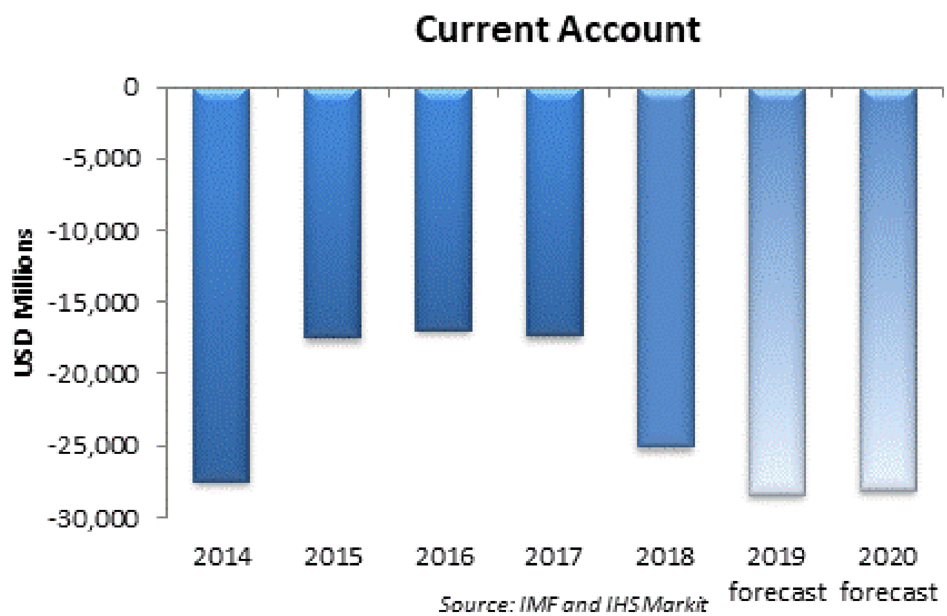
GDP per capita in US dollars (USD) and in comparable economies is shown below.

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

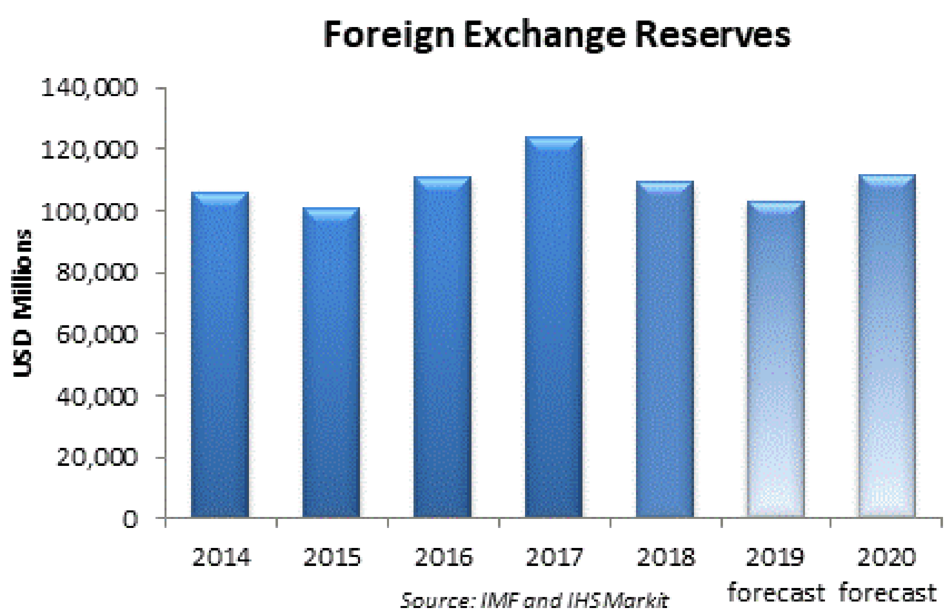
Current Account Balance

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



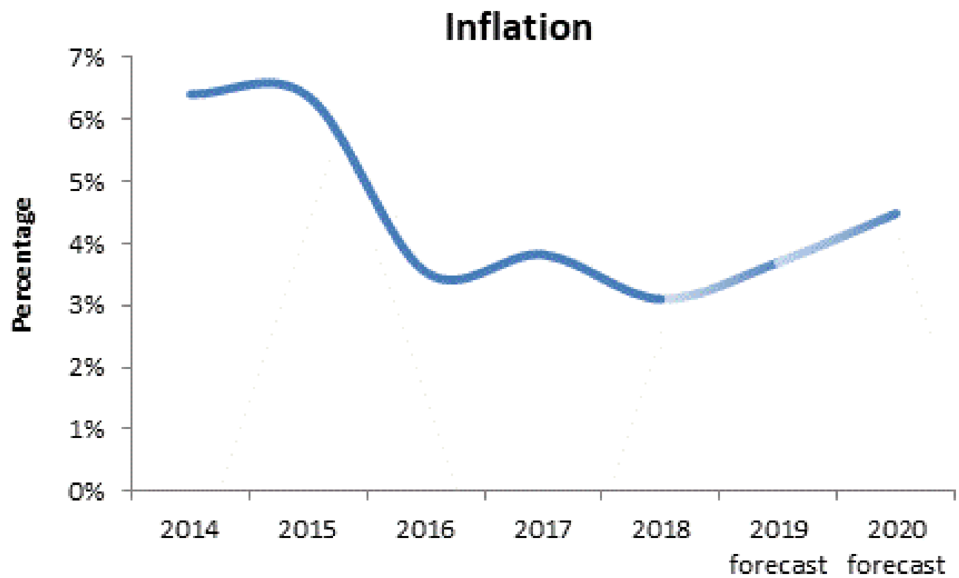
Foreign Exchange Reserves

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



Inflation

Annual consumer price inflation is shown below.



Source: IMF and IHS Markit

Interest Rates

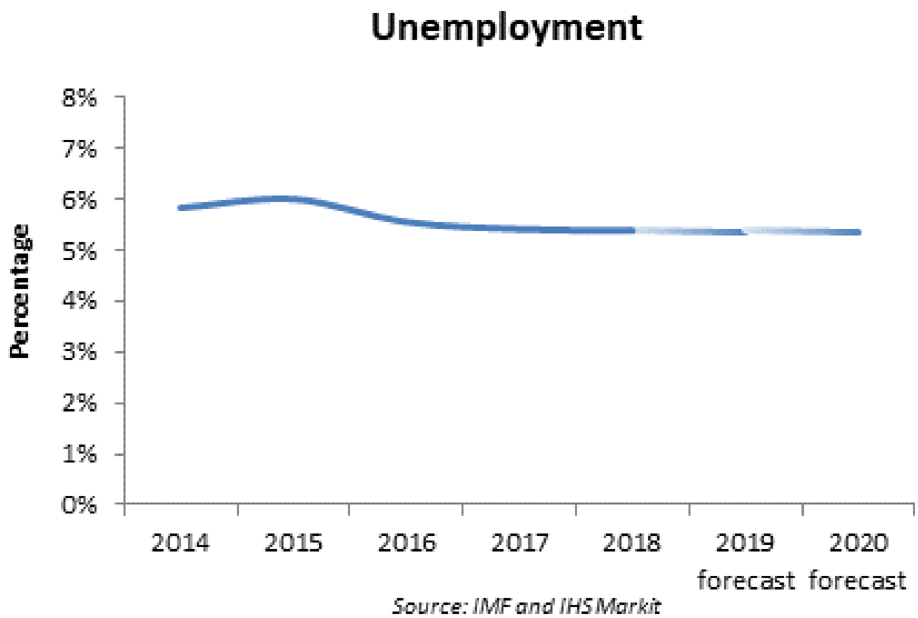
Key interest rates are shown below.

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

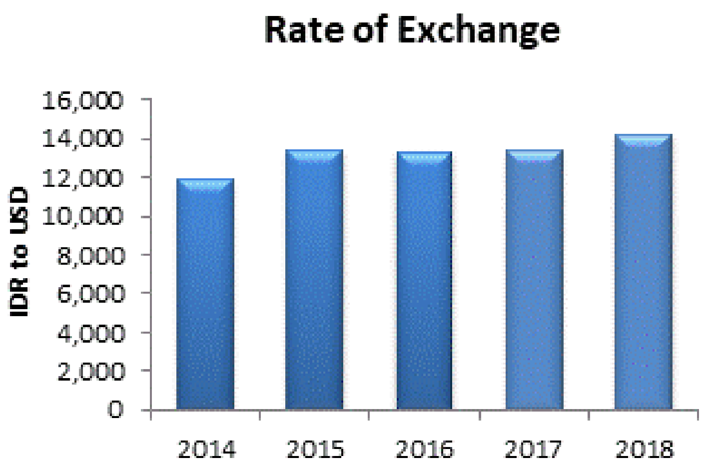
Currency and Exchange Control

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.

Legislation

Life Insurance Legislation

Legislative Overview

Indonesia is an early stage developing insurance market, with its initial insurance law dating from 1992 (*Law No 2/1992 Concerning Insurance Business)*, prior to which the market was governed by presidential decree.

The 1992 law was repealed and replaced by *Law No 40/2014 about Insurance* with implementing regulations issued subsequently by the Financial Services Authority (Otoritas Jasa Keuangan - OJK).

The OJK has rule making powers issuing regulations (Perutaran OJK/POJK) and circular letters (Surat Edaran/SEOJK).

Indonesia has the world's largest Muslim population and there is a developing body of regulation specific to the takaful market, generally referred to as the sharia market in Indonesia.

Current Legislation

The main legislation and related items governing the insurance market 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	Established the Financial Services Authority (Otoritas Jasa Keuangan - OJK) to replace the Capital Markets and Financial Institutions Supervisory Agency (Badan Pengawas Pasar Modal - BAPEPAM) as the insurance market regulator from 1 January 2013.
Law No 40/2014 on Insurance	17 October 2014	Updated insurance law and repealed and replaced the *Law of the Republic of Indonesia No 2/1992*. The OJK was empowered to develop and issue implementing regulations.
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 conventional, sharia 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. In effect "simple" conventional and sharia risks, which include life and health insurance, must be 100% reinsured in the domestic market from January 2016.

Legislation	Effective Date	Purpose
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	Provides implementing regulations to *Law No 40/2014* including increased paid-up capital requirements for conventional and sharia (re)insurance companies.
OJK Regulation No 68/POJK.05/2016 on the Licensing and Institution of Insurance Brokers, Reinsurance Brokers and Loss Adjusters	28 December 2016	Provides implementing regulations to *Law No 40/2014* which refine the licensing and compliance requirements for insurance brokers, reinsurance brokers and loss adjusters. It also increased capital requirements for insurance and reinsurance brokers.
OJK Regulation No 69/POJK.05/2016 on Business Conduct of Insurance, Sharia Insurance, Reinsurance and Sharia Reinsurance Companies	28 December 2016	Amends regulations on insurance agency agreements, agent conduct and training. 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.

Further regulation covers a range of market areas including regulatory powers, product requirements, reporting, corporate governance, sharia, agent, consumer protection and product innovation.

Life Insurance - Legislative Update

POJK Regulation No 13/POJK.02/2018 about Digital Innovation in the Financial Services Sector effective from 16 September 2018 establishes a regulatory sandbox for fintech development (Inovasi Keuangan Digital/IKD). Applicants must register their proposed activity with the OJK. Propositions must offer a new business model with large scale application. Financial services companies or fintech firms may register alone or in partnership. Among the 21 initial applicants were aggregator, financial planning and online insurance claims propositions. The OJK has established a new fintech centre, the OJK Innovation Centre for Digital Financial Technology (OJK Infinity).

Government Regulation No 14/2018 effective from 18 April 2018, confirmed the foreign ownership limit for Indonesian insurance companies remains at 80%.

Life Insurance - Projected Legislation

No projected life insurance legislation was when this report was in preparation.

Social Security Legislation

Legislative Overview

Supervision and Control

The 1997-98 Asian financial crisis was particularly damaging to the Indonesian economy, causing a contraction in economic output, a sharp rise in unemployment, currency devaluation and a fall in living standards. From that experience a national consensus developed to establish a universal and comprehensive social security scheme covering formal and informal sector workers to provide financial support in time of need.

A legal commitment for this undertaking was enacted initially in *Law No 40/2004 concerning the Social Security Administrative Body* (Sistem Jaminan Sosial Nasional/SJSN). This established the foundation for a reformed social security system with enhanced benefits to be introduced within a decade. The framework "umbrella law", excluded detailed transition measures.

An implementation timetable followed in *Law 24/2011 concerning the Social Security Administrative Body* (Badan Penyelenggara Jaminan Sosial/the BPJS Law). This set out the merger of the four social insurance schemes serving certain working population groups into a single National Social Security System administered by a non-profit social security administrator (BPJS), with responsibilities divided between health (BPJS Health) and employment benefits (BPJS Employment).

BPJS Health (Badan Penyelenggara Jaminan Sosial Kesehatan) launched on 1 January 2014 targeted establishing universal health cover for all Indonesians by 1 January 2019. BPJS Employment (Badan Penyelenggara Jaminan Sosial Ketenagakerjaan) was established from 1 July 2015 and administers all other social insurance benefits.

Current Legislation

The main legislation and related items governing social security are set out in chronological order in the table below.

Legislation	Effective Date	Purpose
Law No 13/2003 concerning Manpower	25 March 2003	The governing labour law; includes the obligations of employers to make lump sum severance payments to employees on the termination of employment. This is based on a graded scale in reference to years of service and cause of termination. The law also provides for employee sickness benefits.
Law No 40/2004 concerning the Social Security Administrative Body (Sistem Jaminan Sosial Nasional/SJSN)	19 October 2004	Established the foundation for a reformed social security system with universal health, workers' compensation, old age pension and death benefits.

Legislation	Effective Date	Purpose
Law 24/2011 concerning the Social Security Administrative Body (Badan Penyelenggara Jaminan Sosial/the BPJS Law)	25 November 2011	Set out the merger of the four social insurance schemes serving certain working population groups into a single National Social Security System administered by non-profit social security administrator (BPJS), with responsibilities divided between health (BPJS Health) and employment benefits (BPJS Employment). Full implementation of the single health care system is to occur by 2019. The single employment benefit system will be implemented in full by 2029.
Government Regulation No 44/2015,	1 July 2015	Gave legal effect to a revised workers' compensation programme established under BPJS Employment. This includes disability, death, funeral benefits and workers' compensation benefits.
Government Regulation No 45/2015	30 June 2015	Gave legal effect to a compulsory defined benefit (DB) retirement scheme, the Retirement Security Program (Program Jaminan Pensiun/JP), established under BPJS Employment, for which public and medium to large private sector employees are eligible.
Government Regulation No 46/2015	30 June 2015	Gave legal effect to a compulsory defined contribution (DC) retirement scheme, the Old Age Security Program (Program Jaminan Hari Tua/JHT), established under BPJS Employment, for which private sector employees and the self-employed (on a voluntary basis) are eligible.

Social Security - Legislative Update

No new social security legislation was known of when this report was in preparation.

Social Security - Projected Legislation

Social insurance contributions are expected to increase substantially from 2020 by presidential decree to plug a ballooning budget deficit in the new universal health cover scheme, the National Health Insurance Program (Jaminan Kesehatan Nasional/JKN).

Liberalising current labour law is a policy priority for the re-elected president according to press news reports. This includes termination payments (severance), currently a significant employer expense.

Pensions Legislation

Legislative Overview

Supervision and Control

The Indonesian social insurance scheme provides a basic pension benefit for formal sector employees plus the self-employed may join on a voluntary basis. Supplementary pensions may be provided in addition but the market is undeveloped and penetration is low.

Law No 11/1992 as amended is the governing statute regulating private pensions. This established two distinct pension structures for corporate-sponsored pension schemes: Employer Pension Funds/EPFs - (Dana Pensiun Pemberi Kerja - DPPK) and Financial Institution Pension Funds/FIPFs - (Dana Pensiun Lembaga Keuangan - DPLK). FIPF may also be a personal pension.The law has been amended on numerous occasions in areas including corporate governance, solvency, investment, professional standards, sharia, reporting and registration.

The main statute is supplemented by OJK regulations (Perutaran OJK/POJK) and circular letters (Surat Edaran/SEOJK).

Current Legislation

The main legislation and related items governing pensions are set out in chronological order in the table below.

Legislation	Effective Date	Purpose
Law No 11/1992 Concerning Pension Funds	20 April 1992	The principal governing statute for the private pension sector. It established two types of private pension fund: Employer Pension Funds/EPFs - (Dana Pensiun Pemberi Kerja - DPPK) and Financial Institution Pension Funds/FIPFs - (Dana Pensiun Lembaga Keuangan - DPLK).
POJK No 33/POJK.05/2016	26 September 2016	Established a regulatory framework for the development of sharia pensions, which are also subject to *Law No 11/1992*. The OJK is responsible for licensing and supervision of such pension funds but the National Sharia Board of the Indonesian Ulama Council is responsible for compliance with sharia law.

Pensions - Legislative Update

POJK Regulation No 15/POJK.05/2019 Pension Fund Management effective from 27 May 2019 applies corporate governance provisions to private pension fund founders and managers (DPLK/DPPK) in the interests of ensuring the best possible outcomes for pension fund members. These encompass professional competence and administrative duties. Pension funds must have a minimum of two people responsible for the management of the pension fund.

Pensions - Projected Legislation

No projected pensions legislation was known of when this report was in preparation.

Healthcare Legislation

Legislative Overview

Law 24/2011 concerning the Social Security Administrative Body (Badan Penyelenggara Jaminan Sosial/the BPJS Law) instigated fundamental reform to the public health service and the administration of social insurance.

The statute launched a universal public health scheme, the National Health Insurance Program (Jaminan Kesehatan Nasional/JKN), administered by a reformed public non-profit health body (BPJS Health) and put into effect from 1 January 2014.

This statute fulfilled a formal commitment to provide comprehensive social security in an undertaking enshrined previously in *Law No 40/2004 concerning the Social Security Administrative Body*.

The reform merged a number of health administration bodies serving defined population sub-groups into a single merged entity known as BPJS Health (BPJS Kesehatan) and introduced a national healthcare service on a staged basis between 2014 and 1 January 2019.

Private medical insurance (PMI) is sold by both registered life and non-life insurance companies and is regulated by *Law No 40/2014 on Insurance*. The OJK has issued subsequently a series of regulations (Perutaran OJK/POJK) and circular letters (Surat Edaran/SEOJK) implementing provisions within the 2014 insurance law.

Current Legislation

The main legislation and related items governing healthcare are set out in chronological order in the table below.

Legislation	Effective Date	Purpose
Law No 36/2009 Concerning Health	13 October 2009	Repealed Law No 23/1992 and sets out the rights of individuals to good health and the responsibility of government to provide health resources including personnel, medical supplies, nutrition and facilities. The law also lays down guidance on protecting the vulnerable (children, the aged and infirm).
Law 24/2011 concerning the Social Security Administrative Body (Badan Penyelenggara Jaminan Sosial/the BPJS Law)	25 November 2011	The statute launched a universal public health scheme, the National Health Insurance Program (Jaminan Kesehatan Nasional/JKN), administered by a public non-profit health body (BPJS Health).

Legislation	Effective Date	Purpose
Law No 40/2014 on Insurance	17 October 2014	Updated insurance law, which also applies to providers of private medical insurance.

Healthcare - Legislative Update
No new healthcare legislation was known of when this report was in preparation.

Healthcare - Projected Legislation
No projected healthcare legislation was known of when this report was in preparation.

Legislative Process
New or revised insurance or pension legislation begins with terms of reference being drawn up by the responsible OJK department, the Supervisor of Insurance, Pension Funds, Financing Institutions and other Financial Institutions. It is passed to the legal department of the OJK.

The proposed legislation then moves on to the cabinet secretary for review, prior to submission to a parliamentary select committee. The subsequent committee review may then liaise with the chief executive of the supervisory department on any points of concern. If required, the head amends the draft legislation and re-submits it. On approval by the select committee, it proceeds to parliamentary debate.

On approval by parliament, the legislation is submitted to the president for signature. If not signed within 15 to 30 days, it automatically passes into law and is gazetted.

Compulsory Insurances
Social insurances implemented by government are funded through mandatory contributions from the formal working population and are reported on separately in the Social Security and Healthcare sections of this report.

Statutory Tariffs
There are no statutory tariffs applied to life, health or pensions business.

Supervision

Life Insurance Supervisory Authority
The industry supervisor is the Financial Services Authority (Otoritas Jasa Keuangan/OJK), established by statute from 1 January 2013. The OJK is a unified regulator responsible for bank and non-bank financial services, including life and non-life insurance prudential and market conduct activity.

Supervision and Control

The OJK is governed by a nine-member Board of Commissioners, led since 2017 by Mr Wimboh Santoso. Two of the nine members are appointed jointly by Bank Indonesia and the Ministry of Finance. The remaining seven are appointed by presidential decree, having been selected by the House of Representatives (DPR) following select committee recommendations.

The Board of Commissioners is authorised under *Article 11* of *Law No 21/2011 on the Financial Services Authority*, to issue OJK regulations, Board of Commissioners' regulations and Board of Commissioners decrees.

Consumer protection is a core regulatory objective led by the Education and Consumer Protection division within the OJK. A complaint service can force financial institutions to settle and includes powers of litigation for the purpose of asset recovery and compensation.

The OJK is financed by fees from regulated entities for initial registration and approval and ongoing compliance through an annual levy. The annual levy was established under *Government Regulation No 11/2014* with financial institutions liable to an annual fee of 0.045% of assets subject to a minimum of IDR 10mn (USD 705.06). Related activities, classified as financial services industry support, include actuarial and consulting firms and are levied at 1.2% on the value of financial services contracts plus an IDR 5mn (USD 352.53) flat fee. Annual fees are due on a quarterly basis.

The Executive Head of Non-Bank Financial Institutions Supervision is responsible for the supervision of insurance, pension fund and insurance-related businesses covering life, non-life and reinsurance activities. The chief executive of this division since 2017 is Riswinandi.

The role of insurance supervision includes:

- drafting insurance legislation, which may be in the form of insurance law, government regulation or Ministry of Finance regulation, to improve market practice in areas such as financial strength
- initiating and supporting educational initiatives to increase awareness and understanding of the insurance industry
- supervision and enforcement, which includes financial statement analysis, on-site visits, policyholder complaint handling, registration for actuaries and others, licensing, imposing sanctions and vetting new insurance products.

The OJK is a relatively young organisation but its activities and market communication presence have been significantly upgraded from what went before supported by measures introduced in the 2014 insurance law. These included enforcement, granting regulatory powers to appoint a statutory manager in cases of financial distress or non-compliance. This power has been exercised in the case of the domestic mutual insurer, AJB Bumiputera 1912, where a statutory manager was installed in October 2016. More recent solvency issues at the state-owned PT Asuransi Jiwasraya (Persero) have been largely addressed via direct government intervention.

Sanctions for non-compliance have also become more punitive with a range of administrative penalties and fines up to IDR 600bn (USD 42.30mn).

Regulatory encouragement to fintech initiatives has followed more recently with the introduction of a regulatory sandbox framework (Inovasi Keuangan Digital/IKD) under *POJK Regulation No 13/POJK.02/2018 about Digital Innovation in the Financial Services Sector* effective from 16 September 2018. The OJK has established a new fintech centre to support its development, the OJK Innovation Centre for Digital Financial Technology.

The OJK received guidance from the Australian regulator, the Australian Prudential Regulation Authority (APRA), to establish a risk-based supervisory framework to enhance its ability to monitor solvency risk.

Pensions Supervisory Authority

The OJK is the supervisory authority responsible for private pensions.

The Executive Head of Non-Bank Financial Institutions Supervision is responsible for the supervision of pension funds. The chief executive of this division since 2017 is Riswinandi.

Pension funds are liable for an annual OJK levy of 0.045% of assets subject to a minimum of IDR 10mn (USD 705.06). The levy is payable quarterly.

Healthcare Insurance Supervisory Authority

The OJK is the supervisory authority responsible for private medical insurance.

The Executive Head of Non-Bank Financial Institutions Supervision is responsible for the supervision of insurance, pension fund and insurance-related businesses covering life, non-life and reinsurance activities. The chief executive of this division since 2017 is Riswinandi.

Authorised health insurers are liable for an annual OJK levy of 0.045% of assets subject to a minimum of IDR 10mn (USD 705.06). The levy is payable quarterly.

Statutory Returns

Conventional and sharia insurance and reinsurance company reporting requirements were revised under *OJK Regulation No 55/POJK.05/2017* from 19 July 2017. These include the following, for which company directors, or their equivalent, are responsible:

- audited annual (1 January to 31 December) non-consolidated financial statements by 30 April
- half-yearly report
- quarterly non-consolidated financial statements by one month after the end of the quarter
- monthly report
- reinsurance programme activity report by 15 January
- guarantee fund quarterly report
- annual actuarial report including an estimate of the company's ability to meet its future obligation.

The regulation also requires annual corporate governance report and anti-fraud strategy implementation reports.

Life insurance companies marketing investment-linked products (ILPs) must also supply audited reports for funds linked to such products on both a quarterly and annual basis.

OJK Regulation No 71/POJK.05/2016 on the Financial Health of Insurance and Reinsurance Companies effective from 28 December 2016 requires insurance company annual financial statements comply with insurance regulations and be reviewed by the company actuary or an OJK-registered accountant.

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.

Regulation of the CMFISA Chairman No PER-03/BL/2012 concerning the Form and Composition of Announcement of Financial Statements of Insurance and Reinsurance Companies determines the format and structure of financial reporting for seven categories of insurance activity with five relating to life insurance companies, as listed below.

- Conventional life insurance and reinsurance companies.
- Conventional life insurance and reinsurance companies offering unit-linked products.
- Conventional life insurance and reinsurance companies that have a sharia insurance unit.
- Conventional life insurance and reinsurance companies that have a sharia insurance unit and offer unit-linked products.
- Non-limited liability insurance and reinsurance companies.

The Indonesian Institute of Accountants (Ikatan Akuntan Indonesia - IAI) agreed the adoption of IFRS 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.

Insolvency Regulation

Primary insolvency regulation is contained in *Law No 40/2014*. This provides enhanced regulatory powers to intervene in the event of (re)insurer insolvency.

Article 62 of *Law No 40/2014* empowers the OJK to suspend company managers and appoint a statutory manager. Circumstances that could justify the appointment of a statutory manager include the following:

- the OJK suspends the company's business licence
- the company informs the OJK that it is no longer able to fulfil its obligations
- the OJK 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 activity.

The principle role of the statutory manager is to assume management control of an insurer/reinsurer. It will either seek to secure a rescue or advise the OJK on revocation of licence where a rescue is not possible. The statutory manager also has a duty to protect policyholder assets and may terminate third party agreements. On the appointment of a statutory manager, existing company managers are not allowed to resign their positions until completion of the process.

The OJK initiated its powers of intervention in October 2016, when it appointed a statutory manager to replace the board at the leading domestic mutual life insurance company, AJB Bumiputera 1912.

Further administrative sanctions that may be applied under *Article 72* are a requirement for a capital injection, the replacement of company management members and transfer, in part or entirety, of its insurance portfolio.

Regulation of the Minister of Finance No 53/PMK.010/2012 for conventional insurers only, requires that an insurer submit a restructuring plan to the OJK and suspend dividend payments where it fails to meet its solvency requirement. Where solvency falls below 40% a company will receive a final warning. This measure, however, has been complemented if not superseded by the introduction of powers to install a statutory manager. Implementation of a financial restructuring plan must be reported to the Minister of Finance within 15 months.

Where a company cannot be rescued, the OJK can file for bankruptcy with the commercial court. Bankruptcy law is determined under *Chapter X* of *Law No 40/2014*. In such an event, policyholders have 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. Such deposits must be increased annually at a rate of 1% calculated on the growth in net premiums.

These funds must be invested on bank deposit or in sovereign debt. Companies are required to make the Ministry of Finance the beneficiary of such deposits. Funds can be released only in the event of an insurer's liquidation or closure and with the approval of the minister on the request of the liquidator or company concerned.

The guarantee fund requirement, however, is to be replaced by a new policyholder protection scheme to which all insurers are obliged to contribute. As mandated under *Chapter XI* of *Law No 40/2014* further implementing legislation is to follow within three years of enactment to initiate this new scheme. This requirement, now overdue, remained outstanding, though a *Policy Guarantee Bill* was reported to be being drafted in early 2019.

Consumer Dispute Resolution

There is no insurance ombudsman in Indonesia but *Articles 29* and *30* of *Law No 21/2011* required the regulator provide an alternative dispute resolution service for policyholders. This was realised under OJK-issued *Regulation No 1/POJK.07/2013*, implemented the following year by OJK *Circular Letter No 2/SEOJK.07/2014 on Services and the Settlement of Complaints from Consumers of Financial Services Businesses.* This established alternative dispute resolution requirements for financial institutions, which includes insurance companies but excludes intermediaries.

Under this regulation, consumers can complain directly to a financial institution, which must establish formal internal dispute resolution procedures with competent personnel and standard operating procedures to handle such complaints. Financial institutions must retain records and cannot charge fees for the service. Consumers include policyholders, investors and pension fund participants. Disputes may be settled by either side issuing a formal apology or on the payment of compensation to the consumer, where a financial loss has been sustained.

Where settlement is not reached from a direct approach, complainants may take their cases up with an OJK-registered external dispute resolution agency (Lembaga Alternatif Penyelesaian Sengketa/LAPS). There are a number of LAPS serving different areas of financial services with the Indonesian Insurance Arbitration and Mediation Body (Badan Mediasi dan Arbitrase Asuransi Indonesia - BMAI), established in 2007, providing mediation and arbitration services for insurance disputes up to IDR 500mn (USD 35,253) in the life sector.

Alternatively, where a financial loss (up to a cap) has been sustained, consumers may approach the OJK. The OJK service can force financial institutions to settle customer complaints and may also file lawsuits to recover assets and obtain compensation from parties in breach of regulations.

Law No 40/2014 made it a legal requirement for conventional and sharia insurers and reinsurers to maintain membership of a policyholder dispute resolution body.

There is also a general arbitration law and a national arbitration board in Indonesia. All insurance policies include a standard arbitration clause that allows the policyholder to opt for arbitration or court action in the event of dispute.

The policyholder must notify in writing a choice of action to the insurer by registered letter, telegram, telex, fax, e-mail or courier. If court action is chosen, it is incumbent on the policyholder to initiate it in the competent court of domicile.

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 permitted in Indonesia because the law provides that insurance must be purchased from local authorised insurers with two exceptions affecting life, pensions or private medical insurance (PMI).

Indonesia is a member of the Association of South East Asian Nations (ASEAN) Economic Community (AEC) established in December 2015. The AEC Blueprint 2025 confirms that one of its aims is to create a highly integrated and cohesive economy with the following key elements: trade in goods; trade in services; investment environment; financial integration, inclusion and stability; facilitating the movement of skilled labour and business visitors; enhancing the participation in global value chains.

The ASEAN Trade in Services Agreement (ATISA), which will replace the ASEAN Framework Agreement on Services (AFAS), was signed by ASEAN member states in April 2019. ATISA commits to liberalise progressively the provision of financial services between member states until 2025. Member states, however, may set out which sectors will not be liberalised or will be only partially liberalised.

Indonesia is also a member of the World Trade Organization (WTO), and a signatory to the General Agreement on Trade in Services (GATS), which forms part of the trade liberalisation arena of the WTO.

The aim of GATS is to remove barriers to trade, but members are free to choose which sectors are to be progressively liberalised, which mode of supply would apply to a particular sector and to what extent liberalisation will occur over a given period of time. Insurance is a service within the scope of GATS but, so far, liberalisation of the sector has been limited.

Member states include Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

Legislation

The legal provisions setting out the requirement for insurers to be authorised are contained in *Article 25* of *Law No 40/2014* effective from 17 October 2014. Axco's unofficial translation of this text is as follows:

"Indonesian insurance objects can only be insured by insurance companies and sharia insurance companies authorised by the Financial Services Authority except where there is insufficient capacity in the domestic market or locally authorised insurers are unwilling to accept the risk."

Insurers

Exceptions to the general prohibition on non-admitted placements are made where there is insufficient capacity in the domestic market or locally authorised insurers are unwilling to accept the risk.

Local risk definition

A local risk is defined as a risk situated in Indonesia and owned by an Indonesian national or entity, relating to property, liability or money.

Exchange controls

Currency exchange control may be of significance for non-admitted placements. Currency export regulations require approval for the export on currency amounts exceeding USD 100,000 per month.

Tax

Premiums paid overseas are not tax-deductible for the buyer.

Insurer responsibilities

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

Premium taxes

All premium taxes set out in the Taxation section of this report. These taxes are payable by the insured.

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

Insurance buyers cannot place their business with non-admitted insurers abroad, unless Indonesian-registered insurance and reinsurance companies either:

- lack the capacity to cover the risk, or
- are unwilling or unable to cover the risk.

Where a buyer is not an Indonesian citizen or Indonesian legal entity and the risk is not located in Indonesia, and the previous two of these conditions are met, a buyer must show proof of an exhaustive approach to the domestic market before applying for dispensation in writing from the OJK to arrange insurance outside the country.

Where dispensation is not granted a corporate buyer insuring directly overseas cannot deduct the premiums as a business expense.

In an amendment contained in *Law No 40/2014,* where a buyer is not an Indonesian citizen or Indonesian legal entity and the risk is located in Indonesia it cannot be insured through a non-admitted insurer.

A buyer may be subject to taxation on any compensation paid by an overseas insurer, which is treated as unearned income. Buyers may also be liable to financial penalties for breaches of the non-admitted regulations.

Intermediaries

Intermediaries (brokers or agents) must be authorised to do insurance business. Unregistered brokers are not allowed to canvass for business in Indonesia.

Intermediaries are not permitted to place business with non-admitted insurers without special dispensation granted by the OJK. They are not allowed to canvas for and on behalf of unregistered overseas insurers.

Brokers are required to inform clients of the legal situation in respect of non-admitted insurance and to acquaint them with the penalties involved for non-compliance.

Market Practice

Life insurance for Indonesians is arranged mostly in Indonesia, though the most affluent may make invest offshore, notably in Singapore.

Foreign multinationals often arrange group life cover for expatriate staff on a non-admitted basis; the regulatory authority appears tolerant on this practice. Individual expatriates may also arrange life insurance and pensions offshore.

Fines/Penalties

Law No 40/2014 effective established an updated regulatory framework for the insurance industry based on international standards of best practice.

Article 73 of the 2014 insurance law authorises imprisonment for up to 15 years and a maximum fine of IDR 200bn (USD 14.10mn) for those found guilty of conducting unlicensed insurance business.

Unless special dispensation is granted by the regulator a corporate buyer insuring directly overseas cannot deduct premiums as a business expense.

A buyer may be liable to tax on any compensation paid by an overseas insurer, which is treated as unearned income.

Company Registration and Operating Requirements

Establishing A Local Company

New insurance or reinsurance businesses must apply to the OJK for a licence. Applicant information requirements were updated under *Article 8* of *Law No 40/2014* and include:

- articles of association
- organisational structure
- paid-up capital
- guarantee fund
- ownership
- feasibility and appropriateness of shareholders and control
- ability and propriety of directors, commissioners (or their equivalent for a co-operative), sharia supervisory board, company actuary, internal auditors and specialists

- feasibility of the business plan
- feasibility of risk management systems
- products to be marketed
- any engagement with affiliated parties where business processes are being outsourced
- preparation of infrastructure and reporting procedure to the OJK
- confirmation from the home insurance regulator in cases of foreign direct investment
- any other information that may be required related to the specific application.

Each application is determined on its individual merits with exact requirements adjusted to the type of business proposed.

The OJK must approve or reject a completed licence application within 30 days of receipt. Where an application is rejected, the OJK has a duty to explain the reasons for its decision.

Further measures introduced in the 2014 insurance law require sharia business units be separated from conventional insurance or reinsurance companies within 10 years, or earlier if sharia funds reach 50% of total insurance company funds.

Under the "single presence policy", the law also restricted a controlling shareholder to the ownership of one life or non-life insurance company, one life or non-life takaful company and one conventional or takaful reinsurer. Shareholders with controlling interests beyond these limits were granted three years to comply with this new measure up to the deadline of the 17 October 2017.

The 2014 law requires the appointment of at least one "controller", defined as a party which directly or indirectly determines the management of the insurance company. The regulator can approve or disapprove a controller's appointment or appoint a person who is deemed more suitable.

Further measures concerning insurance company licensing are contained in *Minister of Finance Decree No 426/KMK.06/2003.* This stipulates a foreign shareholder has at least an A rating from an internationally recognised rating agency and has equity of at least five times the amount of direct placement proposed for the company being established.

The decree requires a life company to employ at least one life insurance expert manager and appoint an actuary as the company actuary. Life companies must also appoint an unconnected actuarial consulting company to evaluate liabilities at least once every three years. There must be sufficient experts hired to handle the type of business transacted.

Government Regulation No 39/2008 requires a company's articles of association state that the purpose of establishing the business is to run one kind of insurance. In addition:

- insurers must appoint an independent commissioner to represent the interests of policyholders
- sharia insurers or reinsurers must appoint a Sharia Control Board to monitor compliance with Islamic law

- companies must be run on the principles of good governance
- the minimum levels of required paid-up capital (see heading Capital Requirements).

Sharia-compliant products are based on either wakala or mudharabah models. Takaful and sharia-compliant companies must have at least one board member capable of giving his or her seal of approval to the authenticity of the products within sharia law.

Limited liability companies are referred to as "Perseroan Terbatas" and such companies are identified by the initials PT in their registered trading names.

Types of Insurance Organisation

Law No 40/2014 requires an insurer, reinsurer or broker is structured as either:

1. a limited liability company (Perseroan Terbatas/PT) or
2. a co-operative.

Existing mutual insurance operations were granted a three-year deadline to comply with the new legislation. In effect, there is only one mutual life insurance company, the domestic insurer AJB Bumiputera, and persistent solvency concerns led the OJK to suspend its licence, cease writing new business and appoint a statutory manager from October 2016. The mutual's fate has been uncertain for some time and remained pending at the time this report was in preparation.

Takaful or sharia-compliant companies or operations are classified as co-operatives and limited liability companies may be publicly or privately-owned.

Holding company structures are permitted and banks may own insurance companies.

A 2017 joint IMF/World Bank Financial Sector Assessment Program Report noted also that the group holding companies of financial conglomerates are unregulated and account for 70% of the assets of financial institutions, including insurance companies. The initiation of conglomerate analysis was recommended as levels of interconnectedness means such conglomerates could pose a systemic risk.

Foreign Ownership

The foreign ownership limit for Indonesian insurance companies is 80%, a level retained in *Government Regulation No 14/2018* effective from 18 April 2018, following speculation of a possible amendment.

The limit was previously loosely drafted in the 1992 insurance law and the restriction could be circumvented. Up to 100% foreign ownership could be secured by establishing offshore companies as the ultimate beneficial owners of minority Indonesian legal entities. *Law No 40/2014* tightened up in this area and such practice is no longer viable for new joint ventures. A minority 20% owner must be an Indonesian individual and/or an Indonesian legal entity directly owned by Indonesian individuals. Existing joint ventures with ownership levels exceeding 80%, however, were granted a grandfathering exemption under the regulation. Publicly listed insurers are also exempt. Such insurers seeking to increase capital may only do so through a local investor or via an initial public offering,

Controlling shareholders are restricted to one life or non-life insurance company and the controlling party is held liable in the event of insurance company failure.

Sharia business units within conventional insurance or reinsurance companies must be demerged as independent businesses within 10 years of the promulgation of the 2014 insurance law (by 2024) or earlier if sharia funds reach 50% of total insurance company funds.

Types of Licence

Insurers and reinsurers are licensed within one of four categories:

- conventional life business
- conventional non-life business
- sharia insurers life business
- sharia non-life business.

Composite insurance licences are not permitted but both life and non-life conventional and sharia insurers can write PA and medical insurance. The law is silent on any distinction between the policy terms applying to medical insurance written by a life or non-life insurance company.

Previously insurers could establish sharia operations as a division within a conventional company, but this ended with *Law No 40/2014,* which requires their demerger into stand-alone businesses within 10 years (2024) or prior to in the event their assets exceed 50% of the total.

Non-life insurers may write reinsurance business subject to limits, but life companies are not permitted to accept inwards reinsurance.

Capital Requirements

For new insurance companies, minimum capital requirements were increased from 28 December 2016 under *OJK Regulation No 67/POJK.05/2016* as noted below:

- conventional insurance companies - IDR 150bn (USD 10.58mn)
- conventional reinsurance companies - IDR 300bn (USD 21.15mn)
- sharia insurance companies - IDR 100bn (USD 7.05mn)

- sharia reinsurance companies - IDR 175bn (USD 12.34mn)
- sharia insurance division within a conventional insurance company - IDR 50bn (USD 3.53mn)
- sharia reinsurance division within a conventional reinsurance company - IDR 75bn (USD 5.29mn).

Existing companies are expected to comply with the new minimums when there is a change of ownership or a transfer of shares to a new shareholder.

In addition to these minimums, insurance companies must maintain a guarantee fund of not less than 20% of the minimum paid-up capital or equity adjusted for investment-linked business as prescribed by *Regulation of the Minister of Finance No 53/PMK.010/2012* effective from 1 January 2013.

This guarantee fund constitutes an ultimate guarantee to protect the interests of the policyholders. This fund may only be invested as follows:

- in time deposits with automatic renewal in a public bank in Indonesia, or
- as bonds or securities issued by the government of Indonesia.

The regulation also restricts how the fund may be disbursed or liquidated and is subject to the approval of the minister or a duly authorised official. Sharia companies or divisions must set up a Sharia Control Board.

The guarantee fund requirement, however, is to be replaced by a new policyholder protection scheme to which all insurers are obliged to contribute. As mandated under *Chapter XI* of *Law No 40/2014* further implementing legislation is to follow within three years of enactment to initiate this new scheme. This requirement, now overdue, remains outstanding at the time this report was in preparation, though draft legislation is in process according to press news reports in early 2019.

Solvency Margins

Conventional and sharia insurers and reinsurers must set a targeted solvency margin each year of at least 120% of minimum risk-based capital (RBC), and at all times maintain a minimum solvency margin of 100% of RBC.

RBC is known as the MMBR (Modal Minimum Berbasis Risiko) for conventional business and the DTMBR (Dana Tanahud Minimum Berbasis Risiko), for the tabarru fund of sharia insurance.

The solvency margin is the difference between admitted assets and liabilities. Minimum RBC is defined as the sum of funds required to meet the anticipated risk of loss from deviation in the performance of assets and liabilities.

Liabilities for both conventional and sharia insurers are determined from the sum of risk charges applied to five categories, as noted below:

- credit risk
- liquidity risk
- market risk

- insurance risk
- operational risk.

Where a company fails to meet the MMBR/DTMBR requirement it must submit a financial restructuring plan to the regulator and is prohibited from paying dividends to shareholders. Where MMBR/DTMBR falls below 40%, the OJK will issue a final warning and has a range of powers of intervention including revocation of a business licence, insurance portfolio transfer, the appointment of a statutory manager and wind-up.

Indonesia was an early regional adopter of a RBC solvency regime for insurance and reinsurance companies, with its introduction from 1999 under *Minister of Finance Decree No 481/KMK.017/1999.* This has evolved since and the model is based on those applied by the Australian Prudential Regulatory Authority (APRA) in Australia and the Office of the Superintendent of Financial Institutions (OSFI) in Canada.

Regulation of the Minister of Finance No 53/PMK.010/2012 set out the framework for risk-based capital. This has developed further under the 2014 insurance law and implemented by the regulator in *OJK Regulation No 71/POJK.05/2016 on the Financial Soundness of Insurance and Reinsurance Companies* with further detailed guidance on solvency calculation issued in the *Circular Letters SEOJK Regulation No 24/SEOJK.05/2017 and SEOJK Regulation No 25/SEOJK.05/2017* concerning conventional and sharia (re)insurers respectively.

Reserve Requirements

Detailed guidance on technical reserving requirements and calculation for conventional and sharia insurers/reinsurers was issued in two circular letters supporting earlier regulations. These were *Circular 27/SEOJK.05/2017*, in conjunction with OJK *Regulation 71/POJK.05/2016* and *Circular 28/SEOJK.05/2017*, issued in conjunction with OJK *Regulation 72/POJK.05/2016.*

These require an insurance/reinsurance company actuary to establish technical reserves in accordance with accepted Indonesian actuarial practice in reference to the relevant product characteristics and risk profile. Primary technical reserves for conventional life insurers and reinsurers for products of more than one year in duration include a premium reserve, an unearned premium reserve, a reserve for products with an investment component, a claim reserve and a catastrophe reserve. The scope for permitted catastrophe reserves depends on the adequacy of in-force catastrophe reinsurance. The maximum discount rate to be applied cannot exceed the average government bond yield over one year, though insurance/reinsurance companies can still apply a discretionary adjustment up to an additional 0.5%.

Circular 28/SEOJK.05/2017 specifies primary technical reserves for sharia insurers and reinsurers as tabarru and tanahud fund provision, which include contribution and unearned contribution provision, claim and catastrophe provision, together with company fund provision.

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. Claims reserves must include claims pending settlement and claims incurred but not reported (IBNR).

Technical reserves are included as liabilities for the purpose of calculating solvency and valuation must be validated by the company actuary. The OJK may ask a company to revalue its technical reserve by asking an independent third party to review the calculation.

Reinsurance and retrocession receivables are treated as admissible assets for accounting purposes, so reserves may be represented in the balance sheet on a net of reinsurance basis. Life insurance companies must state the total premium reserve, including unearned premium reserve, in audited accounts.

Investment Regulations

Admissible assets are set out in *Regulation of the Minister of Finance No 53/PMK.010/2012* effective from 1 January 2013 as detailed in the table below. Limits have since been amended as noted under the table.

Nature of investment	Investment restriction
Time deposits (less than one month)	A maximum of 20% in each bank
Time deposits in rural bank and rural sharia bank	Up to 1% of the total investment and up to 5% of the total investment in aggregate
Certificates of deposit	Up to 50% including time deposits
Securities issued by the Indonesian government bonds (Surhat Berharga Negara/SBN)	Minimum 30%
Listed shares trade on an exchange (domestic and international)	10% of total for each issuer and 40% of total investment
Corporate bonds, sukuk and securities issued by multinational institutions in Indonesia	20% of total for each issuer and 50% of total investment
Medium term notes and commercial paper issued by multinational institutions in which Indonesia becomes a member or shareholder	20% of total for each issuer and 40% in aggregate
Securities issued outside Indonesia	10% of total investment
Mutual funds (domestic and international)	20% of total per investment manager and 50% of total investment
Asset-backed securities	10% of total per investment manager and 20% of total investment in aggregate
Real estate investment fund	10% of total per investment manager and 20% of total investment in aggregate
Land, building with title or land with buildings for investment	20% of total investment and up to 33.3% for land of total investment
Unlisted shares	10% of total investment
Receivable financing	10% per transaction, 20% of total investment
Mortgage loans	10% of total investment
Gold	10% of total investment

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

In a bid to temper the risk profile of life insurance company investment assets and boost the Indonesian bond market the OJK issued *Regulation No 1/POJK.05/2016* requiring all life insurance companies and pension funds invest 20% of their assets in Indonesian government bonds (SBN) by the end of 2016, rising to 30% by the end of 2017. Subsequent amendments allowed bonds issued by state-owned enterprises (*Regulation No 36/POJK.05/2016*) and asset-backed securities supporting the financing of state-owned enterprises in major infrastructure projects (Badan Usaha Milik Negara/BUMN) as well as limited participation mutual funds (RPDT) (*Regulation No 56/POJK.05/2017*).

Life insurers, however, failed to meet the 30% threshold by the 2017 deadline, amid reports of an expensive market with limited supply and inadequate duration to match their long-term liabilities. BUMN bonds were also reported to be difficult to obtain and led to the Indonesian life insurance association (Asosiasi Asuransi Jiwa Indonesia/AAJI) calling on the regulator to review the condition. The condition has since been relaxed with SBN accounting for only 14.5% of life insurance company investments as of June 2019.

Total investment in domestic equity and debt securities and mutual funds cannot exceed 80% of total investments in aggregate. Derivative use is restricted to hedging only.

Total investment in overseas equity and debt securities and mutual funds cannot exceed 20% in aggregate.

Circular 26/SEOJK.05/2017 issued in support of OJK *Regulation 71/POJK.05/2016*, covers the regulatory approval process 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 and *Circular 23/SEOJK.05/2017* issued in conjunction with *Regulation 71/POJK.05/2016*, provides guidance on the asset valuation bases for conventional and sharia insurers and reinsurers respectively.

Policy Terms and Conditions

Local policies are written in the Indonesian language (Bahasa Indonesia) or English. In the event of a dispute Indonesian prevails. Premiums can be expressed in either rupiah or foreign currencies, most often USD.

Policy wordings require OJK approval and details must be submitted together with all marketing and sales promotion material, underwriting guides, premium rates and interest rate assumptions, and reinsurance (if any). Policy wordings must be clear and unambiguous. New or altered products must submit a new product reporting form, product description, policy specimen, a three-year projection of income and expenses and for sharia products, a Sharia Supervisory Board Statement.

Insurance products with an investment element (Produk Asuransi Yang Dikaitkan Dengan Investasi/PAYDI) must meet three criteria. Such policies must provide a death benefit, they must have set terms and there should be a specific investment strategy in place for them. The OJK has up to 10 working days from submission of complete and correct documentation to respond but has been known to raise questions or issues beyond that time frame.

Investment-linked life policies (PAYDI) must contain provisions for cash values with Article 12 of Minister of Finance Decree No 422/KMK.06/2003 stating that the cash value amount for issued policies shall at least equal:

- 95% of the premium reserve for whole life insurance programmes (produk asuransi jiwa seumur hidup)
- 80% of the premium reserve for other life insurance programmes
- accumulated funds of the policyholders for policies connected with investments and other similar policies.

Surrender values can be obtained after two complete years. There is no relief on regulated individual life policy premiums, but proceeds are exempt from tax. PAYDI, however, are subject to a 20% withholding tax within three years of policy inception computed on any excess of the surrender value over the premium paid.

Premium payment terms are normally covered in the policy conditions with between 25 and 30 days of grace as standard.

The general life insurance policy exclusion is suicide within one year of commencement for policies that have a death benefit. This may be extended to include death by nominated beneficiaries or a death sentence from the Supreme Court. For index-linked policies a return of premiums is payable.

There is no statutory cooling off period.

Law No 40/2014 clarifies that insurance policies are effective from the date a premium payment is received by an agent (as opposed to the insurance company). Life policies automatically continue throughout the designated policy period, provided premiums continue to be paid.

Outstanding premiums are considered admissible assets and included in RBC calculations provided they do not exceed 60 days from inception of risk.

Regulation No 23/POJK.05/2015 about Insurance Products and Marketing concerns the creation of new products and identifies the channels through which they may be sold.

The main income tax law (*Law No 36/2008*) is silent on specific qualifying criteria for life insurance policies to benefit from tax privileges but it is assumed this refers to regulatory approved life policies sold by admitted life insurance companies to Indonesian residents.

Legal System

Introduction

Indonesia's legal system is a mix of unwritten indigenous law, sharia (Islamic) law and a system introduced by the Dutch. Since independence in 1945 new laws and a new Indonesian system have evolved. Sharia applies to Indonesian Muslims regarding matters of marriage, divorce and inheritance. Indigenous (customary) law applies to other matters and may include inheritance. For Muslims disputes over inheritance can be heard either by the sharia court or the district court, which is a civil court of first instance.

Civil and commercial law is based on the Dutch civil and commercial code with changes since 1966 to update transactions in areas such as: mining, forestry, insurance, banking, capital markets, labour and employment, investment, bankruptcy and taxation.

In insurance the legal duty of disclosure by proposers follows English legal principles, while foreign policy wordings are permitted. The use of foreign wordings is driven by reinsurers.

Supreme Court judges can be appointed from outside the judiciary and the current Supreme Court chief justice was appointed from the executive although he is also a scholar.

The court system in Indonesia covers:

- general civil courts
- bankruptcy courts
- high courts
- Supreme Court
- sharia courts for Muslims
- military courts
- administrative courts
- tax courts.

The court system consists of three tiers: the District Court (as court of first instance), the High Court (as court of appeal) and the Supreme Court. Cases are 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 time-bar for civil cases is 30 years from the date of an occurrence with a few exceptions in the case of commercial papers (five years) and lawyers' fees (three years). The time-bar for the administrative court, however, varies from 19 days up to 12 months. Appeals in most instances must be made within 14 days of a judgement being passed.

Alternative Dispute Resolution

Consumers can complain directly to a financial institution, which must establish formal internal dispute resolution procedures with competent personnel and standard operating procedures to handle such complaints. Financial institutions must retain records and cannot charge fees for the service. Consumers include policyholders, investors and pension fund participants. Disputes may be settled by either side issuing a formal apology or on the payment of compensation to the consumer, where a financial loss has been sustained.

Where settlement is not reached from a direct approach, complainants may take up their cases with an OJK-registered external dispute resolution agency (Lembaga Alternatif Penyelesaian Sengketa/LAPS). There are a number of LAPS serving different areas of financial services with the Indonesian Insurance Arbitration and Mediation Body (Badan Mediasi dan Arbitrase Asuransi Indonesia - BMAI), established in 2007, providing mediation and arbitration services for insurance disputes up to IDR 500mn (USD 35,253) in the life sector.

Alternatively, where a financial loss (up to a cap) has been sustained, consumers may approach the OJK. The OJK service can force financial institutions to settle customer complaints and may also file lawsuits to recover assets and obtain compensation from parties in breach of regulations. The OJK reported in 2016 it had handled 3,832 since its creation in 2013 and resolved 94% of cases.

Law No 40/2014 made it a legal requirement that conventional and sharia insurers and reinsurers are members of a policyholder dispute resolution body.

Court Cases

No recent court cases were known of at the time this report was in preparation.

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 life	Stamp duty	IDR 6,000	Insured
All life	Annual regulatory levy	various	Insurer

Source: Market sources

Stamp duty is applied to a range of documented agreements, notably all documents related to money and so applied to insurance contracts. The rate is fixed at IDR 6,000 (USD 0.42) where the monetary value stated in the contract exceeds IDR 1mn (USD 70.51) and IDR 3,000 (USD 0.21) where it is between IDR 250,000 (USD 17.63) and IDR 1mn (USD 70.51). Sums below IDR 250,000 (USD 17.63) are not chargeable.

Supervisory fees are due to the OJK from registered entities. Fees are levied for one-off services such as licensing as well as annually for ongoing supervision. Annual regulatory fees assessed on audited financial reports or other means are levied on insurers (life and non-life), reinsurers, pension funds and investment managers.

Direct service fees for individual insurers (life and non-life), reinsurers and investment managers, which include licensing, approval, registration and validation are IDR 100mn (USD 7,051). The equivalent fee for an insurance broker is IDR 5mn (USD 352.53). Validation services for pension funds are IDR 50mn (USD 3,525).

Legislative Update

There have been no recent changes in legislation.

Withholding Taxes on Premiums Paid Overseas

Offshore premiums paid by an insured are subject to withholding tax under *Article 26* of the 2008 income tax law, *Law No 36/2008*. The rate is 20% of deemed net income, which in the case of insurance premiums is considered 50% of the premium paid, so an effective tax rate of 10%.

Supervision in this area, however, has diminished since the relaxation of foreign exchange controls, with only foreign currency purchases exceeding USD 100,000 per month requiring reporting to Bank Indonesia.

Resident insurers and reinsurers are also subject to 20% withholding tax on premiums paid offshore. For insurers the chargeable rate is deemed to be 10% of the gross premium paid, effectively 2% and for reinsurers it is 5% of gross premium, effectively 1%.

The tax falls due on the 10th of the month following the month in which the transaction was payable or paid. Where the premium recipient is resident in a country which has a double tax treaty with Indonesia the rate of withholding tax may be reduced.

Withholding tax also applies to 50% of the gross commission paid to insurance agents under *Article 21* after accounting for non-taxable income based on marital status and number of dependants. Chargeable bands are 5%, 15%, 25% and 30% as determined under *Article 17(1)*.

Bancassurance commission paid to banks is not subject to withholding tax.

Life policies containing an investment element and surrendered within three years are subject to a 20% withholding tax on any gains.

Corporation Tax

Standard rate corporation tax is a flat rate 25%. Resident companies are subject to taxation on worldwide income.

The rate has remained unchanged since 1 January 2010 when it was cut from 28%.

Public companies with at least 300 employers (each with less than 5% ownership) having at least 40% of their equity listed on the Indonesia Stock Exchange (BEI) may benefit from a 5% rate discount to 20%.

A company is domiciled in Indonesia if it is managed, controlled or has its head office in Indonesia. Non-resident companies are taxed only on income sourced in Indonesia, including income attributable to permanent establishments in the country.

Small to medium-sized enterprises (SME) with turnover up to IDR 50bn (USD 3.53mn) are charged at half the standard rate on the taxable income generated by up to IDR 4.8bn (USD 338,427) of gross turnover.

Admissible reserves as determined by compliant actuarial calculation, including settled claims, are admissible operating expenses for tax purposes, subject to approval by the OJK.

Investment income generated in Indonesia from deposit interest and interest on Bank Indonesia certificates is taxed at 20%, bond coupon income at 15%.

Personal Taxation

The following table shows personal tax rates applying in 2019.

Taxable income band (IDR)	Tax rate (%)
Up to 50mn	5
50mn to 250mn	15
250mn to 500mn	25
Over 500mn	30

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Resident individuals are subject to tax on worldwide income; non-residents are taxed on Indonesian-source income only. An individual is resident if remaining in Indonesia for 183 days in any 12-month period or if resident in Indonesia with the intention of staying in the country. Families are considered a single economic unit and require joint filing.

Allowances against income include:

- employee contributions to BPJS Employment for old age security savings, at 2% of gross income
- pension contributions up to 5% of gross income or a maximum of IDR 2.4mn (USD 169.21) per annum.

Individual tax registration (Nomor Pendaftaran Wajib Pajak - NPWP) has been established and is encouraged. Unregistered employees are liable to a 20% surcharge and an exit tax on leaving the country.

There is no inheritance or wealth tax.

Historical Development

History

19th c	Insurance was introduced into the East Indies by the agents of Dutch and British insurers.
1912	AJB Bumiputera 1912, the first and largest domestic life insurer, was established under the name of Onderlinge Levenverzekering PGHB.
1953	The Reinsurance Company of Indonesia (PT Maskapai Reasuransi Indonesia Tbk - Marein) was established.
1956	The first all-Indonesian congress of national insurance companies was convened.
1957	The Insurance Council of Indonesia (Dewan Asuransi Indonesia/DAI) was first established for national companies only. In 1967 it opened its membership to all companies in the insurance sector.
1964	Presidential decrees to regulate the insurance industry were initiated.
1992	The governing insurance statute, the *Law No 2/1992* Concerning Insurance Business was enacted. A legal framework for private pensions was established also, under *Law No 11/1992 Concerning Pension Funds.*
1999	Amendments to the 1992 law introduced risk-based capital (RBC).
2002	The Indonesia Life Insurance Association (Asosiasi Asuransi Jiwa Indonesia - AAJI) was established as a member of the DAI.
2004	*The National Social Security System Law 2004* (SJSN) established the basis for a comprehensive and universal social security system within a decade.
	A series of decrees introduced regulation concerning fit and proper testing, licensing, qualifications of agents and compulsory domestic reinsurance treaties.
2006	Insurance market supervision was transferred from the Ministry of Finance to the Capital Markets and Financial Institutions Supervisory Agency/CMFISA (Badan Pengawas Pasar Modal & Lembaga Keuangan - BAPEPAM-LK).
2008	*Government Regulation No 39/2008* raised minimum solvency requirements for insurers, reinsurers and brokers (conventional and sharia) in stages between December 2010 and December 2014.
2011	*Law No 21/2011 on the Financial Services Authority* created a unified financial services regulator (Otoritas Jasa Keuangan/OJK), which assumed non-bank regulation from 1 January 2013 and initiate bank regulation from 1 January 2013.
	The Social Security Administering Bodies Law 2011 (BPJS Law) establishes a unified social security system in stages from 2014. The scheme seeks to establish comprehensive universal health cover for all Indonesians by 1 January 2019.
2014	*Law No 40/2014* about Insurance effective from 17 October 2014 updates and repeals the 1992 governing insurance law and tightened rules relating to the foreign ownership of insurers and reinsurers. In addition, it restricts a controlling shareholder to a single life or non-life insurance company and requires that sharia units are demerged as stand-alone businesses within 10 years.
	The National Health Insurance Program (Jaminan Kesehatan Nasional/JKN) was launched on 1 January with full national cover scheduled for completion by 1 January 2019. It introduces universal public health for all with mandatory contributions.
2015	As one of the ten founder members of the Association of Southeast Asian Nations (ASEAN), Indonesia joins the ASEAN Economic Community (AEC) trading bloc, formally established from 31 December 2015. The AEC seeks to promote regional trade within the bloc.
	Four reformed social security benefit programs (two pension plans, work accident and death benefits) were launched from 1 July. Contributions are mandatory for employers.

2016	PT Reasuransi Utama Indonesia (Persero) was relaunched as the new national state-owned reinsurance champion in October following a merger with Reasuransi Internasional Indonesia (ReINDO). Further mergers with other state-owned reinsurers are to follow. The country is seeking to retain more reinsurance risk in Indonesia so building capacity through the merged entity. The regulator appointed a statutory manager AJB Bumiputera 1912 to replace the board in October 2016, following long held concern of its weak solvency.
2018	Solvency concerns were revealed publicly at state-owned insurer PT Asuransi Jiwasraya (Persero), following postponement of maturity claim payments in October. China Life enters the market with the purchase of 80% of PT Asuransi Jiwa Sinansari Indonesia in July.

The Market Today

Summary and Trends - Life Insurance

The Indonesian life insurance market is considered one of the world's most attractive growth propositions. At an earlier stage of development than other ASEAN neighbours, it is home to the world's fourth largest population with an economy that continues to report a resilient 5% plus economic growth year on year, which with a young demographic is expected to continue for years to come. Specifically with regard to the insurance market, penetration is low and profitability is high, relative to other Asian markets.

These attributes make it one of the fastest growing consumer markets with more than five million people entering the consumer class each year reported McKinsey, which has forecast their number will triple from 45mn in 2012 to 135mn by 2030, supported by the continuing trend towards urbanisation. The principal beneficiary of this broadening wealth trend is expected to be financial services (savings and investment) forecast to grow annually by 10.5% compound to 2030.

Leading multinational life insurance groups have flocked to the market in recent years, bringing expertise and commercial resource and helping grow the market from IDR 6.8trn (USD 479.44mn) in 2000 to IDR 186.0trn (USD 13.12bn) market in 2018 (provisional market statistics), ranked 24th in the world, a compound annual growth rate in local currency terms of 20.1% over the period.

Recent market performance, however, has faltered. Premium growth was marginally higher in 2018 (1%) but declined 10.3% in H1 2019 as reported by the life insurance industry trade body (Asosiasi Asuransi Jiwa Indonesia/AAJI). Various macro contributory factors are cited for this trend reversal including a weaker economy, investor caution ahead of the presidential election in 2018, China US trade tensions and poor stock market performance.

Principally, however, it is an issue specific to the life market. "Gross written premium is driven by short term savings contracts" comments one industry executive. Such policies offer guaranteed deposit-based returns over periods as short as three months with interest rate returns exceeding those of the banks. Following the revelation of capital strain at PT Asuransi Jiwasraya (Persero) in October 2018 and forced postponement of maturity claim payments on savings contracts distributed through the bancassurance channel, such contracts have been under regulatory scrutiny leading to product withdrawals and repricing. Some in the market cite rates of up to 12% being offered, in excess of bank deposit savings rates.

Slowing top line growth may also reflect a strategy change by insurers. Results from a PwC insurer CFO survey published in February 2019 found more insurers now prioritising profitability over top line growth, but digital innovation lags and recruiting and retaining talent is a challenge.

Digital innovation brings both opportunity and threat to life insurers. The rapid expansion of payment platforms accessed from smartphones greatly increases those connected to the financial system but also brings new consumer choice in retail savings. Online platforms, such as Tokopedia, which launched its fintech range in 2016 offer deposit savings, mutual fund and gold investment all tradeable via a smartphone. Of note is that in 2018 when this savings driven life insurance market was flat and the local stock market also, mutual fund assets continued to rise.

The market is focused in urban areas and is dominated by a narrow range of individual regular premium, life insurance savings products, sold predominantly through the bancassurance and agency channels. Savings products include traditional participating endowments and investment-linked products (ILPs).

ILPs are structured as unit-linked products and sales have grown rapidly since being introduced. They overtook traditional endowment sales in 2008 and continue to increase their market share accounting for over half (55%) of life insurance market written premium in 2017. Progressive easing in interest rates since 2015 have put downward pressure on the bonus rates attaching to guaranteed products and public confidence in such products was damaged with Jiwasraya's postponement of claim payments in October 2018.

ILPs offer the twin attractions of an investment savings vehicle with valued protection rider benefits attaching, notably inpatient medical cover and critical illness. They also offer greater transparency and the potential for higher returns, while providers benefit from the lighter capital requirements attaching to products with fewer, or no, guarantees. Term life insurance is the leading pure protection product.

There is a growing corporate benefits market also, offering insured group life cover with riders which may include total permanent disability (TPD), personal accident (PA) and emergency medical expenses. Social security reform, however, has weakened demand for private benefits in some areas on account of higher mandatory employer contributions and benefit enhancements.

While insurers focus most of their attention on the expanding consumer class, government policy seeks to create inclusive access to financial services through microfinance and microinsurance initiatives for the poor and large informal working population. Financial assistance from the World Bank has supported a range of financial sector objectives including enhancements to the microinsurance framework and the launch of conventional and sharia microinsurance programmes. The regulator has also developed the regulatory framework under the 2014 insurance law with the issuance of *SEOJK Regulation No 9/SEOJK.05/2017* concerning microinsurance products and their distribution.

Sharia life insurance (also known as family takaful) is a further market niche considered to have considerable potential in this majority Muslim country and it benefits from government support. Reports of its progress, however, are mixed. The regulator states it is growing faster than conventional business, while the industry trade body counters it is not really growing at all. The fine distinctions between conventional and sharia insurance products are also said to be lost on most in a market where financial literacy rates are low and a minority have a clear understanding of life insurance.

The requirement under the 2014 insurance law for conventional life companies to separate their sharia units as stand-alone businesses by 2024 is also a source of concern, regarding the commercial viability of these young and relatively small businesses as freestanding entities in their own right.

Summary and Trends - Pensions

Pension provision is modest and underdeveloped. Social security reform, however, seeks to boost Pillar I provision through reforms which consolidate over time a number of sub-group schemes into a single national pension structure comprising two schemes: a defined benefit pension (Jaminan Pensiun/JP) for formal sector workers and a defined contribution scheme (Jaminan Hari Tua/JHT), which includes also access for the larger proportion of informal sector workers.

The administering body for Pillar I pensions BPJS Employment reported 10.6 and 14.5 million active members for the JP and JHT respectively in 2017. Informal members of the JHT, however, were a mere 143,148. BPJS Employment reported the total working population at 127.1 million in 2017, of which a minority, approximately 50 million, are formal sector employees.

The low contribution rate under the JP scheme at just 3% (employer 2%/employee 1%) is acknowledged to be inadequate over the long term for a DB scheme and an increased contribution rate is anticipated to underpin its sustainability with a possible government announcement on the issue anticipated by the end of 2019.

In addition, the OJK reported voluntary supplementary private pensions membership of 4.635 million in 2018, a 4% increase over the year before. The eligible working population is approximately 70 million, making for a penetration rate of around 6.6%. Two-thirds of the total are accounted for by Financial Institution Pension Fund/FIPF (Dana Pensiun Lembaga Keuangan/DPLK), which are defined contribution plans. Geographically the great majority of funds are for entities based in Jakarta or west Java.

Private pensions first emerged in the 1970s, but a formal legal framework was not established until 1992 and the industry has developed slowly since. Registered scheme numbers have contracted for some years, principally on account of declining defined benefit (DB) provision (70% of registered funds) with DC scheme numbers remaining steady and reporting growth.

Regulated life insurance companies and banks may administer DC schemes, which are predominantly designed for small to medium-sized (SME) employers and individuals. In 2017, 23 licensees were reported of which the majority as life insurance companies. Occupational provision accounts for the majority of covered lives, through the number of individual pension policyholders continues to expand also, albeit from a small base, increasing 4.1% over the year to 876,008 actives in 2017.

There is some support for pillar II provision through the tax system, but union support is less pronounced. Market development, however, remains slow and uneven with the number of registered pension funds contracting by more than a quarter since the early 2000s, from 321 registered pension funds in 2004, to 227 as of June 2019.

While in its infancy, market fundamentals support strong long-term growth for private pensions. Indonesia, however, is at an earlier stage of development than are some of its ASEAN neighbours and the market continues to face a number of challenges. One is cultural. While there is a high propensity to save, the 1998 Asia banking crisis left many with a cautious attitude towards entrusting their long-term savings to financial institutions. Asia, also, has a strong tradition of caring for elderly members within the family, though this is increasingly being tested by urbanisation.

In addition, the understanding of life insurance products in general and more complex products such as pensions, is low. Indonesia also has a young demographic, which is less focused on retirement saving. A further issue for the market has been social security reform, which has increased mandatory employer contributions and so squeezed employee benefit budgets for further provision.

A long-term corporate savings market particular to Indonesia, concerns severance obligations borne by employers when long-serving staff leave. These lump sum payments can be a considerable drain on employers and amount to an additional labour cost estimated on average at 8% of payroll. The pensions industry has sought to capitalise on the severance system by launching a specialist long-term savings product for employers to pre-fund the cost and this is said to be an area of growth.

A further initiative is the establishment of sharia-compliant pension funds *POJK No 33/POJK.05/2016* issued in September 2016, which establishes a regulatory framework for sharia pensions. Such pensions are subject to the governing 1992 pensions act with the OJK responsible for licensing and supervision. The National Sharia Board of the Indonesian Ulama Council is responsible for compliance with sharia law. Hope that this will encourage the market in the world's most populous Muslim country, however, have a long way to being realised.

Both employers and employees benefit from government support for supplementary private pensions through the tax system.

Summary and Trends - Healthcare

Over a five-year period between 2014 and 2019 Indonesia has introduced universal health cover (UHC) under the National Health Insurance Program (Jaminan Kesehatan Nasional/JKN). This extends free inpatient medical services to all Indonesians for the first time across this large archipelago nation, including working expatriates contributing for six months or more.

As of September 2019, the JKN administration body BPJS Health (BPJS Kesehatan) reported an impressive 221.2 million participants, over 82% of the estimated population. The initiative is financed from a mix of central government funds and mandatory social insurance contributions from the employed and self-employed working population, with premiums for the poorest paid by the state.

Anecdotal experience of treatment received under JKN appears broadly positive though a large funding deficit has accumulated rapidly since inception. BPJS Health requested a government bail-out after revealing a IDR 16.5trn (USD 1.16bn) budget deficit in September 2018 amid reports of unpaid hospital and pharmaceutical bills. The government responded with a IDR 5trn (USD 352.53mn) budget allocation in early 2019 together with proposed initiatives to increase future funding from a range of sources including tobacco excise, with tobacco consumption still high in the country particularly among males. Increases in social insurance contributions, however, are not reported to be under consideration.

In addition to the newly introduced universal public health provision, there is a well-established market for private medical insurance (PMI) with IDR 14.3trn (USD 1.01bn) in PA and health written premium in 2017, ranking it 39th in global terms. PA and health market premium has reported compound average annual growth of 19.3% since 2000 and economic growth is expected to underpin growth for years to come. These fundamentals have attracted providers with both life and non-life insurers able to sell private medical insurance.

JKN has had a material impact on the PMI market, however, which is dominated by employer-sponsored group schemes. Higher mandatory BPJS contributions for have led to benefit retrenchment ending "ended blue collar PMI" says one, with lower level staff in sectors such as manufacturing now considered adequately covered under JKN alone. On the positive side JKN is said to have raised public awareness of health insurance and demand for high quality healthcare has risen with it and so interest in PMI.

Co-ordination between BPJS Health and private insurers remains problematic, where a claimant is both covered under BPJS and by PMI. Insurers have since sought clarity through coordination of benefits (CoB) agreements with BPJS Health to pre-agree claims payment responsibilities between the public and private sectors. As such JKN meets costs up to a per-capita limit, while PMI covers the excess. In practice, this means some reduction in benefit quality for claimants who must submit to the BPJS process, rather than gain immediate access via PMI. In addition, claims costs are met initially by insurers, which then seek reimbursement from BPJS. Some are said not to bother seeking reimbursement to avoid engaging with the time-consuming bureaucracy of the public system.

The group PMI market remains a highly competitive and challenging market in which to trade successfully. Loss ratios frequently exceed 80% in a market with relatively high operating costs. While market premium continues higher, growth is accounted for mostly by high medical cost inflation estimated to be running at 10-11% gross by market professionals. The rate of organic growth is less certain.

Leading players are increasingly looking to digital innovation to give them a competitive edge with the fast-growing Indonesian health-tech platform Halodoc emerging as the favoured partner for Allianz, Aviva, Prudential and Cigna. Halodoc operates tele-consultations and tele-medicines services. Users can access medical professionals remotely and arrange the order and delivery of drugs. Such services are of great value in providing both access and speed of service a country where healthcare is sparse in remote regions and there is considerable congestion in urban areas.

The leading health writer in the market is the state-owned PT Asuransi Jiwa Inhealth Indonesia (Mandiri Inhealth), formerly a subsidiary business of state-owned health benefit provider PT Askes, which benefits from the largest network of health providers of any insurers. Even with this competitive advantage, it has unable to impose pricing agreements with health service providers making managing claim costs a continuous challenge for all PMI insurers.

Market Size

The Indonesian insurance market ranked in 30th place globally in 2017 in USD terms. Its life insurance market ranked 24th and its PA and health insurance market ranked 39th.

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

Insurance Market Overview

	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**

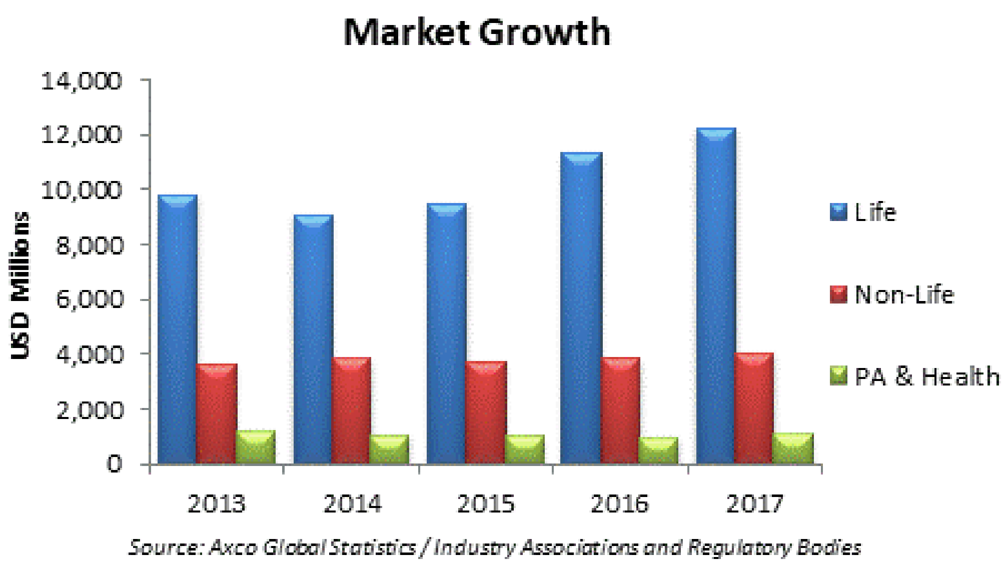
Note: due to rounding some totals may not equal the breakdown above.
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies
New statistical information may have been included in the appendices.

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

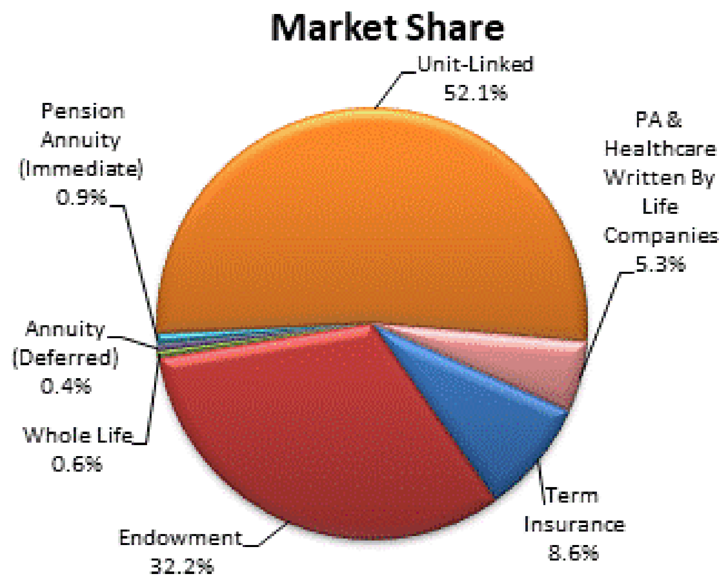
	2014	2015	2016	2017	2018
Premium growth (%)	4.62	17.56	17.68	8.61	1.20
Nominal GDP growth (%)	10.72	9.05	7.64	9.53	9.16
Inflation rate (%)	6.39	6.36	3.53	3.81	3.20

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

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



The division of the market in 2017 is shown below.



Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

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

The chart clearly illustrates a savings-driven market driven by individual regular premium unit-linked investment linked products (ILPs) and participating endowments, together accounting for more than three-quarters of the market.

Sums Assured

The following table shows in force sums assured for individual and group life along with the total over the last available five years, together with growth rates.

Sums assured	2013	2014	2015	2016	2017
Individual life (IDR mn)	1,009,043,020.00	1,529,141,386.00	1,862,201,655.00	1,935,658,015.00	2,225,391,087.00
Growth (%)	(11.41)	51.54	21.78	3.94	14.97
Group life (IDR mn)	1,301,075,028.00	1,464,337,423.00	1,819,160,719.00	1,965,971,089.00	1,844,589,780.00
Growth (%)	(3.03)	12.55	24.23	8.07	(6.17)
Total (IDR mn)	**2,310,118,048.00**	**2,993,478,809.00**	**3,681,362,374.00**	**3,901,629,104.00**	**4,069,980,867.00**
Growth (%)	(6.88)	29.58	22.98	5.98	4.31

Note: due to rounding some totals may not equal the breakdown above.
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

New Premiums Written

New premiums (in local currency mn) for life, personal accident, healthcare and annuities over the last five available years are shown below.

	2013	2014	2015	2016	2017
Life	32,395,168.00	33,560,202.00	41,858,228.90	54,508,915.00	60,615,045.90
Personal accident	137,963.00	214,273.00	259,515.70	172,594.90	221,195.70
Healthcare	3,577,877.00	3,554,655.00	3,624,104.20	3,601,558.00	4,451,273.90
Annuities	1,064,381.00	807,916.00	736,635.40	1,904,901.40	1,681,225.90
Total	**37,175,389.00**	**38,137,046.00**	**46,478,484.20**	**60,187,969.30**	**66,968,741.40**

Note: due to rounding some totals may not equal the breakdown above.
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

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, Singapore and Thailand.

	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**
Singapore	6.62	3,755.31	0.70	399.95	0.94	535.79	**8.27**	**4,691.04**
Thailand**	4.26	279.53	1.30	85.54	0.31	20.53	**5.87**	**385.61**

*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.*
*** Figures refer to 2018.*
Due to rounding some totals may not equal the breakdown above.
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Indonesia's low market penetration, large population and expanding consumer class make it one of the world's most attractive life insurance growth propositions.

Market Participants

Summary and Trends

The OJK reported 53 conventional life insurance companies as of April 2019 a fall of one since previously reported in August 2017. There were a further 30 sharia licensees, 23 of which were life company sharia units and seven specialist sharia providers.

In addition, there are six domestic conventional reinsurance companies, unchanged from previous reporting and three sharia reinsurers. Indonesia has sought to increase domestic reinsurance retention by creating a single domestic state-owned champion through the merged operations of other state-run reinsurers. With this intention, PT Reasuransi Indonesia Utama (Persero) was relaunched as the new national state-owned reinsurance champion in October 2016 following a merger with Reasuransi Internasional Indonesia (ReINDO).

All life insurers are structured as limited liability companies (Perseroan Terbatas/PT) except AJB Bumiputera 1912, which is a mutual. Indonesia's longest established life insurer was restructured as a mutual as a more appropriate trading entity, following poor business performance, and is permitted to remain as such under revised organisational structures introduced in *Law No 40/2014*.

The OJK appointed a statutory manager to replace the board at the mutual on 21 October 2016 on long-held concerns at its weak solvency position. Following a restructuring AJB Bumiputera is closed to new business but retains closed life books while a new company, Asuransi Jiwa Bumiputera, launched in February 2017, retains the brand, offices and staff and writes new business. The new life company is backed by an investment consortium.

Regulations identify insurance companies as either domestic (national) companies or joint ventures with foreign shareholders. The authorities aim to balance the need to develop the domestic insurance sector with the benefits of foreign participation in the market, notably capital strength and expertise.

Measures introduced in *Law No 40/2014 effective 17 October 2014,* has forced restructuring for some leading domestic conglomerates with wide ranging business interests as well as joint venture insurers. These include:

1. New joint venture insurers must be at least 20% owned by Indonesian shareholders, either individuals or corporate entities domiciled in Indonesia. Previous legislation had been sufficiently ambiguous to allow the ultimate beneficiaries of minority shareholdings to be offshore entities controlled by a foreign shareholder. However, *Government Regulation No 14/2018* effective from 18 April 2018 a grandfathering exemption was granted to existing joint ventures with ownership above 80%.
2. Sharia units within conventional insurers must be demerged as free-standing businesses within 10 years of the act (2024).
3. Controlling shareholders are not permitted to own more than one life or non-life insurance company (known as the "single presence policy").

The requirement for sharia units to be freestanding businesses by 2024 is a demanding one presently given their smaller scale and higher operating costs though sharia market share is expanding in this majority Muslim market.

AXA Life Indonesia and AXA Financial Indonesia completed an operational merger from 1 November 2017 to comply with the single presence policy noted above. The merged entity trades as AXA Financial Indonesia.

The rapidly evolving regulatory framework has increased operational demands and raised professional standards, which have been felt most acutely among domestic insurers. In addition to the continuing challenges of AJB Bumiputera 1912, Bakrie Life and Asuransi Jiwa Tugu Mandiri were among five companies declared insolvent by the OJK in September 2014. Another, Bumi Asih Jaya Life, was declared bankrupt by the Supreme Court of Indonesia in a judgement in June 2016 and solvency issues at the state-owned PT Asuransi Jiwasraya (Persero) were publicly revealed in October 2018 when a liquidity squeeze forced the insurer to postpone maturity claim payments on individual savings policies. The insurer is Indonesia's main writer of lifetime annuities.

Major shareholders in domestic Indonesian life insurance companies include Indonesian corporations, holding companies and banks. Leading shareholders in joint venture companies include a range of multinational life insurance companies from Canada, Europe, Japan, Korea, Singapore and the US.

Privatisation/Deregulation

The Indonesian life insurance market is predominantly private, with the exceptions of those companies mentioned in the next section.

State Life Insurance Companies

The state-owned life insurer, PT Asuransi Jiwasraya (Persero) was established originally as a private joint venture between Dutch and national interests prior to World War 2. It was taken over in 1957 by the government at a time when Dutch-owned enterprises were being nationalised. Since then Jiwasraya has undergone a number of name changes but has remained a property of the state. Solvency issues were publicly revealed in October 2018 when a liquidity squeeze forced the insurer to postpone maturity claim payments on individual savings policies.

PT BNI Life, licensed in 1997, is the life company subsidiary of state-controlled bank PT Bank Negara Indonesia (Persero) Tbk. Sumitomo Life bought a 40% stake in PT BNI Life in December 2013.

PT Asuransi Jiwa Inhealth Indonesia (Mandiri Inhealth) is 80% owned by majority state-owned Bank Mandiri with minority shareholdings of 10% each owned by the state-owned pharmaceutical company, PT Kimia Farma Tbk) and the state-owned non-life insurer, PT Asuransi Jasa Indonesia. Previously trading as Inhealth, the business was owned by a former state-owned social security administering body PT Askes (Persero). PT Askes sold its interest in 2014 to focus on its reformed identity as BPJS Health, the national public health insurance administration body.

PT Reasuransi Utama Indonesia (Persero), known as Indonesia Re, relaunched as the new national state-owned reinsurance champion in October 2016 following a merger with state-owned Reasuransi Internasional Indonesia (ReINDO).

Market Structure

Ownership of Indonesian life insurance companies is divided among foreign multinational insurers and domestic conglomerates, with state interest present in three insurers and a relaunched national reinsurer. The market continues to generate significant foreign interest reflecting the exceptional long-term growth opportunity it represents.

A maturing and more demanding regulatory framework provides opportunities for foreign insurers to access the market through merger and acquisition activity, with China's largest life insurer, state-owned China Life a recent entry in July 2018 with the purchase of 80% of PT Asuransi Jiwa Sinansari Indonesia, through its subsidiary China Life Insurance (Overseas) Co. Ltd. The company began operations in August 2018.

Leading US insurance group, Prudential Financial, Inc. announced entry into the Indonesian life market with the purchase a 49% shareholding in PT Asuransi Jiwa Mega Indonesia, owned by Indonesian conglomerate CT Corp, through its Pruco Life Insurance Company subsidiary in July 2017.

The US Chubb Corporation is also present in the market with PT ACE Life Assurance rebranded as PT Chubb Life Insurance Indonesia from 1 June 2016, following ACE's acquisition of Chubb. MetLife and New York Life are also understood to be interested in market entry.

Japanese insurance groups seeking growth outside a declining domestic market, have been particularly active in recent years. Nippon Life purchased a 20% stake in Sequis Life in 2014, Sumitomo Life secured a 40% stake in PT BNI Life, the life insurance subsidiary of state-controlled PT Bank Negara Indonesia (Persero) Tbk in December 2013 and Dai-ichi Life bought a 40% stake in PT Panin Dai-ichi Life in October 2013.

Previously Tokio Marine Holdings Inc bought PT MAA Life Insurance in 2012, renaming the company Tokio Marine Life Insurance Indonesia (TMLI) and Japan's largest non-life insurer, MS&AD, bought a 50% stake in what is now PT Asuransi Jiwa Sinarmas MSIG in 2011.

UK-based Aviva plc established a new joint venture with Indonesian conglomerate PT Astra International in January 2014 launching PT Astra Aviva Life in November 2014. Aviva plc had previously had a market presence through its Aviva Indonesia subsidiary. Market leader, the UK-based Prudential plc is planning to split its UK and Asia/US businesses by the end of 2019, with the latter moving its main listing to Hong Kong.

The fast growing Hong Kong-based FWD Group, the insurance business of Pacific Century Group, obtained authorisation for its life insurance business PT Finansial Wiramitra Danadyaksa (FWD Life Indonesia) in March 2013 with Swiss Re acquiring a 12.3% shareholding in October 2013. The group announced the agreed purchase of an 80% stake in PT Commonwealth Life from the Commonwealth Bank of Australia (CBA) in October 2018. The sale includes a 15-year bancassurance agreement with CBA. The deal was expected to complete in the first half of 2019, though remained unconfirmed at the time this report was in preparation.

Canadian multinational insurance group, Sun Life Financial, expanded its market presence on assuming full control of its Indonesian joint venture PT CIMB Sun Life in July 2016, following the purchase of CIMB Group's 51% shareholding. The insurer also extended its bancassurance agreement with PT Bank CIMB Niaga tbk and merged the company with its other Indonesian business, PT Sun Life Financial Indonesia, to comply with the single presence policy under the 2014 insurance law. The company is reported to be preparing to spin off its sharia unit as a separate entity in 2020. Another leading Canadian multinational, Manulife, is a leading player in the Indonesian market.

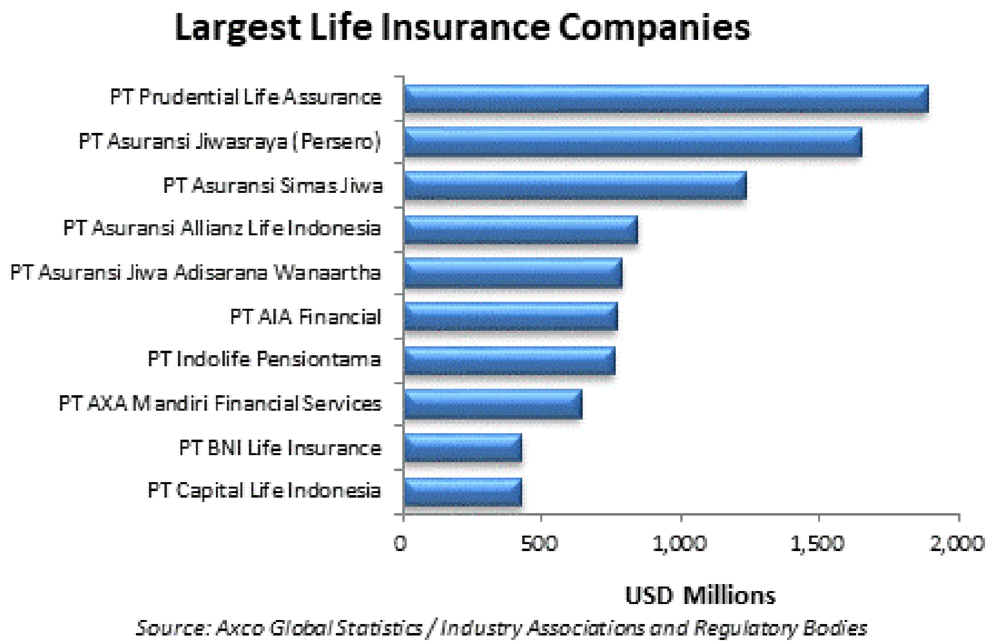
The requirement for conventional life companies to spin off their sharia units by 2024, is set to create a number of new sharia entities. PT Asuransi Jiwa Syariah Jasa Mitra Abadi (JMA Syariah), established in August 2014, became the first publicly listed sharia life insurer when it launched an initial public offering (IPO) on the Indonesia Stock Exchange in mid-December 2017.

The following table shows leading life company groups and their major insurance and financial services businesses. Please note this excludes more recent deals mentioned previously. The word "Jiwa" in some names means "Life".

Group	Member companies		
	Life insurers	Non-life insurers	Significant other group companies
AIA Group Ltd	PT AIA Financial		
Allianz Group	PT Asuransi Allianz Life Indonesia (99.76%)	PT Asuransi Allianz Utama Indonesia (80%)	
AXA Group	AXA Financial Indonesia	PT Asuransi AXA Indonesia (93.2%), PT Mandiri AXA General Insurance (40%)	PT AXA Asset Management, MLC Indonesia Ltd
PT Bank Mandiri (Persero) Tbk	PT AXA Mandiri Financial Services (51%), PT Asuransi Jiwa Indonesia Inhealth (80%)	PT Mandiri AXA General Insurance (60%)	PT Bank Mandiri, PT Bank Syariah Mandiri, PT Mandiri Sekuritas
CT Corp	PT Asuransi Jiwa Mega Indonesia (51%)	PT Mega Insurance	Bank Mega, Bank Mega Syariah, Bank Sulut, Bank Sulteng, Mega Capital
Fadent Consolidated Companies	Jiwa Adisarana Wanaartha (97.5%)		
Manulife Financial Corporation	PT Asuransi Jiwa Manulife Indonesia (95%)		PT Manulife Aset Manajemen Indonesia
Mitsui Sumitomo (a unit of MS&AD)	PT Asuransi Jiwa Sinarmas MSIG (50%)	PT Asuransi MSIG Indonesia (80%)	
Prudential Group	PT Prudential Life Assurance		PT Eastspring Investments Indonesia
Salim Group	PT Indolife Pensiontama	PT Asuransi Central Asia	
Sinarmas Multiartha Tbk	PT Asuransi Simas Jiwa, PT Asuransi Jiwa Sinarmas MSIG (50%)	PT Asuransi Sinar Mas, PT Asuransi Simas Insurtech, PT Asuransi Sumit Oto (48%)	PT Bank Sinarmas Tbk (52.98%), PT Sinarmas Asset Management, PT Sinarmas Sekuritas, PT Reasuransi Nusantara Makmur

Source: Market sources

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



New statistical information may have been included in the appendices.

The following is a brief overview of the top six life insurance companies listed by premium income in 2017.

- **PT Prudential Life Assurance** is the Indonesian subsidiary of Prudential plc, a UK-based financial services group with significant subsidiary businesses throughout the region. The UK parent is set to split its UK business from its Asia/US businesses by the end of 2019 with the latter seeking to redomicile in Hong Kong. The company continues to be a leading force in the market with particular dominance in individual ILPs distributed through the country's largest agency force together with an expanded reach through the bancassurance channel. The insurer is also the largest provider of medical insurance in Indonesia. In addition, Eastspring Investments, established in 2012 as a consolidated Asia-based global asset management subsidiary, reports rapid growth. The Prudential accounted for a reduced 14.5% share of market premium in 2017 following 1.3% growth in written premium over the previous year.
- **PT Asuransi Jiwasraya (Persero)** is a state-owned insurer established originally as a private joint venture between Dutch and national interests prior to World War 2. It was taken over in 1957 by the government at a time when Dutch-owned enterprises were being nationalised. The company is a leading pension, annuity and group life provider and distributes through an extensive agency network. In October 2018, however, solvency issues entered the public domain when the company deferred claims payments on maturing savings policies. In 2017, the company retained second place following reported growth of 21.2% in written premium to give it a market share of 12.7%.

- **PT Asuransi Simas Jiwa** was formerly PT Asuransi Jiwa Mega Life before changing its name from October 2015 when full ownership was secured by the Sinarmas Group. The life company is a subsidiary business within the financial services division (PT Sinar Mas Multiartha tbk) of the Indonesian conglomerate Sinarmas Group. The company sells investment-linked life, medical and pension products primarily through the bancassurance channel. It has also a sharia unit and has developed a direct online sales presence. The company reported a 25.7% increase in written premium in 2017 to give it a market share of 9.5%. The company ranked 35th in 2015.

- **PT Asuransi Allianz Life Indonesia** is the Indonesian life subsidiary of Allianz Group, a German financial services group with subsidiary businesses in a number of Asian markets. The company markets a wide range of individual and group products both conventionally and through a sharia unit and distribution is led through the agency channel. It has developed considerable success in the microinsurance segment also with credit life and savings products. In 2017 it retained fourth ranking with a 6.5% market share following a 11.2% increase in written premium.

- **PT Asuransi Jiwa Adisarana WanaAartha,** generally known as WanaArtha Life, is a domestic life insurance company founded in 1945 and majority owned by the Indonesian conglomerate PT Fadent Consolidated Companies. The insurer markets a range of protection and traditional and unit-linked savings products in the individual market sold through the agency and bancassurance channels. It is also active in the group market and has a sharia unit. The company moves up to fifth ranking in 2017 from ninth in 2016 following a 69.1% increase in market premium to give it a market share of 6.1%

- **PT AIA Financial** is the Indonesian subsidiary of the multinational life insurance company, AIA Group Ltd, domiciled in Hong Kong. The company markets a range of conventional and sharia life products and is also active in the pension market. Multichannel distribution includes an agency force, bancassurance and corporate benefit advisers. In 2017, the company retained sixth ranking following a 11.9% increase in reported written premium to give it a market share of 5.9%.

Market Concentration

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

Market segment	2013	2014	2015	2016	2017
Top 5 companies	50.30	52.86	46.85	47.42	70.74
Top 10 companies	75.00	76.61	72.57	71.55	92.73

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Company Changes

China Life entered the Indonesian market following the purchase of 80% of PT Asuransi Jiwa Sinansari Indonesia in July 2018, through its subsidiary China Life Insurance (Overseas) Co. Ltd. The company began operations in August 2018.

Total Assets

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

	2013	2014	2015	2016	2017
Total assets (IDR mn)	278,755,790.00	347,618,275.00	354,219,625.00	424,151,851.00	513,447,812.00
Growth (%)	7.98	24.70	1.90	19.74	21.05

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Investments

The following table shows the invested assets (IDR mn) by life companies in different investments for the last available five years.

Type of investment	2013	2014	2015	2016	2017
Mutual fund	60,526,503	75,816,732	79,805,335	103,987,569	162,036,065
Stocks	72,219,378	97,112,021	90,984,438	122,004,549	139,651,906
Marketable securities issued by the government or Bank of Indonesia	41,845,300	44,869,720	46,137,754	56,947,331	59,279,963
Deposits and certificates of deposit	32,038,306	49,131,548	51,283,887	43,861,491	42,135,022
Bonds and MTN	24,389,326	21,014,965	24,898,609	29,054,950	33,066,674
Buildings and property	6,371,564	8,309,653	9,092,878	9,921,701	11,015,600
Direct placement	2,049,484	3,404,533	3,930,064	4,653,111	7,695,190
Marketable securities issued by other than government	1,732,591	1,858,219	1,284,560	829,645	884,012
Mortgage loans	140,123	159,969	159,142	195,758	130,040
Refinancing	n/a	n/a	110,000	147,000	n/a
Other	356,434	417,390	386,732	457,685	2,981,065
Total	**241,669,009**	**302,094,749**	**308,073,400**	**372,060,789**	**458,875,538**

Note: due to rounding some totals may not equal the breakdown above.
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The following table shows the invested assets, net investment income and investment yields by life companies over the last available five years.

	2013	2014	2015	2016	2017
Invested assets (IDR mn)	241,669,009.00	302,094,749.00	308,073,400.00	372,060,789.00	458,875,538.00
Net investment income (IDR mn)	7,908,877.00	39,584,924.00	(1,580,984.00)	31,408,853.00	47,355,910.00
Investment yield (%)	3.27	13.10	(0.51)	8.44	10.32

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Expense Ratios

The following table shows the expense ratio (split between administrative expenses and acquisition costs against gross written premiums) for the life market over the last available five years.

	2013	2014	2015	2016	2017
Administrative expenses (%)	9.86	11.36	11.61	9.94	14.09
Acquisition costs (%)	12.74	13.37	12.50	10.15	10.08
Total (%)	**22.60**	**24.74**	**24.10**	**20.09**	**24.17**

Note: due to rounding the totals may not equal the breakdown above.
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Profitability

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

	2013	2014	2015	2016	2017
Underwriting profit/loss (IDR mn)	(1,591,085.00)	(27,697,577.00)	11,961,104.00	(24,446,019.00)	(11,467,520.00)
% of net earned premium	(1.54)	(27.42)	11.57	(15.92)	(6.43)
Pre-tax profit/loss (IDR mn)	8,934,630.00	14,522,261.00	13,503,706.00	10,793,854.00	13,047,443.00
% of net earned premium	8.64	14.38	13.06	7.03	7.32

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Retentions

The following table shows the retention ratios (net written premiums against gross written premiums) for the life market over the last available five years.

	2013	2014	2015	2016	2017
Retention ratio (%)	97.25	96.73	96.87	97.46	97.39

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Consistently high retention rates reflect both financial strength in the provider base, particularly among the leading providers, as well as a savings-driven market where typical average policy risk benefits are relatively low.

Insurance Associations

The Insurance Council of Indonesia (Dewan Asuransi Indonesia/DAI) established in 1957 represents the interests of the insurance industry to the government and public. It works in partnership with the regulator in day-to-day supervision of the insurance market.

The DAI is a broad umbrella organisation for the industry and within it are a number of more specialist trade associations serving different parts of the insurance market. These include:

- the Indonesian Life Insurance Association - Asosiasi Asuransi Jiwa Indonesia (AAJI)
- the General Insurance Association of Indonesia - Asosiasi Asuransi Umum Indonesia (AAUI)

- the Social Security Insurance Association of Indonesia - Asosiasi Asuransi Jaminan Sosial Indonesia (AAJSI)
- the Association of Indonesian Insurance and Reinsurance Brokers - Asosiasi Perusahaan Pialang Asuransi dan Reasuransi Indonesia (APPARINDO)
- the Association of Indonesian Insurance Loss Assessors - Asosiasi Penilai Kerugian Asuransi Indonesia (APKAI)
- the Association of Islamic Insurance Indonesia - Asosiasi Asuransi Syariah Indonesia (AASI).

Insurance companies retain membership of one or more relevant associations and are charged an annual membership levy plus a fee to the DAI. This is calculated on a sliding scale according to written premium, subject to an overall maximum.

AAJI is the life insurance trade body and was founded in January 2002. It represents the interests of its life insurance company membership in matters of regulation, working closely with the OJK and contributes to the professional standards of insurance agents.

Established in 1985, the Indonesian Pension Funds Association (Asosiasi Dana Pensiun Indonesia - ADPI) is separate from the DAI and is the industry body responsible for representation of the pensions industry to government and the public.

The Society of Actuaries of Indonesia (Persatuan Aktuaris Indonesia - PAI) and the Indonesian Association of Consulting Actuaries (Asosiasi Konsultan Aktuaria Indonesia - AKAI) serve as trade bodies for the actuarial profession.

The Association of Indonesian Mutual Fund Managers (Asosiasi Pengelola Reksa Dana Indonesia/APRDI) is the industry trade body for mutual fund managers and its membership includes financial services groups with life insurance activities also.

Investment Environment

Summary and Trends

Investment strategy among Indonesian life insurers has seen a progressive increase in risk weightings and a decline in fixed interest holdings over recent years. Fixed interest investments accounted for a 29% weighting in 2017 compared with a 48% weighting in 2008 whereas stock holdings having increased from 13% to 30% over the same period. Further fixed interest and equity exposure may be gained through mutual fund holdings, which have increased to 36% in 2017 from 25% five years previously. Mutual fund holdings are attractive for insurers as gains are taxed at a lower rate (5%) in the hands of the insurer than the 15% withholding tax levied when the underlying assets are held directly.

Concern over the investment risks taken by some insurers prompted revision to the regulation on admitted assets requiring life companies fixed interest weightings (government bonds, state-owned enterprise bonds or asset-backed securities linked to state-owned enterprises (Badan Usaha Milik Negara/BUMN)) to at least 30% of portfolio assets by 31 December 2017. Reinsurance companies were required to hold government bond weightings of at least 20% by 31 December 2017.

Life insurers, however, failed to meet the 30% threshold by the 2017 deadline amid reports of an expensive market with limited supply. BUMN bonds are also reported to be difficult to obtain and this has prompted the Indonesian life insurance association (Asosiasi Asuransi Jiwa Indonesia/AAJI calling on the regulator to review the condition.

Pension fund investment strategies maintain a very conservative investment strategy little changed for some years. In 2018, direct stock holdings accounted for 12% of assets and mutual fund holdings a further 6.5%, while government, corporate and Islamic bonds accounted for a 45% weighting and money market funds a further 26%.

Securities trading is centred in the capital at the Indonesia Stock Exchange (Bursa Efek Indonesia/BEI) which offers institutional investors an expanding choice of domestic securities for portfolio and risk management purposes. There are no restrictions on foreign investors owning Indonesian government and corporate bonds.

Progressive tightening of interest rates in 2018 saw the benchmark interest rate increase from 4.25% to 6% over the course of the year. This has since been followed by two 25-basis point cuts in July and August 2019 respectively to leave the Bank Indonesia rate at 5.50% in response to weakening global growth and a strengthening IDR against the US dollar.

Life insurance policy premiums are generally denominated in rupiah but can be in another currency, most often USD.

Stock Market

A stock market was first established in what was then the Dutch East Indies in 1912. Its early development, however, was sporadic being disrupted by two world wars and capital market activity only resumed following enactment of *Law Nos 13/1951* and *15/1952*.

A chequered trading history since that time ultimately led to a government-backed merger of the Jakarta (JSX) and Surabaya (SSX) stock exchanges in 2007 to form the Indonesia Stock Exchange (Bursa Efek Indonesia/BEI). This modern exchange provides automated multi-security trading in a range of securities including ordinary and preferred shares, rights and warrants and government and corporate bonds. Asset-backed securities were introduced from 2009. Derivatives trading is available also through the Jakarta Futures Exchange (JFX).

The following table shows year-end values for the leading domestic stock market index (JSX Composite Index) for the past five years.

	2014	2015	2016	2017	2018
Index value	5,226.95	4,593.01	5,296.71	6,355.65	6,194.50

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The JSX Composite Index was trading at 6,293 on 20 August 2019.

A rising stock market is a powerful driver of investment-linked products (ILPs) with sales highly correlated to local stock market performance. A flat market in 2018 saw weak ILP sales and contributed to a significant fall in life insurance company investment income.

Direct shareholdings within life insurance company and pension fund portfolios are relatively low, so pose a modest solvency risk.

Bonds

The development of a vibrant domestic bond market is vital both as a source of finance serving the national interest and for institutional investors such as life companies and pension funds seeking asset liability matching.

The fixed income market continues to expand. The IDX reported 97 listed government bonds as of December 2018 with IDR 2,365trn (USD 166.75bn) and USD 300mn outstanding. This is almost double the 2005 total of 49. In addition, there were 687 listed corporate bonds against 254 reported in 2005.

Supply of long-dated government bonds is more limited with the longest dated bond having a maturity date of February 2044. Sovereign bonds include fixed, variable and zero-coupon bonds.

Fixed rate issues include USD denominations as noted previously. In addition, bonds may be structured as floating rate or mixed coupon. There are also a minority number of non-tradable government securities both conventional and sukuk.

Sovereign bonds compliant with Islamic law (sukuk) were introduced in 2008 and sovereign issuances accounted for 35 of the 97 listed government bonds as of December 2018 but the great majority of outstanding debt.

Yields on sovereign bonds in mid-August 2019 ranged from 6.50% for a two-year bond to 5.78% for five years and 7.32% for 10 years.

Corporate bonds are generally fixed rate or convertible with maturities varying between one and 10 years.

Progressive tightening of interest rates in 2018 saw the benchmark interest rate increase from 4.25% to 6% over the course of the year. This has since been followed by two 25-basis point cuts in July and August 2019 respectively to leave the Bank Indonesia rate at 5.50% in response to weakening global growth and a strengthening IDR against the US dollar.

The country's credit standing was boosted by Standard & Poors when the rating agency raised Indonesia's sovereign credit rating by one grade to BBB stable in May 2019. The country's economic resilience in relation to its peers was noted in the decision together with its growth prospects and continued policy direction following the re-election of president Joko Widojo in May 2019.

Interest Rates

Key interest rates are shown below.

	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

Other Investments

Beyond minimum government bond investments, life insurance companies have exposure to mutual funds, listed equities, real estate, policy and mortgage loans, asset-backed securities and other non-specified investments. Mutual funds are a popular choice for life companies for their relatively favourable tax treatment on gains.

In addition to government bonds, pension funds may also invest in other assets as determined by regulation. In addition to bank deposits, shares and bonds listed on the Indonesia Stock Exchange, corporate equity and land and buildings are also eligible. Investments other than in shares and bonds are subject to a 10% maximum.

These rules were amended subsequently in *Regulation No 199/PMK.010/2008*, which broadened permissible investments to include listed sukuk and various types of fund including: money market, fixed income, equity, mixed, shares, protected, guarantee, index, mutual funds of private equity and exchange traded funds, as well as asset-backed securities, mortgage-backed securities and stock options. Private equity investments are restricted to 10% of total pension assets.

Direct Investments

Those able to make discretionary savings typically opt for fixed interest savings products, essentially bank "term deposit" accounts, with the most affluent likely to invest offshore in banks based in Singapore and Hong Kong. Significant growth in the numbers with a bank account is also reported with the World Bank financial inclusion index reporting in April 2018 that almost half Indonesians (48.9%) had a bank account more compared with only 20% in 2011.

Progressive tightening of interest rates in 2018 encouraged depositors with the benchmark interest rate increasing from 4.25% to 6% over the course of the year. This has since been followed by two 25-basis point cuts in July and August 2019 respectively to leave the Bank Indonesia rate at 5.50% in response to weakening global growth and a strengthening IDR against the US dollar.

Beyond cash deposits, residential property ownership is a priority for those able to afford it and the Indonesian mutual fund industry continues to grow rapidly, with the OJK reporting in October 2018 21% compound average mutual fund asset growth. There is both considerable institutional business and a rapidly expanding retail market supported by fintech innovation making mutual fund trading accessible via smartphones through online payment platforms such as Tokopedia. Retail investors can choose between equity, bond, money market, capital-protected and index funds whilst returns are tax free.

Regulatory data reports IRD 328.9 trn (USD 152.45mn) in domestic mutual fund net assets as of July 2019.

Mutual funds are distributed through the bancassurance channel and leading local foreign-owned providers include Schroders plc, BNP Paribas and Manulife Asset Management. Mandiri Investment Management is also an established domestic provider. The regulator has also granted a licence for Bareksa, an online aggregator of mutual funds.

Schroders distributes through a range of banks including the likes of Citibank and HSBC, which also offers investors other choices from BNP Paribas, Mandiri, Manulife, and First State. HSBC's minimum investment into mutual funds is IDR 20mn (USD 1,410) with online increments from IDR 2.5mn (USD 176.26). Manulife launched its first sharia mutual fund January 2009.

Unit-linked oriented life companies have moved to both manage in-house funds exploit mutual fund demand growth by establishing subsidiary asset management businesses with Prudential plc launching PT Eastspring Investments Indonesia in March 2011. The pan-Asian company is headquartered in Singapore.

Local Reinsurance Market

Summary and Trends

There is a strong and growing life reinsurance market which reported IDR 4.8trn (USD 338.43mn) in ceded life reinsurance premium in 2017, a 19.7% increase over the previous year.

The market is well supplied by both domestic reinsurance and multinational reinsurance groups, often based in Singapore. Regulation requires direct life insurers establish treaty reinsurance with at least one domestic reinsurer and that reinsurance is in place for each line of business.

Regulation has sought to build national capacity and mitigate a chronic balance of payments deficit in reinsurance transactions. OJK *Regulation No 14/POJK.5/21015* from 1 January 2016 requires simple conventional and takaful risks are 100% reinsured in Indonesia. Simple risks include life, personal accident (PA) and health insurance. Facultative reinsurance must also be offered to two domestic reinsurers prior to seeking international support.

Market concerns focus on capacity and management capability from the considerable increase in business flowing to the domestic reinsurers; as well as the comparative deficit in risk management expertise in comparison to multinational reinsurers. A new enlarged domestic reinsurance champion, PT Reasuransi Utama Indonesia (Persero), known as Indonesia Re, was relaunched in October 2016 to meet the challenge, following a merger with Reasuransi Internasional Indonesia (ReINDO).

This more nationalistic policy towards reinsurance has pushed multinational reinsurers to the fringes in the direct market. Limited access remains, however, through exceptions to the regulation. These include reinsuring global insurance products, reinsuring insurance products designed specifically for multinationals and reinsuring new product development supported by multinational reinsurers, subject to a four-year time limit. These exemptions leave opportunity for certain multinational employee benefit arrangements and international medical covers.

Retention rates are high in a market dominated by individual savings driven products with low average risk benefits. Historically domestic insurers had greater reliance on reinsurance support than joint venture companies with greater capital strength. The weaker domestic players, however, are progressively diminishing in number as they either go out of business or become joint ventures through share sales to foreign insurance partners.

Local Reinsurance Operating Requirements

A licensed reinsurance company can only engage in reinsurance activities.

Minimum capital and equity requirements are IDR 300bn (USD 21.15mn) for reinsurance companies active only in the conventional market and IDR 175bn (USD 12.34mn) for reinsurers active only in the sharia market.

Conventional and sharia insurers and reinsurers must annually set a targeted solvency margin of at least 120% of minimum risk-based capital (RBC) and maintain at all times a minimum solvency margin of 100% of RBC.

Direct insurance companies must secure reinsurance support for each line of business including for catastrophic risk.

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. Such deposits must be increased annually at a rate of 1% calculated on the growth in net premiums. The guarantee fund requirement, however, is to be replaced by a new policyholder protection scheme to which all insurers are obliged to contribute. As mandated under *Chapter XI* of *Law No 40/2014* further implementing legislation is to follow within three years of enactment to initiate this new scheme. This requirement, now overdue, remains outstanding at the time this report was in preparation though draft legislation was reported to be progressing in early 2019.

Technical reserve requirements for insurance and reinsurance companies are detailed in the Supervision and Control/Reserve Requirements section of this report. Reinsurers must establish a retrocession support plan.

OJK regulation requires all insurers and reinsurers implement a reinsurance support strategy to ensure adequate and automatic reinsurance capacity. This has to be reviewed at least once a year and any changes submitted to the regulator. Companies must have their own retention limit for each risk undertaken and selected reinsurers must have a "BBB" credit rating or equivalent.

Conventional and sharia life and health insurers must reinsure "simple risks" in the domestic market. However, conventional and family takaful products which provide global insurance, international cover for multinational employers and/or are new products developed and supported by a foreign reinsurer (subject to a four-year time limit) are exempt the 100% requirement but still subject to a minimum specified by the regulator.

Conventional or sharia reinsurance companies are required to have in place an adequate retrocession program supported by a reinsurance panel with a BBB credit rating or equivalent.

Reinsurance companies were required to hold at least 20% of total assets in government bonds by 31 December 2017 under *POJK No 1/POJK.5/2016 about State Investment Securities for Non-Bank Financial Institutions* issued by the regulator in January 2016.

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

Regulated insurers may take credit for admitted reinsurance in their accounts.

State Reinsurance

Indonesia has sought to build national reinsurance capacity to address a chronic balance of payments deficit in reinsurance transactions. To this end, presidential approval was secured in early October 2015 to create a unified state-owned national reinsurance company, PT Reasuransi Indonesia Utama (Persero), (Indonesia Re).

Indonesia Re relaunched in October 2016 following merged operations with the state credit agency, Asei Re, and state reinsurers and PT Reasuransi Internasional Indonesia (ReINDO).

PT Reasuransi Nasional Indonesia (Nasional Re) was established in 1994 and is owned by Asuransi Kredit Indonesia (Askrindo), which itself is owned by the Ministry of Finance and Bank Indonesia. The company provides life and non-life conventional and sharia reinsurance.

PT Tugu Reasuransi Indonesia (Tugu-Re) was established in 1987 and is majority-owned by Pertamina, the state-owned oil company, via subsidiary Tugu Pratama (37.67%) and its pension scheme (13.92%). The company provides life and non-life conventional reinsurance.

Local Reinsurance Companies

The OJK reported six registered domestic conventional reinsurance companies as of April 2019, unchanged since previously reported in March 2018, noted below.

- PT Maskapai Reasuransi Indonesia Tbk (Marein)
- PT Reasuransi Indonesia Utama (Persero) (Indonesia Re)
- PT Reasuransi Maipark Indonesia
- PT Reasuransi Nasional Indonesia
- PT Reasuransi Nusantara Mukmur
- PT Tugu Reasuransi Indonesia (Tugu Re).

In addition, there are three registered sharia reinsurers. PT Reasuransi Nasional Indonesia and PT Maskapai Reasuransi Indonesia Tbk have both conventional and sharia reinsurance licences and PT Reasuransi Syariah Indonesia (PT ReIndo Syariah) was spun off from Indo Re in 2016.

The state-owned PT Reasuransi Indonesia Utama (Persero) Indo Re) relaunched in October 2016 following merged operations with the state credit agency, Asei Re and PT Reasuransi Internasional Indonesia (ReINDO).

Marein is a private company joined from January 2018 by PT Reasuransi Nusantara Mukmur, established by the Indonesian conglomerate Sinarmas Group. Maipark is a catastrophe risk specialist with share ownership held between non-life insurers. The other reinsurers are state-controlled. Nasional Re is owned by Askrindo, which is owned by the Ministry of Finance and Bank Indonesia. Tugu-Re is majority-owned by Pertamina, the state-owned oil company, via subsidiary Tugu Pratama (37.67%) and its pension scheme (13.92%). The company provides life and non-life conventional reinsurance.

In addition, there were three registered sharia reinsurers as of April 2019, noted below.

The requirement to reinsure more in the domestic market has diminished the direct reinsurance market for leading foreign multinationals including Munich Re, SCOR Re, Toa Re and Korean Re. Leading sharia reinsurers included Swiss Re Retakaful, BEST RE and Takaful Re (Malaysia).

The domestic reinsurers cannot write direct insurance business.

Company Changes

There have been no recent company changes.

Local Reinsurance Arrangements

Summary and Trends

Life retention rates remain very high (97.4% in 2017) reflecting both a financially resilient insurer base and a market led by individual unit-linked savings products with low average risk cover levels.

Life reinsurance covers mortality risk and morbidity-related rider benefits mostly on a proportional basis. Non-proportional cover including excess of loss and stop loss arrangements may apply for medical and catastrophe covers. Arrangements are guided by regulation, which requires direct insurers establish a reinsurance policy and report annually to the regulator. Life insurers must establish treaty ("automatic") reinsurance support for each line of business, including catastrophic risks, where its requirements exceed self-retention limits. These can range between 0.75% and 10% of its own capital. Any cession above that must be ceded.

Providers typically retain both domestic and international reinsurers but regulatory measures effective from January 2016 require full domestic retention of "simple" risk, which includes life and medical insurance.

The recipient of higher domestic retention is the enlarged state-owned reinsurance champion PT Reasuransi Utama Indonesia (Persero) relaunched in October 2016 following mergers with other state-backed reinsurers including Reasuransi Internasional Indonesia (ReINDO). Indonesia Re reported a 41% increase in life reinsurance premium in 2017, the first full year following introduction of the regulation but growth has slowed in 2018 with the IDR 2trn (USD 141.01mn) in reinsurance premium a 2.7% increase over the previous year, reflecting negligible premium growth among direct insurers. IndoRe is reviewing in 2019 both its pricing and terms and conditions on credit life following poor underwriting results.

Reinsurers may provide a range of additional support services including underwriting guidance, systems and training support and trade seminars addressing market issues. Domestic reinsurers must have retrocession agreements with at least two domestic reinsurers prior to accessing international reinsurers to support their activities.

Government Regulation No 39/2008 discouraged reinsurance between direct insurers with the requirement that a company's articles of association state that the purpose of establishing the business is to run one class of insurance.

Regulatory Considerations

Conventional and sharia insurers must reinsure 100% of "simple" risks, which includes life and health insurance, in the domestic reinsurance market from January 2016.

This measure was mandated in the 2014 insurance law and initiated by the OJK in *Regulation No 14/POJK.5/21015 on Self-Retention and Domestic Reinsurance Support* and OJK *Circular Letter No 31/SEOJK.05/2015 on Own Retention Limits, Reinsurance Support and Reports on Reinsurance/Retrocession* both effective from 1 January 2016.

Conventional and family takaful products which provide global insurance cover, international cover for multinational employers and/or are new products developed and supported by a foreign reinsurer (subject to a four-year time limit) are exempt the 100% requirement but still subject to a minimum specified by the regulator.

Non-admitted

The legal provisions setting out the requirement for insurers and reinsurers to be authorised are contained in *Article 25* of *Law No 40/2014* effective from 17 October 2014. Axco's unofficial translation of this text is as follows:

"Indonesian insurance objects can only be insured by insurance companies and sharia insurance companies authorised by the Financial Services Authority except where there is insufficient capacity in the domestic market or locally authorised insurers are unwilling to accept the risk."

The definition of insurance company in the legislation refers to both conventional and sharia insurance and reinsurance companies and brokers.

Reinsurance Statistics

Premiums ceded by life insurers over the last available five years are shown below.

	2013	2014	2015	2016	2017
Ceded premiums (IDR mn)	2,915,273.00	3,420,300.00	3,966,732.00	4,013,448.00	4,786,276.00
% of gross written premiums	2.75	3.27	3.13	2.54	2.61

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The following table shows the reinsurance loss ratios (reinsurance recoveries against ceded premiums) for the life market over the last available five years.

	2013	2014	2015	2016	2017
Reinsurance loss ratio (%)	68.05	59.83	64.37	71.20	69.81

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Retentions

The following table shows the retention ratios (net written premiums against gross written premiums) for the life market over the last available five years.

	2013	2014	2015	2016	2017
Retention ratio (%)	97.25	96.73	96.87	97.46	97.39

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Treaty Reinsurance

Reinsurance regulations initiated from January 2016 require all conventional and sharia insurance companies implement a reinsurance support strategy to ensure adequate and automatic reinsurance capacity.

Life insurers must establish treaty ("automatic") reinsurance support for each line of business, including catastrophic risks, where its requirements are beyond its self-retention limits. "Simple" risks, including most domestic conventional and sharia life and health insurance, must be 100% retained in Indonesia through a domestic reinsurer.

Mortality risk is typically arranged by domestic companies on a surplus basis and health insurance business is usually arranged on a quota share basis with retentions of up to 40%. Some companies have quota share treaties for major medical covers with retention levels as low as 5%. Life reinsurance is most often ceded on a risk premium basis.

Facultative Reinsurance

Reinsurance treaties accommodate most risks but, where substandard lives and excess of treaty falls outside treaty terms, such risk would be offered initially to the treaty leader for agreement over terms. Risks may then be ceded to the treaty. Where facultative reinsurance is required for a life risk this must be obtained from at least one domestic reinsurer.

Reinsurance

OJK *Regulation No 14/POJK.5/21015,* effective from 1 January 2016, requires facultative reinsurance is offered to two domestic reinsurers prior to accessing international support.

Other Types of Reinsurance

Conventional insurance companies must secure reinsurance support that includes catastrophic risk under *Regulation of the Minister of Finance No 53/PMK.010/2012,* effective from 1 January 2013.

Distribution

Most reinsurance arrangements are made directly between direct insurers and reinsurers without the use of intermediaries.

Distribution Channels

Summary and Trends

Life distribution in both the individual conventional and sharia markets has traditionally been led by the tied agency channel but its dominance ended in 2016 as bancassurance has taken market share. Group insured benefits, in particular private medical insurance (PMI), is broker-led in the large corporate market plus direct, telemarketing and microinsurance distribution activities are also in the market.

Banks and life insurers with Financial Institution Pension Funds/FIPF (DPLK) licences market pensions directly to companies and individuals through employed licensed advisers.

The table below shows the percentage of weighted new business premium written through the main distribution channels for the last available five years. The mix is also understood to be consistent for both the conventional and sharia markets.

	2014	2015	2016	2017*	2018*
Agent (%)	48	45	41	39	37
Bancassurance (%)	31	33	40	43	46
Other (%)**	20	23	19	18	17

*Note: * as of March 2017 and March 2018 respectively*
*** includes direct marketing, microinsurance and sales through independent agents.*
Due to rounding the breakdown above may not equal 100%.
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Indonesia is acknowledged as an agent driven market and leading insurers all contract sizeable agency forces to sell their products. The life insurance industry trade body (Asosiasi Asuransi Jiwa Indonesia/AAJI) reported 537,232 agents as of March 2019 of which leading insurer, Prudential Indonesia accounts for almost half the total.

Bancassurance has proven highly effective in Indonesia with people general having more confidence in their banks than their insurance agents. Growth both in affluence and the rapidly rising numbers with a bank account, make bank partnerships highly valued assets and an area of intense competition among life insurance companies**.** Now the lead channel with a fraction of the sales force, reported at 30,299 by AAJI as of March 2019.

At the high end of the bancassurance market, demand is increasing among affluent bank customers for more sophisticated financial advice as opposed to the regular premium savings products pushed by agency forces. Banks have developed wealth management divisions to serve this emerging need, paving the way for higher value, higher quality life insurance business.

Microinsurance is a niche market, which has benefited from considerable government and regulatory support and is distributed through partner banks and microfinance institutions (MFIs). Its share of total market premium, however, is very small but it represents an important initiative in the policy of financial inclusion for all.

Direct Marketing

Direct marketing is an active and aggressive channel in Indonesia through a range of practices. Direct mail and telemarketing of bank credit card databases for the sale of simple protection products has been standard practice for some years. This includes the likes of term and personal accident (PA), together with more specialised products, such as hospitalisation and critical illness covers.

For banks, telemarketing of credit life policies (in particular credit card protection plans) to their cardholder databases has been productive business in what remains a growing market, in spite of Bank Indonesia introducing restrictions on card ownership. Bank Indonesia reported 139 million debit cards and 17 million credit cards in 2017.

This channel is usually exploited as part of a broad-based distribution mix for the leading players but can be a core strategy for some specialists. US-owned health insurer PT Asuransi CIGNA, for example, has a direct-to-consumer distribution strategy heavily focused on telemarketing and affinity marketing through distribution partners, principally banks and credit card companies.

Call centres remain the hub of telemarketing operations with practices progressively becoming more sophisticated through the application of technology and data analysis and in co-ordination with direct response television advertising (DRTV) campaigns. Access to a quality database is crucial amid the increasing challenge in identifying new target markets with most already tied up or saturated.

Increasing consumer resistance to market practice developed in urban areas where activity is concentrated with targeted individuals said to receive several telemarketing calls a day. This prompted a tightening in the regulations on cold calling and text messaging in 2014. Potential customers must agree to be contacted and financial service companies must provide product information. There are also requirements related to advertising.

The contribution of direct marketing in the distribution mix is not reported in isolation infrequently but one estimate puts its contribution at about 7% of life insurance distribution.

Leading telemarketing distributors in 2017 as reported by AAJI were AXA Mandiri, Ciputra Indonesia and BNI Life.

The leading direct life new business writer was Astra Aviva Life.

E-Commerce

Indonesia is witnessing an explosion in digital innovation, which has rapidly encompassed fintech. The OJK is seeking to encourage the trend with the introduction of a regulatory sandbox framework effective from 16 September 2018, together with a new fintech centre to support its development, the OJK Innovation Centre for Digital Financial Technology.

Internet usage has risen rapidly with most accessing via smartphones. In 2018, 64% of the population were connected to the internet, a 10% increase over the previous year, according to a study by Polling Indonesia. Penetration rates vary widely across the country with are highest level found in the country's most populous island of Java, while remote rural areas have no access at all.

Digital initiatives are wide ranging across a life insurer's operations and transition is necessary, in the words of one, to satisfy customers that "want fast service, hate filling forms and want to decide for themselves". Few life insurers, however, presently exploit e-commerce as a distribution channel for life insurance products, with budgetary constraints, channel conflict and legacy IT system issues often detracting from the effort. Where life products are offered it is typically restricted to simple protection products, notably term life and health insurance.

FWD Life Indonesia is a relatively new company and in the vanguard of digital innovation. The insurer entered the market from March 2013 and a broad-based digital technology strategy includes a paperless sales process, online distribution and engagement with social media.

The rapid emergence of online payment and e-commerce platforms such as Bukalapak, Go-Jek, Ovo and Tokopedia, a trend previously forecast as 'the next big thing' in a 2015 Deloitte study, has connected many of the previously unbanked to the financial system via smartphones. Services such as Go-Jek developed initially as a motor bike ride-hailing application but has expanded rapidly into payment processing, cash transfers, online banking, money and transfer investment trading such as mutual funds. Such low-cost direct distribution holds considerable promise for microinsurance also, with Go-Jek offering daily health insurance to their self-employed motorbike taxi riders, with premiums deducted automatically from their earnings.

Payment platforms increasingly control retail personal finance and insurers are keen to ensure they have access. Prudential Indonesia, for one, announced a deal with Tokopedia in August 2019 so premiums can be paid through its platform. Other tech innovators include the e-wallet apps Pede and True Money, where term insurance can be bundled into phone credit.

Social media is recognised as an important marketing tool exploited for brand building, prospecting, product marketing and communicating with customers. Indonesia has one of the largest Facebook communities in Asia and is a leading market for Twitter.

Another aspect of digital innovation has been the launch of insurance aggregators providing online quotes and product comparisons on personal life and non-life insurance products from a range of insurers. PasarPolis (literally Policy Market), was an early innovator from 2015 but has expanded its activity to offer microinsurance policies online. Platform providers Go-Jek, Tokopedia and Traveloka are clients of the firm for 'click-box' policies bundled with ride-hailing trips, e-commerce sales and travel. All three were reported to have invested in the aggregator also in a 2018 funding round.

Such innovation has much further to go and contains both disruptive threat and new distribution opportunity, but it is rapidly widening and easing access to a broad range of retail financial services.

Law No 11 on Electronic Transactions and Information (ETI), passed in April 2008, regulates electronic activity in Indonesia within the following areas:

- 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.

Bancassurance

Bancassurance is now the leading distribution channel accounting for 46% of new business premium as of March 2018, increasing from 43% in the previous year as reported by the life industry trade body, AAJI.

Growing affluence and a rapidly increasing 'banked' population, reported by the World Bank at 48.9% of the population in 2018 more than double the 20% reported in 2011, make bancassurance a highly coveted channel for life insurance distribution and opportunities with leading retail banks are an area of intense competition between competing life insurance companies. Channel sales on the life side are predominantly individual and include both traditional and investment-linked products as well as credit life and medical insurance. More single premium is also written in through the banks

Bancassurance deals have proliferated and there is little exclusivity on either side. Banks may offer product lines sourced from a number of providers and insurers may distribute through multiple banks. Retail banks for their part are well aware of the value of branch networks to life companies and prized new bancassurance deals demand large upfront fees from potential insurance partners.

The channel has attracted significant regulatory attention, also. While commercial banks are not licensed to carry insurance risk in their own right under *Article 10b* of the *Banking Law No 10/1998* they can both distribute insurance products and hold investments in insurance companies.

Insurers are permitted to set up bancassurance deals with banks under *Article 39 of Minister of Finance Decree No 426/KMK.06/2003* but 'shall be responsible for all actions of the banks relating to insurance transactions of the program thus marketed'.

Guidelines were subsequently issued to the banking sector in October 2004 when the banking regulator, Bank Indonesia, issued *Circular Letter No 6/43/DPNP Implementation of Risk Management for Banks Engaged in Joint Marketing Efforts with Insurance Company (Bancassurance)*. It laid out the following four permissible relationships between banks and insurers for the conduct of bancassurance operations:

- a marketing/distribution agreement between a bank and insurance company with the bank marketing insurance products to customers by face-to-face contact, direct marketing, telemarketing or mail delivery
- a strategic alliance agreement between a bank and insurance company to market insurance products by either modifying the insurance product to meet bank needs or by an insurer using a bank's marketing channels including the bank's office space
- the creation of a joint venture company whereby the bank and insurance company jointly establish a company to market insurance products
- financial services group: this is a more integrated form of collaboration between a bank and insurance company in which a bank is allowed to establish or buy an insurance company and vice versa.

Bank Indonesia issued further bancassurance regulations in December 2010 in *BI Circular Letter No 12/35/DPNP*, addressing what is considered bancassurance and what products may be sold through the channel.

The exclusivity of bancassurance agreements was contested subsequently in 2014 when the Indonesian Competition Supervisory Commission (Komisi Pengawas Persaingan Usaha/KPPU) successfully challenged a bancassurance agreement as being anti-competitive. The verdict was ultimately overturned by the Supreme Court in January 2016 on the basis that the other life insurance products available in the market had been considered by the bank and did not meet its standards.

The OJK moved subsequently to clarify compliant bancassurance models for the market contained in *OJK Circular No 32 05/2016.* This defines three acceptable bancassurance models for conventional and sharia insurers and bank partners: a reference model, a cooperation distribution model and a product integration model. Under the reference model a bank merely refers or recommends an insurance product, whereas in the cooperation distribution model it is more proactive in pursuing the sale. Under the product integration model, insurance is bundled in with bank credit within a single product. The circular details the criteria applying to each model.

Leading financial services groups with both bank and life insurance interests include Panin Dai-ichi Life and PT Bank ANZ Indonesia, Mega Life and Bank Mega, BNI Life and Bank Negara Indonesia (BNI). A long-established alliance between a bank and an insurance company is Bank Mandiri, state-owned and Indonesia's largest bank, and the French-domiciled AXA insurance group trading as AXA Mandiri.

Market leader, PT Prudential, has multiple bancassurance partnerships including Bank Permata, Bank Rakyat Indonesia (BRI), PT Bank UOB Indonesia, Prudential Bank International Indonesia Pbk, PT Bank QNB Indonesia Tbk and Standard Chartered bank.

The revelation in October 2018 that state-owned life insurer, PT Asuransi Jiwasraya (Persero), which received USD 1bn in single premium in 2017 was postponing maturity claim payments on individual savings policies owing to solvency issues has not helped public confidence, though this has done little to stem the flow of new bancassurance agreements. Two notable recent deals include FWD Group's 15-year bancassurance agreement include within in its agreed purchase of PT Commonwealth Life announced in October 2018 and Sun Life Financial Indonesia's deal with the Islamic bank Bank Muamalat Indonesia in June 2019 to grow its sharia business.

In effect, there are four main sales practices for insurance products in the bancassurance channel:

- life insurance is sold alongside credit cards, car loans and home loans, at the time the loan or card is issued to the customer
- simple products like term assurance, PA, credit life or critical illness insurance are packaged with a bank savings account and sold via telemarketing and direct mail to the credit card customers of the bank
- basic life insurance savings and protection insurance products are sold by an insurance agent in or around the bank branches
- a range of life insurance products are sold by a professional adviser in the branch to the existing customers of the bank.

Successful bancassurance strategies provide in-branch advisers and AXA Mandiri has gone so far as to develop a Bancassurance Academy specifically for the training of insurance sales staff.

Leading insurers with multiple bancassurance deals will tailor their products, both conventional and sharia, in collaboration with their partner banks. Microinsurance products may also be sold through some retail bank branches.

Direct Sales Force

Traditional life direct sales forces, remunerated on a salary and commission mix, have declined since Allianz first successfully shook up its branch network in 2004. The strategy shift moved away from traditional branch office structures towards more independent general agency office, whereby the agency manager is not salaried but commission-incentivised through the performance of their agency team.

In the niche high net worth and expatriate market, financial advisers provide broader financial planning services through private bank divisions may be salaried employees. In addition, in the group market, life companies and employee benefit consultants may engage salaried in-house sales staff, selling group protection and FIPF pensions.

Official statistics reporting market share as a proportion of total distribution are not published but it is considered negligible for life products.

Products sold are those offered by the employing principal, typically a range of protection and savings plans and, for those life companies with licences, individual pensions. In the group market this will be led by group life with private medical insurance (PMI), an important rider. Some disability benefit business is also written.

Agencies

Tied agency forces lead life insurance distribution in Indonesia, accounting for 37% of new business premium as of March 2018, down from 39% in the previous year.

Provider commitment to the channel continues with the Indonesian Life Insurance Association (Asosiasi Asuransi Jiwa Indonesia/AAJI), reporting a population of 537,232 agents as of March 2019, below the 560,000 reported two years previously but considerably higher than the 392,863 agents reported in 2014. Ironically, while their numbers have increased their business share has declined but growth in numbers remains an objective. AAJI has set a target of one million agents, though recruitment has become more challenging for life insurers as 'new economy industries offering 'fast cash in pocket' alternatives.

Tied agents are typically self-employed and remunerated entirely on commission. They are contracted to represent one principal and may work full or part-time. All lines of individual life protection and savings products are sold through the agency channel, predominantly savings products including traditional endowment and investment-linked products (ILPs). Additional authorisation is required to sell ILPs where a special agent licence is required. Some agents may also initiate small group business. Leading players increasingly provide tablets to their agents, with Allianz asserting 84% of their business is submitted electronically.

Agent registration was introduced in 2004, with rules applied more rigorously by AAJI from 2010. Agents must pass an examination to secure a licence, but there are no personal financial requirements. Certification to sell sharia life products was initiated in 2010 by the Association of Indonesian Insurance and Reinsurance Brokers (APPARINDO). More stringent customer vetting followed the introduction in 2011 of "know your customer" rules.

OJK Regulation No 69/POJK.05/2016, *on Business Organization of Insurance, Sharia Insurance, Reinsurance and Sharia Reinsurance Companies*, requires tied agents obtain the consent of their contracted insurer prior to representing other insurers. Insurers must also provide agent product training at least twice a year and inform policyholders when their agent is terminated and who the replacement is.

The AAJI runs agent training courses covering traditional, unit-linked and sharia business, as well as a programme of life office training and runs an annual continuous professional development (CPD) program. This may be supplemented by in-house training provided from individual life insurance companies running their own professional development programmes. The larger joint ventures are leading proponents in this effort. Together these initiatives have forced up costs but seek to raise professional standards and address issues of poor productivity, low persistence and agent loyalty.

Indonesia's leading life insurer, PT Prudential, has by a distance the largest agency force numbering in excess of 250,000 and selling predominantly unit-linked policies, which generally offer higher commission rates. Previously the most significant channel for Prudential by market premium, agency was overtaken by bancassurance in 2017.

Other providers with large agency forces include the domestic mutual company AJB Bumiputera 1912, AIA, Allianz, AXA Financial, Manulife, Sequis Life and Sinarmas MSIG Life.

A significant development in the commercial relationship between insurers and agents began in 2004 when Allianz shook up its branch network. Insurers empowered agency offices with more autonomy and more incentives, shedding branch overheads in exchange for higher commissions. Previously salaried agency managers became self-employed and more incentivised to be proactive and entrepreneurial.

As a result of this change these independent "general agencies" under their agency leader earn higher commission rates but assumed certain overheads formerly paid by the insurer. In exchange the insurer incentivises with higher commission. This has proved the more productive model, cutting insurer overhead and incentivising the best agents through commission enhancements. Agent loyalty, however, can be an issue with bloc moves of agents from one life insurer to another an occasional event where higher commission rates are offered.

Insurance Brokers

Broker distribution comprises a range of organisations from former tied agents trading as independent brokers, to joint ventures with international partners mainly broking non-life lines. Foreign ownership is limited to 80% at establishment.

The population of registered insurance brokers continues to expand gradually with 164 reported as at 31 July 2019, against 146 in 2007. The channel accounts for an estimated 6% of new business premium, mostly group premium.

Leading joint venture multinational brokers include:

- PT Aon Indonesia, established in 1992 a 50:50 joint venture between Aon Australia and PT Anggraini Mulia (a subsidiary of the Indonesian conglomerate Lippo Group)
- PT Jardine Lloyd Thompson established in 1994 a joint venture with Deltamulia Anugrah Pratama split 80%:20% (the group was bought by Marsh in April 2019).
- PT Marsh Indonesia established in 1983 has a joint venture with PT Quantum Computer Services split 75%:25%
- PT Willis Indonesia established a joint venture in 1994 with PT Union Raksa Insurance Brokers, split 80%: 20%.

In the employee benefit market, the main product line is group PMI, being annually renewable and by a margin the largest commission revenue generator. Group insured life, PA and disability are further, though less remunerative, lines. Little insured group pension business is sold as less awareness, understanding or priority is given to pensions by employers and employees and broker commission incentive is low.

Insurance brokers must be licensed by the OJK as mandated under *Law No 40/2014 about Insurance.* Maximum penalties for unlicensed broking are up to 10 years' imprisonment and a fine up to IDR 3bn (USD 211,517).

Brokers' licence applications must be supported by:

- articles of association
- suitably qualified expertise
- a minimum of IDR 1bn (USD 70,506) professional indemnity insurance
- in the case of joint ventures, an agreement.

New licensees must employ a management board with at least five years' broking experience and personnel with at least three years' insurance experience.

Government Regulation No 39/2008 introduced amended capital and equity requirements for locally incorporated insurance and reinsurance brokers with a minimum paid-up capital requirement of IDR 1bn (USD 70,506) was introduced from 31 December 2008. A higher IDR 3bn (USD 211,517) minimum for joint venture brokers is considered a deterrent for smaller foreign brokers.

Minister of Finance Decree No 425/KMK.06/2003 requires broker firms appoint fellows or members to the local insurance institute with at least three years' experience in insurance. Broker firms must invest at least 5% of their total labour cost into staff education and training to enhance standards of professional competence. An annual training and education activities report must be submitted to the OJK by 31 January.

The law also provides that brokers must act with due diligence towards clients and establish claims and complaint handling procedures, anti-money laundering policies and be responsible for the advice of individual broker employees.

The broker is included as a key function within the *Decree of the Minister of Manpower and Transmigration No 141/2013* which introduced national occupational competency standards (Standar Kompetensi Kerja Nasional Indonesia/SKKNI). Brokers are included among the seven key functions identified by the law.

The interests of insurance brokers are represented by the Association of Indonesian Insurance and Reinsurance Brokers (Asosiasi Perusahaan Pialang Asuransi dan Reasuransi Indonesia/ APPARINDO).

Employee Benefit and/or Actuarial Consultants

Licensing was introduced for actuaries by the OJK from 28 December 2015 under *Regulation No 38/POJK.05/15.*

There were 31 registered actuarial consultants reported as of June 2019 and increase of four since previously reported in March 2018. Local licensees include multinational actuarial consultancy firm subsidiaries PT Mercer Indonesia, PT Milliman Indonesia and PT Towers Watson Purbajaga. Dayamandiri Dharmakonsolindo is a leading local name and has acted for the regulator.

The actuarial profession was established in Indonesia in the 1960s although the overall size of the profession remains small. The trade body serving the profession is the Society of Actuaries of Indonesia (Persatuan Aktuaris Indonesia/PAI), with a reported 180 full qualified members and 200 associates. Most work for life insurance companies, covering areas such as risk management and solvency.

Employee benefits consultants typically act as insurance brokers also, placing insured group medical and life and disability business with insurance companies.

Government Regulation No 39/2008 introduced a minimum paid-up capital or equity requirement of IDR 1bn (USD 70,506) as from 31 December 2008.

Specialist Independent Financial Advisers

Holistic financial planning advice is present in the market, though it is very much a niche activity for expatriates and high net-worth individuals. Such services may be offered through private client divisions of domestic or international banks or niche independent financial advisers (IFAs).

Advisers are full time professionals and generally among the most qualified intermediaries and more often engaged in high level investment advice and offshore investment.

The international designation, the Certified Financial Planner (CFP), was established in Indonesia in 2007 with the non-profit Financial Planning Standards Board (FPSB) Indonesia being chosen as the country representative administrator. Over 1,200 FPSB members hold the CFP designation.

The terms financial planner and IFA are not yet specifically recognised in insurance law.

Other Distribution Channels

Affinity marketing via third parties is well established. Usually for insurers this is in association with banks or other financial services firms but may extend to other retail industries, such as supermarkets. Such marketing typically attaches insurance (life and disability) to credit cards or other credit purchase arrangements. Prudential Indonesia partnered with the state-owned pawnbroker Pegadaian and Permata Bank to create a premium payment facility across its 4,500 branches.

Microinsurance is a significant niche market, which benefits from considerable government and regulatory support to broaden accessibility to financial services and is distributed through partner banks and microfinance institutions (MFIs). In 2017, the OJK issued the Circular Letter *SEOJK Regulation No 9/SEOJK.05/2017* provides guidance on microinsurance product requirements and the means for their distribution.

Premiums payable for a microinsurance policy may not exceed IDR 50,000 (USD 3.53) and benefits may not exceed IDR 50mn (USD 3,525) per customer. Policies are distributed as scratch cards and registered via SMS text message.

Consumer Protection

Consumer protection is a core regulatory objective for the OJK and is a significant influence the evolving regulatory framework. However, Indonesia is a young, agency driven market with a sales push culture, so overall protection for consumers is still relatively immature.

Notable regulation enhancing consumer protections include the following.

- *Ministry of Finance Decree No 421/KMK.06/2003* to *426/KMK.06/2003* introduced licensing for insurance agents in 2003, including fit and proper criteria and minimum professional standards.
- *Ministry of Finance Decree No 422/KMK.06/2003 Concerning Business Conduct of Insurance and Reinsurance Companies* required 14 provisions to be addressed in a life insurance contract including term, premium payment, termination and cash values.
- The *Regulation of the CMFISA Chairman No KEP.104/BI/2006* issued guidance on unit-linked products in response to their rapid growth. This covered minimum sums assured, clarity of investment propositions, policy disclosure, pricing transparency and marketing materials. Authorised agents must hold the standard agent licence and a special agent licence for unit-linked products.
- *Government Regulation No 39/2008* requires all insurance companies appoint an independent commissioner, whose role is to protect policyholder interests and must not be an affiliate of the shareholders, board, directors or other commissioners and cannot represent more than two insurance companies.
- *Law No 21/2011 on the Financial Services Authority* created the OJK as a broad-based financial market regulator. One of the core objectives of the OJK under the law is consumer protection.
- The OJK issued *Regulation No 1/POJK.07/2014* effective from 23 January 2014, which established an alternative dispute resolution service for financial institutions including insurance.
- *Law No 40/2014* mandates the establishment of a policyholders' protection fund within three years of its enactment on 17 October 2014. Regulated insurers are required to contribute to the fund.
- *Regulation No 23/POJK.05/2015 about Insurance Products and Marketing* concerns the basic criteria and structure of life and non-life insurance products and identifies the channels through which they may be sold as well as their associated regulatory requirements. All new products must be approved by the OJK.

- Conventional and sharia insurers must maintain a minimum guarantee fund of 20% of paid-up capital or equity benchmark as policyholder protection in the event of bankruptcy. Such deposits must be increased annually at a rate of 1% calculated on the growth in net premiums. The guarantee fund requirement, however, is to be replaced by a new policyholder protection scheme to which all insurers are obliged to contribute. As mandated under *Chapter XI* of *Law No 40/2014* further implementing legislation is to follow within three years of enactment to initiate this new scheme. This requirement, now overdue, remained outstanding as of August 2019, though a draft bill was reported to be in process in early 2019.

Expatriates

There are a few specialist financial advisers serving the expatriate market. In general, with the exception of PMI, short stay working expatriates are unlikely to buy protection and investment policies in Indonesia. They may, however, opt for offshore solutions, particularly in relation to investment-related policies, typically in Singapore.

Intermediaries' Commissions

Intermediary commissions are unrestricted by regulation and so determined by competitive market forces. Agents, insurance brokers and employee benefit consultants are all remunerated on a commission basis for new business written.

The following table (including intermediaries' commission levels by class are shown in the table below) provides a general guide as to prevailing rates in the market, which are generally lower than some other markets within the region.

Line of business	First year commission (%)	Renewal commission (%)
Term/whole life/endowment	15 to 40	5 to 20 second year, 3 to 10 subsequent years. Top-up premium at 10
Investment-linked products (ILPs)	45 to 80	Up to 60 in second year
Credit life	15 to 25 single, 10 to 15 regular	
Family takaful	50 to 70	
Individual health	20 to 25	
Group health	10 to 15	
Group life	5 to 10 depending on size	
Group pensions	0.25 to 1.00 depending on size	

Source: Market sources

Some companies report no commission "clawback" while others insist on recovering commission in the event of policies being surrendered in the first two to three years.

Policy churning is present in the market, but life companies are alert to it and monitor activity and individual agent behaviour, taking corrective action where deemed necessary. Brokers may occasionally work on a fee basis for consultancy related work.

Company Changes

No major company changes were known at the time this report was in preparation.

Summary and Trends

Indonesia's social security system underwent fundamental reform from January 2014 as mandated by the *Social Security Administering Bodies Law (Law no 24/2011),* known as the BPJS Law. This executed a legal commitment made in *Law No 40/2004 concerning the Social Security Administrative Body* (Sistem Jaminan Sosial Nasional/SJSN), to establish a comprehensive welfare system within a decade of enactment.

The objective was to initiate universal health and social security benefits to all Indonesians, notably including informal (self-employed) sector workers, which account for the greater part of the working population. This was an ambitious goal for a vast and disparate archipelago country of more than a quarter billion people and government has focused considerable effort on increasing tax revenue to help finance these initiatives, notably expanding the tax base and encouraging repatriation of assets from overseas.

The reformed National Social Security System consolidated a number of bodies previously administering social security benefits to specific population sub-groups within a unified Social Security Administrator (Badan Penyelenggara Jaminan Sosial/BPJS) from 1 July 2015. Among these was the social security scheme for private sector employees (and voluntary "informal" workers), Jaminan Sosial Tenaga Kerja, known as Jamsostek.

The new system established five social security programs with mandatory contributions for all workers as noted below. Responsibility for their administration is split between two restructured administrative bodies:

1. BPJS Health (Badan Penyelenggara Jaminan Sosial Kesehatan/BPJS Kesehatan)

   National Health Insurance Program (Jaminan Kesehatan Nasional/JKN) - extends universal health cover (UHC) to all

•BPJS Employment (Badan Penyelenggara Jaminan Sosial Ketenagakerjaan/BPJS Ketenagakerjaan)

- Two retirement benefit schemes: Retirement Security Program (Jaminan Pensiun/JP) and Old Age Security Program (Jaminan Hari Tua/JHT)
- Work Accident Insurance Program (Jaminan Kecelakaan Kerja/JKK)
- Death Insurance Program (Jaminan Kematian/JK).

The universal health scheme (JKN) was rolled out across the country over a five year period between 1 January 2014 and 1 January 2019. It seeks to provide comprehensive healthcare for all Indonesians free at the point of use. As of August 2019, BPJS Health reported 223.3 million participants, over 82% of the estimated population.

This huge expansion in cover has quickly exposed the inadequacy of scheme funding with a ballooning deficit that reached IDR 7trn (USD 493.54mn) in June 2019, according to press news reports. This has forced government cash injections and premiums are set to increase steeply from September 2019 under a pending presidential decree, according to press news reports.

BPJS Employment (the restructured Jamsostek) began merging existing schemes from 1 July 2015 with completion scheduled for 2029. In the process the legal status of these administrative bodies was changed from for-profit state-owned enterprises (Perseros) to non-profit public legal entities that are more transparent and responsible ultimately to the president of Indonesia.

BPJS Employment reported 26.24 million active members in 2017, a further 18.74 million are non-active members. A significant increase to the 13.24 million members reported by its predecessor, Jamsostek, in 2013 but scheme penetration has some way to go to provide universal cover given a reported 136.18 million workers in Indonesia in February 2019.

BPJS Employment added a second retirement benefits scheme, the Retirement Security Program. This defined benefit (DB) scheme is compulsory for medium to large employers (and may be phased in for smaller employers) and benefits are paid to qualifying members in addition to entitlement under the Old Age Security Program, a defined contribution (DC) scheme.

Indonesia is at an earlier stage of economic development than are some of its south-east Asian neighbours but sustained high rates of economic growth have lifted many out of poverty, with the proportion of the population living below the poverty line halving since 1999 to 9.7 in 2018 as reported by the World Bank.

Further measures of progress are reflected in rising average life expectancy and rapidly falling infant mortality rates. Overall, however, Indonesia has a young demographic making it better placed than some of its south-east Asia neighbours such as Singapore and Thailand.

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 proportion of the population aged 65 and above and 80 and above over time is shown in the table 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

There is awareness of the challenges posed by population ageing and the enhanced retirement benefits under BPJS are intended to meet the pension challenge over the long term. Presently Indonesia's young population profile grants policymakers a little time to fully establish Pillar I provision.

Private sector pension provision is in its infancy with membership amounting to around 6% of the eligible working population. Market development is hampered on the buy side by lack of trust, awareness and cultural acceptance of pensions and by limited efforts from providers and distributors on the sell side.

Expatriates working in Indonesia for more than six months must contribute to both BPJS Health and BPJS Employment. Indonesian expatriate employees working overseas must also join. Previously expatriates working in Indonesia were not required to join if they were already covered in their home country.

Social Security Financing

The National Social Security System is financed from central government budget allocations and mandatory social insurance contributions from the working population.

The following table shows total social security spending and as a percentage of GDP for the latest available five years.

Government spending	2014	2015	2016	2017	2018
Social security (IDR mn)	120,342,400.00	140,012,100.00	137,737,300.00	148,905,500.00	161,543,800.00
% of GDP	1.14	1.21	1.11	1.10	1.09

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The administration bodies responsible for collecting and allocating contributions to the five program funds and dispersing benefits from them are noted below.

1. BPJS Health (BPJS Kesehatan)

   National Health Insurance Program (Jaminan Kesehatan Nasional/JKN)

•BPJS Employment (BPJS Ketenagakerjaan)

- Two retirement schemes: Retirement Security Program (Jaminan Pensiun/JP) and Old Age Security Program (Jaminan Hari Tua/JHT)
- Work Accident Insurance Program (Jaminan Kecelakaan Kerja/JKK)
- Death Insurance Program (Jaminan Kematian/JK).

BPJS Health provides universal health benefits to which all except the poorest must contribute, while BPJS Employment provides retirement, work injury and death benefits to covered members. Contributions are compulsory for the formal (employed) working population and voluntary for the informal working population.

BPJS Health scheme funding has proved inadequate to meet the demands of universal health cover (UHC) on such a large scale. A ballooning deficit that reached IDR 7trn (USD 493.54mn) in June 2019, has been reported. This has forced government cash injections and premiums are set to increase steeply from September 2019 under a pending presidential decree, according to press news reports.

System integrity is a vital component of the National Social Security System, following the mistrust and widespread abuse reported under the previous Jamsostek system, operated as a for-profit organisation (Persero).

Scope of Cover

BPJS Health provides comprehensive and universal medical cover for all Indonesians and includes primary care, hospitalisation, maternity and delivery care, drugs, dental, eye care and emergency care. Basic cover is for up to five family members. Contributions are compulsory for both the formal employed working population and the informal self-employed working majority.

BPJS Employment benefit programs include two retirement benefit schemes (one defined contribution the other defined benefit), death benefits and workers' compensation. Employers must register all their employees and make contributions. The self-employed can join on a voluntary basis. Dependent beneficiaries vary by benefit but include a widow/widower, children, parents or beneficiaries designated in a will.

Expatriates

Expatriates working in Indonesia for more than six months are obliged to join both BPJS Health and BPJS Employment and make contributions. Indonesian expatriate employees working overseas must also join.

Previously expatriates working in Indonesia were not required to join if they were already covered in their home country.

Privatisation

BPJS expanded the role of the public sector in social security provision to initiate comprehensive universal healthcare and enhanced retirement benefits.

The launch of BPJS Health ended the health contribution opt-out provision for private sector employers previously available under the previous Jamsostek scheme, where adequate group private medical insurance (PMI) was provided. This led to benefit overlap with existing corporate-sponsored group PMI, mitigated since by coordination of benefits (CoB) agreements between health insurers and BPJS, to determine how claims are split between them.

Retirement benefit provision was enhanced under BPJS with the addition of a second mandatory pension scheme, the Retirement Security Program (Jaminan Pensiun/JP). This comes, however, at a higher cost to the employed working population, increasing aggregate employer contributions by 2% to 5.7% and aggregate employee contributions by 1% to 3% from those formerly applying under the Jamsostek single retirement benefit scheme. These increases have served to discourage supplementary private pension provision, particularly for lower level staff.

Long-term care is not a social security benefit in Indonesia and not sold by life insurance companies. The prevailing culture is for families to care of elderly members, though this is under pressure from continuing urbanisation and economic development.

Contributions

The following table shows contributions on the working population as a percentage of salary/income and the split between benefit funds.

Type of benefit fund	Employee (%)	Employer (%)	Total (%)	Self-employed (%)
Retirement Security	1.00*	2.00	**3.00**	n/a
Old Age Security	2.00*	3.70	**5.70**	2.00
Death Insurance	n/a	0.30	**0.30**	IDR 6,800
National Social Security System Health***	1.00**	4.00	**5.00**	IDR 25,500 to IDR 80,000
Work Accident Insurance	n/a	0.24 to 1.74****	**0.24 to 1.74**	1.00
Total	**4.00**	**10.24 to 11.74**	**14.24 to 15.74**	**3.00 plus IDR 25,500 to IDR 80,000**

*Note: * the maximum salary for contribution purposes is equal to IDR 8,512,400 (USD 600.17) per month from 1 March 2019*

*** increased by 1% of salary for each additional family member in excess of five members*

**** salary for contribution purposes is based on the employee's basic salary including any fixed allowance, subject to a maximum of IDR 8mn (USD 564.04) per month*

***** five risk classes determined according to upon assessed environmental risk.*

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Employer and employee contributions are collected through payroll and submitted to BPJS Employment.

Mandatory health contributions apply to all under the National Health Insurance Program (Jaminan Kesehatan Nasional/JKN) initiated from 1 January 2014. Contribution split shown in the table applies to private sector employers from 1 July 2015. The equivalent for public sector workers is 3% employer and 2% employee. Contributions are payable monthly. Employed member contributions cover a spouse and up to three children.

The self-employed and informal working population pay monthly flat-rate health contributions according to the quality of the medical facility chosen:

- IDR 25,500 (USD 1.80) per person per month for benefits in third class hospitals
- IDR 51,000 (USD 3.60) per person per month for benefits in second class hospitals
- IDR 80,000 (USD 5.64) per person per month for benefits in first class hospitals.

At the time this report was in preparation, health contributions were set to increase substantially under a pending presidential decree to plug a ballooning deficit in the JKN scheme. This could increase self-employed contributions above to IDR 42,000 (USD 2.96), IDR 80,000 (USD 5.64) and IDR 120,000 (USD 8.46) per month in the three categories listed according to press news reports. Employer and employee contributions are also expected to rise from 2020.

Contributions to the Retirement Security Program are subject to review and adjustment at least every three years with the objective of eventually increasing aggregate employer and employee contributions to 8% of covered earnings (basic salary plus fixed allowances). There is no contribution opt-out to the Retirement Security Program.

Contributions to work accident insurance cover are determined by the degree of the risk involved in the work itself and divided into five categories.

Law No 13/2003 concerning Manpower is the governing labour law and includes the obligations of employers to make lump sum severance payments to employees on the termination of employment. This is calculated on a graded scale in reference to years of service and cause of termination. It is estimated to cost employers on average a further 8% of payroll.

Old Age Pension

Government Regulation Nos 45/2015 and *46/2015* gave legal effect to two compulsory retirement benefit programmes administered by BPJS Employment:

- The Retirement Security Program (Program Jaminan Pensiun/JP), a defined benefit (DB) scheme for which public and medium to large private sector employees are eligible and
- The Old Age Security Program (Program Jaminan Hari Tua/JHT), a defined contribution (DC) scheme for which private sector employees and the self-employed (on a voluntary basis) are eligible.

Following a minimum 15-year contribution period the Retirement Security Program is to pay salary-related pension income to qualifying members of between IDR 341,400 (USD 24.07) and IDR 4,095,750 (USD 288.77) per month (from March 2019), adjusted annually to account for inflation. This compares with a minimum wage in Jakarta in 2019 of IDR 3.93mn (USD 277.09) per month.

The monthly pension is calculated as 1% for each year of qualifying insurance times the employee's adjusted average annual pensionable salary for contribution purposes divided by 12.

Employees with less than 15 years of qualifying insurance at retirement receive a lump sum based on the value of the accumulated fund.

The Old Age Security Program pays a lump sum benefit amounting to the accumulated fund at retirement, or in the event of death, total permanent disability or emigration prior to retirement. After accumulating 10 years' contributions, 10% may be withdrawn in preparation for retirement; alternatively, 30% may be withdrawn to contribute to a house purchase.

Notably, the two pension schemes have differing retirement ages. It is 57 under the Retirement Security Program in 2019 (from 56 previously), while it remains 56 under the Old Age Security Program. The retirement age under the Retirement Security Program is scheduled to increase by one year every three years until it reaches 65 years as set out in *Government Regulation No 45/2015*.

A further DC arrangement in addition to the Old Age Security Program under Indonesian labour law is the provident fund, a DC scheme notionally providing retirement benefits but more often withdrawn early following five years' service or paid at end of service.

Under labour law, employees are entitled also to a lump sum benefit on termination of employment linked to length of service (severance). This may also be a source of retirement benefit but is more often paid prior to retirement. Further details on this benefit can be found later in this section under the heading Unemployment.

Survivors' Benefits

Eligible dependents may be entitled to benefits in the event of a member's death.

Under the Retirement Security Program, a survivor benefit may be paid pre or post a member's retirement to a qualifying widow(er), equal to 50% of the deceased's accrued old age pension based on qualifying insurance at the date of death.

A minimum of 15 years qualifying contributions applies but where the contribution record is less than 15 years, the benefit is also paid where the claimant meets the following criteria:

- at least one year of qualifying insurance, and

- contributing for at least 80% of the qualifying insurance period.

The survivor benefit may be paid to a qualifying child under age 23 where there is no qualifying widow(er) or on the subsequent death or remarriage of the qualifying widow(er).

The survivor benefit due to a qualifying child is:

- the widow(er)'s survivor benefit where there is no qualifying widow(er), or
- 50% of the widow(er)'s survivor benefit upon the subsequent death or remarriage of the qualifying widow(er).

The survivor benefit ceases in event of remarriage (or employment or marriage in the case of a qualifying child).

Under the Old Age Security Program, the survivor benefit is the accumulated fund at death paid to the deceased's qualifying heirs, including a widow(er) or child(ren). Benefits are paid as a lump sum at retirement, so death in retirement benefits do not apply.

In the event of death in service, the following benefits are due to eligible claimants under the Death Insurance Program (Program Jaminan Kematian):

- IDR 16.2mn (USD 1,142) lump sum
- IDR 3mn (USD 211.52) funeral grant
- a monthly IDR 200,000 (USD 14.10) is paid over 24 months.

In addition, a further IDR 12mn (USD 846.07) may be paid as a child(rens) education scholarship, subject to five years' contributions.

Permanent Disability Benefit

On being assessed as totally and permanently disabled, eligible claimants are entitled to disability benefits under the two retirement benefit programs.

The DB scheme (Retirement Security Program) provides a lifelong disability pension calculated on the same basis as for a retirement pension with reference to the claimant's qualifying insurance at the date of disability.

A minimum of 15 years qualifying contributions applies but where the contribution record is less than 15 years, a 15-year record is assumed for calculation purposes where the claimant meets the following criteria:

- has at least one month of qualifying insurance, and
- made contributions for at least 80% of the qualifying insurance period.

Where these criteria are not met a lump sum benefit may be paid in lieu of a disability income.

Under the DC scheme (Old Age Security Program), a lump sum benefit is paid from the accumulated fund in the event of total permanent disability.

Disability benefits are also included under the Work Accident Insurance Program in the event of a work accident. Further detail on these benefits are included further in this section under the heading Occupational Accident and Disease.

Short-Term Sickness Benefit

Sickness benefits are not provided by BPJS. Legally employed persons, however, are eligible to sickness income under *Law No 13/2003 Concerning Manpower,* where the cause was not work-related. Sickness benefits are a cost borne by the employer and paid on the following basis:

- first four months - 100% of salary
- second four months - 75% of salary
- third four months - 50% of salary
- subsequent months - 25% of salary.

There is no waiting period to receive benefit, but the maximum payment period is normally 12 months after which an employee's service may be terminated. In such circumstances the ex-employee may then be entitled to a termination payment (severance).

Occupational Accident and Disease

Workers compensation benefits are extended to eligible claimants under the Work Accident Insurance Program (Program Jaminan Kecelakaan Kerja/JKK) administered by BPJS Employment. The scheme covers all employees on a mandatory basis.

There is no minimum qualifying period before entitlement and covered employees under age 55 who become disabled or die as a result of an employment-related accident or disease are eligible for benefits.

Benefits provided under the scheme include the following:

Medical

- primary care and follow-up treatment
- hospitalisation (treatment equivalent to a first class public hospital)
- intensive care
- diagnostics
- prescription drugs
- medical devises and implants
- surgery

- transfusions
- rehabilitation.

Medical reimbursements

- land transportation - up to IDR 1mn (USD 70.51)
- sea transportation - up to IDR 1.5mn (USD 105.76)
- air transportation - up to IDR 2.5mn (USD 176.26)
- orthoses and prosthetics - up to 140% of the prescribed price.

Temporary disability

Temporary disability benefit is based on the employee's wages in the month preceding disability and is 100% of wages for the first six months, 75% for the next six and 50% thereafter. It is payable until recovery or declaration of permanent disability.

Permanent disability

The permanent total disability benefit is a lump sum benefit calculated as 70% times 80 months of the employee's salary.

The permanent partial disability benefit is a lump sum calculated as a prescribed percentage (based on the assessed disability) of 80 months of the employee's salary.

In addition, a child(ren)'s education scholarship of IDR 12mn (USD 846.07) per child may be paid.

Death

In the event of an employee's death from an employment-related work accident or disease the following benefits are payable:

- a lump sum equal to 60% of 80 times monthly salary
- an allowance of IDR 200,000 (USD 14.10) per month is payable for a maximum of 24 months (or IDR 4.8mn (USD 338.43) may be payable as a lump sum)
- funeral expenses of IDR 3mn (USD 211.52).

In addition, a child(ren)'s education scholarship of IDR 12mn (USD 846.07) per child may be paid.

Unemployment

There is no unemployment benefit in Indonesia.

There are, however, lump sum termination payments (severance) legislated under the labour law (*Law No 13/2003),* which are due to employees on leaving employment. This is high by international standards and is due regardless of the circumstances around which employment was terminated, including when an employee leaves voluntarily. Its annual cost to employers is estimated at approximately 8% of payroll. Employer compliance in payment of this benefit, however, is reported to be low.

The basis of severance compensation is one month's pay for each year, or part year, of service up to a maximum of nine month's pay. This is doubled where employment was terminated on death, retirement or due to the closure or change in status of an employer following an ownership change.

Where service exceeds three years, a gratuity or service payment is also due, as follows:

- two months' pay for at least three but less than six years' service
- three months' pay for six but less than nine years' service
- four months' pay for nine but less than 12 years' service
- five months' pay for 12 but less than 15 years' service
- six months' pay for 15 but less than 18 years' service
- seven months' pay for 18 but less than 21 years' service
- eight months' pay for 21 but less than 24 years' service
- 10 months' pay for more than 24 years' service or more.

A 2012 study by the World Bank suggested employer evasion of severance liabilities is high. It found severance payments are received by approximately a third of eligible workers and, when payment is made, it is a fraction of the legal entitlement.

Liberalising rigid labour law has long been proposed to boost foreign direct investment. While this is a highly political issue, labour market reform is a policy priority for president Joko Widodo according to press news reports following his re-election in May 2019.

Other Benefits

Paid maternity leave is prescribed under labour law and is paid for by the employer. Eligible claimants are entitled to be paid 100% of wages for three months, starting a month and a half before the expected birth date and ending a month and a half after. In the event of miscarriage an employee is entitled to a recuperation period of one and a half months.

Paid paternity leave is also paid by the employer and is 100% of wages paid for two days after childbirth or miscarriage.

Taxation

Employer social insurance contributions for retirement, death and accident benefits are tax deductible for corporate income tax and tax exempt to employees at the time they are paid.

Employee contributions for retirement and death programs are tax deductible against personal income.

Employer health contributions are normally tax deductible against corporate income but are not deductible for the employee against personal income.

Employment accident and health benefits paid to members or their dependants are not taxable.

Severance payments are subject to tax, which is lower than that applied to salary. The rates range from 0% up to IDR 50mn (USD 3,525) of taxable income, to 25% for over IDR 500mn (USD 35,253).

Retirement income payments from a government-approved pension fund are also subject to concessionary rates of tax. Income up to IDR 50mn (USD 3,525) is tax free, income in excess of IDR 50mn (USD 3,525) is taxed at 5% for payments up to two years.

Overall Healthcare

Summary and Trends

Public health provision in Indonesia has been transformed by the introduction of universal health cover (UHC) under the National Health Insurance Program (Jaminan Kesehatan Nasional/JKN). Rolled out nationally over a five-year period between 2014 and 2019, this has extended comprehensive medical services to all Indonesians for the first time.

As of August 2019, the JKN administration body BPJS Health (Badan Penyelenggara Jaminan Sosial Kesehatan/BPJS Kesehatan) reported 223.3 million participants, over 82% of the estimated population.

JKN is financed from a mix of central government funds and mandatory social insurance contributions from the employed and self-employed working population. Contributions for the poorest paid by the state. The funding rate, however, has since proved inadequate for the scale of the task with a yawning budget deficit forcing additional government funding. The government is to increase its budget allocation to health by 83% in 2020 according to a press news report. At the time this report was in preparation, significant increases to the social insurance contribution rates were anticipated under a pending presidential decree.

While health spending has increased it remained relatively low at 3.34% of GDP as of 2015 against an average of 8.8% among OECD countries.

Indonesian health services are delivered through a mix of public and private healthcare facilities with public spending in 2015 accounting for a minority (38%) of total health spending.

The Ministry of Health (Kementerian Kesehatan) is the government department responsible for public health and it develops and implements public health policy, health and welfare system management, licensing and monitoring. It is responsible also for central hospitals and teaching facilities.

The public system is managed on a decentralised basis throughout this large country and at the regional level, Provincial Health Offices administer local community health centres (Pusat Kesehatan Masyarakat - Puskesmas) and manage healthcare delivery, supporting and supervising health services within their provinces and regencies.

JKN service quality is understood to be uneven across the country, with public trust generally higher in urban areas with greater access to medical facilities and larger pools of qualified medical personnel. Anecdotal reports of good quality care are heard though the increase in numbers is said to have overwhelmed some facilities. The system continues to face significant resource challenges beyond funding with inadequate infrastructure and shortages of professional medical personnel, with remote rural areas often poorly served.

JKN inpatient services are provided by public hospitals and accredited private hospitals that have contracted with BPJS. This has not been easy for private hospitals dealing with increased volumes, relatively low fee rates for treatment and delayed and unpaid bills under the diagnosis-based prospective payment system as BPJS funding pressures have mounted.

The World Health Organization (WHO) reported 5,734 inpatient facilities in Indonesia in 2014. Of this total, 4,181 were public and 1,553 were private. Public sector hospitals include those administered by the Ministry of Health, provincial and district governments, the police and military. Government-employed physicians are not highly paid and it is common for them to work in both public and private sectors. There is said to be a chronic shortage of medical professionals.

The impact of these reforms on the private medical insurance (PMI) market have been mixed. The higher employer BPJS health contributions and enhanced benefits ended "blue collar PMI" in the group market according to one broker. Low level staff in industrial and manufacturing sectors are now generally excluded from employer-sponsored PMI as they are considered adequately covered by JKN alone. The initiative, however, has raised the profile of PMI and public awareness of it, so stoking demand.

The division of liability between BPJS and private insurers has also been unclear and challenging to manage. Insurers have sought to address this by establishing coordination of benefits (CoB) agreements to coordinate claims payment responsibilities. JKN meets costs up to a per-capita limit, while PMI covers the excess.

The individual PMI market is significant for some insurers but is considerably smaller, catering to the growing minority of affluent Indonesians and a sizeable expatriate population. Overall, the PMI market is highly competitive, but the rate of premium growth has declined since 2014.

Health Indicators

Health indicators for the latest five years available are shown below.

	2011	2012	2013	2014	2015
Total healthcare cost per capita in USD	121.47	124.47	122.04	120.08	111.76
Total healthcare cost per capita in USD on PPP* basis	295.39	317.99	336.38	362.58	369.29

	2011	2012	2013	2014	2015
Total healthcare spending as % of GDP	3.34	3.38	3.37	3.44	3.35
Public healthcare spending as a % of total healthcare spending	32.25	35.41	38.36	40.34	38.81
Private healthcare spending as % of total healthcare spending	67.75	64.59	61.64	59.66	61.19
Physicians (per 100,000 population)	24.30	30.75	n/a	n/a	n/a
Hospital beds (per 100,000 population)	69.71	92.99	n/a	n/a	n/a

*Note: * PPP is purchasing power parity.*
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Indonesia has seen impressive increases in life expectancy and reduction in child mortality in recent decades, but significant health challenges remain.

Malaria is one of the major infectious diseases and a leading morbidity and mortality component in poorer parts of the country. Approximately 1.5 million cases a year are detected. The incidence of tuberculosis also remains high. Outbreaks of dengue haemorrhagic fever are common, but leprosy has successfully been reduced to the point of elimination. Indonesia was previously one of the worst affected countries for the avian influenza virus.

Asia accounts for the largest share of the world's cigarette consumers and Indonesia ranks high for tobacco consumption. It is overwhelmingly a male habit, however, with the World Health Organization reporting in 2015 that 73.3% of adult males over 15 were current smokers but only 3.8% of females. This contributes to the incidence of non-communicable diseases and adds to demands on a stretched healthcare system. A high incidence of child smoking has also been reported.

Alcohol consumption is very low with consumption constrained by both religious observation, in a majority Muslim country, and high alcohol taxes. The minimum age for alcohol consumption is 21.

Studies have also found very high levels of physical inactivity, particularly prevalent amongst females and those living in urban areas with the more affluent more likely to be inactive. Such lifestyles are reflected in obesity rates reported by the WHO as being higher than the regional average.

HIV/Aids remains a serious problem linked to sexually-transmitted diseases (STDs) with effective control of the latter complicated by prevailing social and cultural attitudes. An estimated 620,000 people were living with Aids in 2016 according to UN data. Previous research by the Ministry of Health found that more than half of Aids cases were contracted from intravenous drug users (IDUs) and a third from heterosexual sex. Many IDUs are sex workers.

Healthcare Philosophy

An emphasis on primary care underpins Indonesia's universal health cover where personal health, nutrition and lifestyle advice seeks prevention over cure as the more cost effective policy for national health.

As average life expectancy continues to rise, concern is shifting from communicable to degenerative diseases. Chronic conditions include cancer, circulatory diseases, metabolic disorders, congenital disorders, tobacco dependence, mental health and neurological disorders. Since these diseases are expensive and difficult to cure the focus is on prevention of such non-communicable diseases by promoting healthy lifestyles and the reduction of tobacco dependence.

Government education efforts seek to promote basic hygiene and family planning with increased attention focused on lifestyle-related health issues including HIV/Aids, alcohol consumption, obesity and smoking.

The high level of male tobacco consumption in Indonesia (in 2015, 73.3% of males over 15 years plus a high incidence of child smoking) makes this a major health issue. With over 200,000 people a year reported to be dying of linked causes, the government has introduced a range of measures seeking to reduce consumption including legislation, tax and publicity campaigns. Indonesia, however, is notable as the only country in the Asia-Pacific region that has not ratified the World Health Organization's Framework Convention on Tobacco Control.

The first tobacco control regulation was passed in 1999 and further regulation has followed. *Law No 36/2009 Concerning Health* authorised the Ministry of Health to regulate the advertising, promotion and sponsorship of tobacco products. Smoking is also prohibited on public transport and public places such as schools and religious institutions.

As one of the world's largest producers of cigarettes, including the popular "kretek" cigarette, the government was reported to be reluctant to curb cigarette advertising but has raised excise tax on cigarettes with taxes in 2020 set to increase the price of cigarettes by a third. Since mid-2014 regulations require at least 40% of the packaging of a cigarette pack show graphic health warnings. It is reported some of the revenue for cigarette taxes may be allocated to alleviate funding deficits for JKN.

Indonesians are increasingly exposed to health risks from environmental hazards also, including air and water pollution.

State Healthcare

Legislation

Law 24/2011 concerning the Social Security Administrative Body, the BPJS Law, enacted on 25 November 2011, instigated fundamental reform to the public health service and the administration of social insurance.

The statute launched a universal public health scheme, the National Health Insurance Program (Jaminan Kesehatan Nasional/JKN), administered by a reformed public non-profit health body (BPJS Health) and put into effect from 1 January 2014.

This statute fulfilled a formal commitment to provide comprehensive social security in an undertaking enshrined previously in *Law No 40/2004 concerning the Social Security Administrative Body*.

The reform merged a number of health administration bodies serving defined population sub-groups into a single merged entity known as BPJS Health (BPJS Kesehatan) and introduced a national healthcare service on a staged basis between 2014 and 1 January 2019.

Private medical insurance (PMI) is sold by both registered life and non-life insurance companies and is regulated by *Law No 40/2014 on Insurance*. The OJK has issued subsequently a series of regulations (Perutaran OJK/POJK) and circular letters (Surat Edaran/SEOJK) implementing provisions within the 2014 insurance law.

The government department responsible for health is the Ministry of Health (Kementarian Kesehatan Republik Indonesia).

Coverage

JKN promises universal health cover for all Indonesians from 2019. As of August 2019 223.3 million participants were reported to be registered. Under JKN, all Indonesians are eligible for broad-based primary, inpatient and outpatient care subject to a per capita spending limit. Participants are registered with a local public primary healthcare facility from where medical referrals may be made for more serious health issues. JKN accesses both public and private medical facilities.

Public sector facilities cover primary, secondary and tertiary healthcare through community health centres (Puskesmas), sub-health centres, both stationary and mobile, and public hospitals. Cover is nationwide, but health facilities are most concentrated and more comprehensive in urban areas, specifically on the island of Java where more than half the population lives.

Primary healthcare is delivered through community health centres, sub-health centres and village midwife clinics in remoter regions. Most clinics have inpatient facilities and a pharmacy. Health policy mandates local government build one community health centre for every 30,000 inhabitants and one sub-health centre for every 10,000 inhabitants.

Eligibility for secondary care in district hospitals requires a referral from a primary healthcare provider, though this may be bypassed in cases of emergency. District hospitals can refer patients to a provincial hospital if they lack the facilities or medical professionals, or the patient needs tertiary care. At village level, birth delivery services are provided by accredited midwives or by general practising physicians working in community health centres, hospitals or clinics.

Public hospitals providing secondary and tertiary care vary in size and capacity and can be classed into four groups:

- small district hospitals (less than 50 beds with four specialists: internist, obstetric-gynaecologist, surgeon and paediatrician), which provide basic secondary care at district level
- municipality hospitals (50 to 100 beds with more than four specialties), which deliver secondary and tertiary care for a larger district
- provincial hospitals (101 to 400 beds with a variety of specialists), which provide more specialised referral care at provincial level
- regional and national hospitals (401 to 1,500 beds), which are designed to provide top (national) referral care.

Inpatient treatment is graded into first, second and third-class hospitals. Access to each grade is determined by occupation and, for the self-employed, the level of contributions paid.

Overall, Indonesian health infrastructure is deficient in comparison to other countries in the region, with one of the lowest numbers of hospital beds per head of population and chronic shortages of physicians and trained medical staff.

The more affluent are likely to pay doctors employed in the public sector through their private clinic activities to by-pass potential treatment delays.

Expatriates

Under BPJS Health expatriates working in Indonesia for more than six months are obliged to join both BPJS Health and BPJS Employment and make contributions. Indonesian expatriate employees working overseas must also join. Previously expatriates working in Indonesia were not required to join if they were already covered in their home country.

As a consequence employed expatriate workers are covered under JKN but treatment in the public system is relatively infrequent, as most have private medical insurance (PMI) providing access to private medical facilities in Indonesia or overseas (Australia/Singapore).

Health Service Financing

Healthcare spending as a percentage of GDP and public spending as a percentage of total health spending for the latest five years available are shown below.

	2011	2012	2013	2014	2015
Total healthcare spending as % of GDP	3.34	3.38	3.37	3.44	3.35
Public healthcare spending as a % of total healthcare spending	31.17	34.35	37.17	38.59	38.20

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

A breakdown of medical expenditure on a per capita basis is shown below.

	2011	2012	2013	2014	2015
Total expenditure per capita in USD on PPP* basis	295.39	317.99	336.38	362.58	369.29
Growth (%)	3.55	7.65	5.78	7.79	1.85

*Note: * PPP is purchasing power parity.*

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The public health system is funded by central government, together with mandatory contributions from the employed working population and some voluntary contributions from the self-employed working population.

Mandatory JKN contributions are 5% of salary (subject to maximums), split 4% employer and 1% employee for private sector employees and 3% employer and 2% employee for public sector employees. Contributions are payable monthly.

For health benefits, however, the self-employed pay monthly flat-rate BPJS Health contributions according to the quality of the medical facility:

- IDR 25,500 (USD 1.80) per person per month for benefits in third class hospitals
- IDR 42,500 (USD 3) per person per month for benefits in second class hospitals
- IDR 80,000 (USD 5.64) per person per month for benefits in first class hospitals.

At the time this report was in preparation, proposed health contributions were set to increase substantially under a pending presidential decree to plug a ballooning deficit in the JKN scheme. This could increase self-employed contributions above to IDR 42,000 (USD 2.96), IDR 80,000 (USD 5.64) and IDR 120,000 (USD 8.46) per month in the three categories listed according to press news reports. Employer and employee contributions are also expected to rise from 2020.

Contracted medical service providers under JKN are remunerated on a diagnosis-based prospective system for medical services (Indonesia Case Base Groups/INA-CBG). Medical conditions are clustered into groups, for example, asthma and patients suffering from the condition will have their medical care determined by standardised procedures. INA-CBG seeks to avoid under or overtreatment but pays the same rate to both public and private hospitals. It is updated and adjusted on annual basis.

Private Healthcare

Private Healthcare Facilities

Private healthcare facilities have grown rapidly in Indonesia meeting growing demand from an expanding middle class willing to pay for immediate treatment and higher standards than that available in the public sector. Local private hospital and medical service providers include Mayapada Group, Omni Group, Prodia Group, Siloam Hospitals (a subsidiary of the Lippo Group) and Sinar Mas Group.

Lower standards of care in the public sector make the attractions of private health stark in comparison. Those in private care access a more efficient service, avoid potential treatment delays and receive treatment in modern well-equipped facilities with fully qualified medical personnel. Immediate attention to health issues is generally considered a benefit for employers minimising an employee's lost time off work. The private sector also provides more comprehensive acute care.

There were 1,553 private hospitals, reported by the WHO in 2014, most are smaller than public hospitals and about 45% of which are run on a non-profit basis. The distribution of hospitals, particularly private hospitals, is concentrated on the island of Java, home to more than half Indonesia's population.

Affluent locals and expatriates source medical treatment from private and/or international hospitals. Where local treatment is not available patients are usually referred to Singapore or Australia plus some may travel to Malaysia for cosmetic surgery.

There are estimated to be about 50,000 doctors who offer private medical services. Physicians employed in the public sector may work in private clinics after office hours. Nurses and midwives are not officially permitted to do so but in practice they also run private practices (especially in small towns or regencies). The charges in private clinics run by the same physicians working shifts in public facilities are understood to be three to 10 times higher than public sector fees. There is no regulation governing private medical fees in Indonesia and market sources assert huge disparity in fee charging according to circumstance.

Dental services are provided in public and private hospitals, community health centres and private practices based in urban centres. For most of the population this is a low health priority but becoming increasingly relevant for the expanding middle class in urban areas.

Public hospitals may provide private beds following the introduction of a government policy in 1993 to allow public hospitals to provide some better quality, higher priced hospital beds for those willing to pay.

In contrast, private hospitals are obliged to reserve a number of third-class beds for poorer members of society, effectively subsidised by private patients.

Market sources assert that there is no inward medical tourism. Where patients seek to settle private treatment costs through unauthorised medical insurers, it is ultimately the determination of the individual medical establishment as to whether this is acceptable and it is likely to be on a reimbursement basis.

Private Healthcare Costs

There is little published data on private treatment costs. The following provides a limited example based on market source information for the Jakarta region:

- a superior room (per day) costs around IDR 2.5mn (USD 176.26), a suite IDR 3mn (USD 211.52)
- a suite would cost between IDR 2.5mn (USD 176.26) and IDR 4.5mn (USD 317.27)
- the cost of a heart by-pass is estimated at IDR 115mn (USD 8,108) for a stay of 10 days
- the cost of a knee replacement is between IDR 51.5mn (USD 3,631) and IDR 77.95mn (USD 5,496)
- the cost of an appendectomy is estimated at IDR 35mn (USD 2,468)
- cataract surgery IDR 17mn (USD 1,199).

A range of variables may influence treatment pricing including location, class of facility and type of patient.

Medical cost inflation estimated to be running at 10-11% gross according to one health insurance specialist.

Statistics

Healthcare financing for the last five available years is shown below.

	2011	2012	2013	2014	2015
Public healthcare spending as a % of total healthcare spending	31.17	34.35	37.17	38.59	38.20
Private healthcare spending as a % of total healthcare spending	67.75	64.59	61.64	59.66	61.19
External healthcare spending as % of total healthcare spending*	0.87	0.83	0.97	0.93	0.61
Out-of-pocket expenditure as a % of private healthcare spending	55.04	51.88	48.97	47.09	48.30

*Note: * External healthcare spending is development aid and direct foreign transfer.*

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Private Medical Insurance (PMI)

Summary and Trends

PMI is written by a wide range of life and non-life insurers in Indonesia, with life companies accounting for the greater share of market premium (64% in 2017). Most life companies, however, lack the capacity and expertise so typically contract with a third-party administrator (TPA) to provide a medical provider network, electronic payment infrastructure and claims handling.

Demand is underpinned by growing affluence and an expanding middle class in the world's fourth most populous country. Private medical care is valued over public care for providing immediate access to quality care at modern facilities with superior service standards.

Plans are sold on both an individual and group basis, but it is group business that dominates. PMI is the leading product line for brokers active in the corporate employee benefits market, with organic growth supplemented by foreign direct investment and the gradual shift from self-insured to insured arrangements among large domestic corporates. It is estimated the greater part of the market remains self-insured with insurers and specialists providing third-party administration services for the segment. Lower penetration rates in the mid-market small to medium size (SME) market is also considered to have potential.

The roll-out of JKN, however, has had a material impact on the group PMI market forcing higher social insurance contributions on employers and bringing overlapping benefits between public and private cover. Public health reform has mostly ended blue collar cover corporate-sponsored PMI, with JKN alone considered adequate for this group, and made it exclusively a white collar benefit covering middle management and above. The problem for employers, however, is said to be that they are now paying more for a worse overall standard of health cover.

Benefit overlap between public and private cover has caused confusion in the market as to which party pays what. Insurers responded by establishing coordination of benefits (CoB) agreements to coordinate claims payment responsibilities with BPJS Health. Under such agreements JKN meets costs up to a per-capita limit, while PMI covers the excess. The first claims payer, however, is the insurer under the PMI policy, which then seeks reimbursement from BPJS Health. It is said not all insurers get reimbursed, with some not even bothering to reclaim on account of the time-consuming bureaucracy involved in dealings with BPJS.

Expansion on the supply side capacity has seen new insurers enter the market amid anecdotal accounts of aggressive pricing and margin pressures. Losses are said to have been made in some instances, with a non-life loss ratio of 83.4% in 2017.

PA and health market premium of IDR 14.3trn (USD 1.01bn) was reported in 2017, a 10.9% increase over the previous year. With an estimate of medical cost inflation running between 10-11% gross, the market is "probably not growing" in the opinion of one.

The market receives limited government support through the tax system. Personal PMI premiums are not tax deductible and employer-paid premiums are taxed on employees.

Legislation

Law 24/2011 concerning the Social Security Administrative Body, the BPJS Law, enacted on 25 November 2011, instigated fundamental reform to the public health service and the administration of social insurance.

The statute launched a universal public health scheme, the National Health Insurance Program (Jaminan Kesehatan Nasional/JKN), administered by a reformed public non-profit health body (BPJS Health) and effective from 1 January 2014.

This statute fulfilled a formal commitment to provide comprehensive social security in an undertaking enshrined previously in *Law No 40/2004 concerning the Social Security Administrative Body*.

The reform merged a number of health administration bodies serving defined population sub-groups into a single merged entity known as BPJS Health (BPJS Kesehatan) and introduced a national healthcare service on a staged basis between 2014 and 1 January 2019.

Private medical insurance (PMI) is sold by both registered life and non-life insurance companies and is regulated by *Law No 40/2014 on Insurance*. The OJK has issued subsequently a series of regulations (Perutaran OJK/POJK) and circular letters (Surat Edaran/SEOJK) implementing provisions within the 2014 insurance law.

Healthcare Insurance Supervisory Authority

The OJK is the supervisory authority responsible for health insurance.

The Supervisor of Insurance, Pension Funds, Financing Institutions and other Financial Institutions is the department within the OJK responsible for the supervision of insurance and insurance-related businesses covering life, non-life and reinsurance activities.

Authorised health insurers are liable for an annual OJK levy of 0.045% of assets subject to a minimum of IDR 10mn (USD 705.06). The levy is payable quarterly.

Taxation

Employer contributions for qualifying accident and medical benefit schemes are tax deductible for the employer where the contributions are treated as part of the taxable income of the employee. The employer contribution to healthcare insurance for married employees is subject to a maximum.

Benefits are not taxable.

There is no premium tax relief on individual PMI and benefits are not taxed.

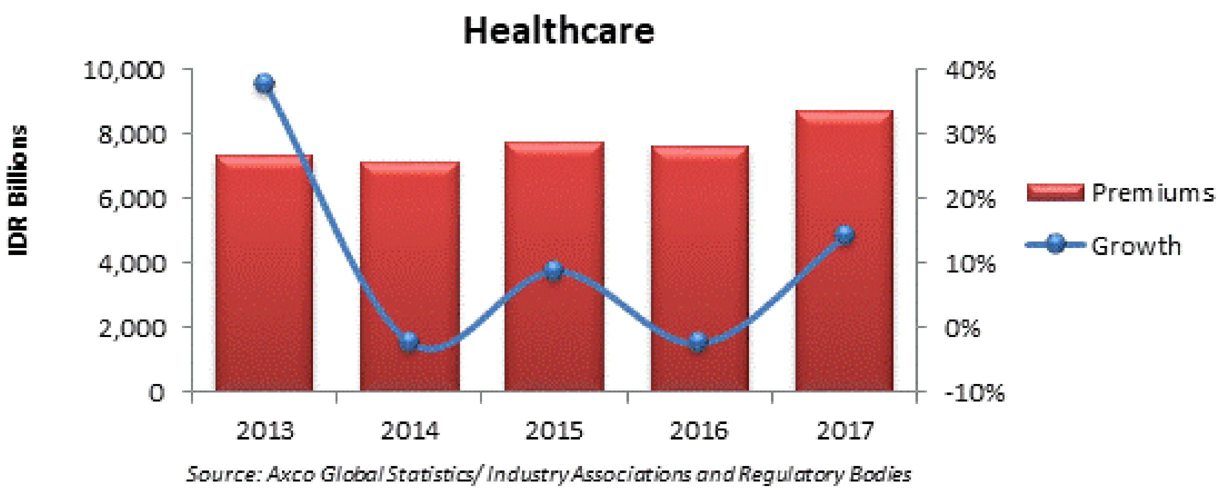
Expatriates

Employed expatriates typically have comprehensive cover included within their remuneration packages arranged at a regional or global level by their employer. As such they typically receive full reimbursement in the event of hospitalisation and medical expenses incurred.

Individual expatriates without cover can purchase PMI through a registered provider in Indonesia or from an international PMI provider. International PMI cover from leading providers is generally recognised by medical institutions.

Statistics

Gross written premiums for the last available five years are shown below.



The introduction of universal health cover under JKN from 2014 initially depressed growth in the PMI market but the market has since adjusted and growth is again picking up.

PMI Providers

Life and non-life insurance companies are the only licensed PMI providers in Indonesia. Non-life insurers are understood to have the advantage of not having to reserve their health business.

General PMI Coverage

General PMI cover falls into four general categories:

- inpatient treatment
- outpatient treatment
- dental cover
- maternity care.

Inpatient benefits include hospitalisation expenses: room and board, general hospital expenses, surgical fees, doctors' visits and specialist consultation fees.

Outpatient benefits include doctors' consultations in a hospital or clinic. A maximum limit for any one disease may be imposed by insurers, for example, 15 visits to the doctor, and a maximum per annum of, for example, 30 consultations, or in the case of group cover an overall annual monetary limit may be imposed. Standard outpatient treatment is subject to an annual deductible. Such cover is not often taken up by individuals.

Dental treatment is an optional benefit, but not usually available under group cover. It covers dental treatment for extracting, filling and scaling. The benefit also varies according to the requirement of the insured and is most often determined on premium cost. Maternity benefit is also an optional benefit, subject to a waiting period and a limit per confinement.

Vision care is made available as an optional benefit on comprehensive plans while prescription drugs may be an optional outpatient benefit subject to a maximum benefit.

Other notable exclusions may include self-inflicted injury, elective surgery, injury sustained from dangerous sports and contraception.

Territorial limits may not be specified but cover would be unlikely to extend to medical treatment outside Indonesia. Some insurers, in particular non-life companies, offer major medical cover with increased international cover, but the premiums are much higher and taken up on an elective basis.

Most plans exclude pre-existing conditions occurring one year prior, and one year after, cover commences.

Group PMI

Most life insurance companies are active in this highly competitive growth market, typically contracting with a TPA to provide an immediate service network, IT infrastructure, administration and claims handling. Market reporting does not split individual and group PMI premium, but does show the split in covered lives. On this basis, group accounted for 84% of lives covered under conventional PMI by life insurers in 2017. A small amount is also written on a sharia basis.

While the introduction of JKN has had a material impact on the market, the long-term growth prospects remain bright underpinned by relatively rapid economic growth in the world's fourth largest country by population, growing employee awareness and a gradual trend away from traditional self-insurance to insured solutions. PMI cover is highly valued by employees and penetration is highest among international and larger domestic companies. This diminishes in the mid-market and SME sectors although is more likely to be offered where there is competition for staff.

Employees in less than perfect health can benefit from group underwriting terms to access levels of cover likely to be more expensive on an individual basis. Cover quality varies between across the market but senior executives at leading domestic and multinational companies can expect fully comprehensive cover that may extend to dependants as well. In terms of limits and deductibles, this may exceed those realistically attainable on an individual basis.

The introduction of JKN forced a reappraisal of health benefits by employers as their social insurance contributions increased to pay for it and an overlap between public and private health cover benefits emerged. JKN also ended the health contribution opt-out previously available to employers providing PMI cover that at least matched that provided under Jamsostek, the previous social insurance scheme for private sector employees. Benefit overlap has been addressed for the most part by coordination of benefits (CoB) agreements between health insurers and BPJS to coordinate claims payment responsibilities. JKN meets costs up to a per-capita limit, while PMI covers the excess. While this has helped teething issues are said to remain with insurers often frustrated by the bureaucratic workings of BPJS.

While there was an initial fall in group PMI renewals, essentially lower level employees, on implementation of JKN some returned for reasons of service quality and staff attraction and retention. Essentially JKN is considered a blue collar service and for those of limited means and white-collar workers won't use it.

Group PMI plans are mostly established to cover all employees, with the employer bearing the full cost. Dependants are often included on self-insured plans but this is less prevalent on insured plans, and the additional premium is likely to be paid by the employee. Benefits may be linked to hierarchy, particularly among domestic companies, with breadth of benefit and cover limits higher for senior management. Insurers tend to structure their plans on a modular basis building benefits from basic inpatient cover with a relatively modest cover limit and add to it via higher limits and broader benefits on a modular basis. Domestic policies are typically denominated in IDR but USD is an option also.

Insurers seek to provide directly or via a TPA a service that brings guaranteed and cashless access to medical facilities within their networks through a medical card system, whereas treatment at non-provider hospitals and clinics is on a reimbursement basis plus providers may add a coinsurance requirement for such claims, with one adding 20%, for example. Outpatient treatment is typically on a reimbursement basis and deductibles may apply. Mostly, however, there are said to be no co-pays or deductibles in the group market. "Very few want deductible cover" comments one market professional. Insurers are wary of abuse of outpatient benefits and typically apply limits. A demand for vitamin supplements is cited and maternity benefits are renowned for being loss-making.

Base group PMI provides inpatient cover only with more comprehensive plans extending to outpatient, maternity, dental and vision cover in addition. Alternatively, outpatient benefits may be self-insured. Cover is subject to sub-limits such as restrictions on hospital grade and room and board in a hospital.

Managed care is not developed by any insurer but state-owned market leading provider Mandiri Inhealth has the largest network of care providers. Some TPAs have developed substantial national networks also.

Individual PMI

Individual PMI is much the smaller market, accounting for 964,527 of the six million covered lives in 2017, amounting to 16%. In the conventional market, AXA Mandiri was clear market leader and CIGNA is also a major player. Together these two accounted for almost three-quarters of lives covered under conventional PMI in 2017. A small amount of PMI is written in the sharia market with BNI Life and Allianz leading providers in 2017.

A minority of the domestic population is able to afford PMI but that group is steadily increasing as demand for expatriate cover has waned. One multinational medical insurer active in the market comments Indonesians now account for over half their individual book up from a quarter a decade ago.

A standard life company medical policy may be issued on a stand-alone basis or as a rider to a life insurance policy. Accidental death benefit is included in a stand-alone policy to ensure its legitimate classification as a life insurance policy. Most policies are denominated in IDR but USD is available also. Non-life insurers also write individual business and there are a number of specialist domestic and multinational medical insurers among them.

Medical cover through life companies is less comprehensive than that available through either comprehensive group PMI schemes or specialist non-life health insurance companies. Benefits extend to a daily cash reimbursement for inpatient treatment, which may include hospitalisation for overseas accidents.

Policy terms typically include sub-limits for room and board, physicians' and surgical fees, general hospital expenses (drugs, X-ray, laboratory tests, physical therapy, and use of operating theatre and emergency treatment), emergency treatment and ambulance. Most plans include international emergency evacuation.

Basic hospital cash benefits meet demand for cost-effective cover for insuring the most urgent medical eventualities without delay. Settlement for standard insured medical benefits is made on a cashless basis via a medical card issued to policyholders.

Some limited outpatient benefit may be included relating to the initial need for hospitalisation. A few life companies offer a more comprehensive product where a basic inpatient health cover can be complemented with outpatient, maternity, dental and daily cash benefit riders.

Cover may be available from birth to age 55 or 60 and can include family dependants. Daily allowances may be subject to a maximum number of days claim per annum.

Individual PMI is distributed by life companies principally through the agency and bancassurance channels.

PMI Group Rating

Group PMI price rates are set free of regulatory constraint and new group schemes, regardless of size, are usually priced initially using tabular group rates.

Existing small groups with membership from five to 50 have tabular age grouped rates applied to them and discounts can apply on renewal where claims experience has been favourable. Alternatively, groups may be community rated up to 100 members. Larger schemes with relevant history will be experience rated. Where incomplete history is available insurers will price according to their assessment of risk and scheme quality.

Underwriting criteria for groups take account of the following factors:

- gender profile
- age profile
- status (position and occupation)
- benefits
- location of insured's business
- claims and insurance history.

Exclusions for pre-existing condition exclusions are often waived for groups of 100 or more employees. Alternatively cover may be restricted to exclude pre-existing conditions that were evident one year before and after cover commences.

Considerable variation in cover, competitive tendering and individual tailoring of group plans mitigates against providing an average price for group health.

PMI Individual Rating

Life insurance companies set health insurance premium rates according to competitive market forces and actuarial judgement free of regulatory constraint.

Rates differ by gender and increase with age, and loading may be applied through standard underwriting procedures. Medical cost inflation and increasing usage continue to put upward pressure on pricing but rates are contained through benefit ceilings and no claim bonus incentives.

Indicative premium rates for a single life (male and female) aged 40 range under one health insurance plan from IDR 2,552,000 (USD 179.93) for the most basic cover to IDR 8,041,000 (USD 566.93) for the most comprehensive.

Normal age limits are 15 days to 55 years with covers renewable up to age 65 subject to a declaration of good health.

Managed Healthcare

Market professionals assert that managed care practice, to control medical service costs, hardly exists in Indonesia among health insurers. Insurers may try to establish fee schedules with medical service providers but have modest influence over hospital charging and there appears little restraint among physicians in private practice.

Insurers seek, usually via a third-party administrator (TPA), to establish nationwide provider networks, principally for inpatient services in private and state hospitals. PMI policyholders are issued with medical cards denoting membership and recognised by network healthcare providers. Claims are subject to thresholds above which pre-authorisation is required. Treatment at non-network hospitals and clinics is generally permitted but payment will be on a reimbursement basis.

The leading provider network is acknowledged to be that offered by the insurance company PT Asuransi Jiwa Inhealth Indonesia (Mandiri Inhealth), originally registered in 2009 as former state-owned social health insurance administration body, PT Askes (Persero).

Mandiri InHealth published a network of more than 7,124 providers across the country in 2018. These include 963 hospitals, 146 community health centres (Puskesmas), almost 1,616 general practitioners, over 1,847 pharmacies and 977 clinics. Network providers also extend to dentists and opticians.

InHealth was bought and rebranded Mandiri Inhealth by leading state-owned bank, Bank Mandiri, in 2014. Bank Mandiri is the majority owner with minority shareholdings of 10% each owned by the state-owned pharmaceutical company, PT Kimia Farma Tbk and the state-owned non-life insurance company, PT Asuransi Jasa Indonesia.

Other market participants typically rely on TPAs for claims administration and payment services with PT Administrasi Medika (AdMedika) a leading name. It provides TPA services to a range of life insurance companies and claims a national network of 4,200 providers. The company was bought by the IT company PT Multimedia Nusantara (METRA) in 2010, itself a subsidiary business of state-controlled PT Telekomunikasi Indonesia Tbk (Telkom).

PT GESA Asistance (GESA), PT Global Asistensi Manajemen Indonesia (GAMI) and PT International Services Pacific Cross are developing presences in the TPA market also providing plan and claims services to insurance companies and self-administered health insurance plans.

GESA (trading as Medilum) and GAMI were bought by leading international insurance broker, PT Jardine Lloyd Thompson, in May 2013. Both were sold subsequently to a subsidiary of Singapore-domiciled Fullerton Health in May 2016 and February 2015 respectively. Another TPA cited in the market is Safe Meridian.

In addition leading life companies are increasingly looking to digital innovation to lower claim costs with the fast-growing Indonesian health-tech platform Halodoc emerging as the favoured partner for Allianz, Aviva, Prudential and Cigna. Halodoc operates tele-consultations and tele-medicines services. Users can access medical professionals remotely and arrange the order and delivery of drugs. Such services are of great value in providing both access and speed of service a country where healthcare is sparse in remote regions and there is considerable congestion in urban areas.

PMI Claims Experience

Usage behaviour and high medical cost inflation mean attentive claims control is essential to maintain a profitable book. Over consumption is said to be an issue.

One market professional comments that policy conditions state medical treatment must be 'reasonable and customary' but what this means in practice varies widely across the country. One incident saw a patient undergo full medical surgery in one part of the country, whereas the condition would have been treated less invasively in Jakarta. Insurers engage qualified medical professionals to assess claims with pre-authorisation required for elective surgeries.

Health professionals also point to the high operating costs in Indonesia weighing on their margins. One comments that with operating expenses at 10-15% and commission a further 15% plus tax you need a loss ratio of between 65% and 70% to make it work.

The group market is highly competitive and generally offers slim margins and greater risk of loss than individual business. Underwritten often on limited underwriting information with pricing influenced as much by the pressure on some insurers for top line growth as from conventional rating. Group underwriting terms and the waiving of the exclusion on pre-existing conditions are standard incentives on tendering for larger schemes. Such competitive demands increase risk exposure and insurers are vigilant to any subsequent claims deterioration and quick to respond at or prior to renewal where this occurs.

As awareness and understanding of the insurance concept grows, people become more "savvy" in how to play the system, says one experienced health professional. Fraudulent claims are a minor incidental in the market but are increasing, with some policyholders having more than one PMI policy and/or cash benefit policy and claiming more than once for the same medical service. Sometimes medical professionals are said to be complicit in the fraud admitting patients to hospital for fairly minor conditions such as flu and diarrhoea.

Loss ratios for life insurers are not officially reported but have increased in recent years for non-life insurers reflecting intensifying market pricing pressures, as more providers, particularly non-life, have entered the market, leading to losses for some insurers.

Individual PMI is much the smaller market in terms of covered lives but generally represents less provider claims risk on account of individual underwriting and the nature of applicants themselves being generally more affluent and educated professionals, either Indonesians or expatriates. Claims, when they do occur, however, can be more expensive for major inpatient treatment such as cancer or coronary heart disease.

Major Insurers

The leading private medical insurers and their market shares are shown below.

Company	Market share 2017 (%)
PT Asuransi Jiwa Inhealth Indonesia	19.23
PT AXA Mandiri Financial Services	12.97
PT BNI Life Insurance	9.09
PT Asuransi Allianz Life Indonesia	8.05
PT Asuransi CIGNA	6.99

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Reinsurance

Official statistics do not report on the level of reinsured PMI premium.

Market sources assert health reinsurance is usually ceded on a quota share basis with retentions of up to 40%. Major medical covers may be up to 95% ceded to reinsurers.

Conventional and sharia insurers must reinsure 100% of "simple" life and health risks in the domestic reinsurance market from 1 January 2016.

Distribution

Insurance brokers and employee benefit consultants are the main distribution channels for group PMI. Some insurance companies may also retain specialist corporate sales staff.

Individual PMI is distributed through tied or independent agents and via telesales through the bancassurance channel. In the life market it is often sold as a life policy rider.

Commission

Commission rates are determined by the market and subject to variation between insurers, but standard terms are understood to be follows:

- group health insurance - 10% to 15% of premium per annum
- individual health insurance - 15% to 20% of premium per annum.

Long-Term Care Insurance

Summary and Trends

Long-term care insurance is not sold in Indonesia.

Other Healthcare Products

Hospital Cash Benefit Plans

Hospital cash plans are widely available from life companies in Indonesia meeting a market need for a cheaper alternative to conventional PMI. Plan benefit is a daily cash payment to contribute to inpatient expenses. Payment may be doubled for treatment in an Intensive Care Unit (ICU). Benefit is typically capped at a maximum number of inpatient days per treatment.

Plans may be free-standing or included as an optional rider benefit to a life policy and are available on both an individual and group basis. One plan in the market provides daily cash benefit limits ranging between IDR 100,000 (USD 7.05) and IDR 2,000,000 (USD 141.01) per day.

Critical Illness Insurance

Critical illness insurance is a complex product not widely understood in the market. It is sold, however, predominantly on an individual basis as an accelerated rider benefit to a life policy. Accelerated life contracts may pay 50% of the sum assured on diagnosis of a qualifying critical illness and 50% on death.

The cost of group CI, where offered, is considered prohibitive by most employers and rarely taken up.

Critical Illness pays a lump sum benefit on diagnosis of a covered condition as defined in the policy. Covered conditions and their definitions are subject to market forces and vary between insurers but the core conditions listed below are common to all:

- heart attack and related heart disease
- stroke
- cancer
- kidney failure
- transplantation of major organs.

The granting of cover is always subject to there being no previous medical history of the covered conditions.

Regulatory reporting does not itemise market premium for critical illness, but it is understood to be small.

Medical Evacuation Insurance

Comprehensive PMI from leading domestic and foreign insurers includes cover for emergency medical evacuation expenses, typically to Singapore or Australia.

Evacuation cover may be extended also under comprehensive travel cover and generally includes benefits to cover emergency hospital treatment and return travel, which is likely to include the cost of a companion also, with both subject to benefit maximums.

State Pensions

A full account of state pension provision may be found in the Social Security section of this report.

Mandatory and/or Company Pensions

Summary and Trends

Indonesia has an undeveloped pensions market where corporate provision outside international employers and large domestic companies remains relatively rare. Employer-sponsored pensions are established on a voluntary basis and subject to regulatory approval.

The Financial Services Authority (Otoritas Jasa Keuangan/OJK) reported voluntary supplementary private pensions membership of 4.635 million in 2018, a 4% increase over the year before. The eligible working population is approximately 70 million, making for a penetration rate of around 6.6%. Two-thirds of the total are accounted for by Financial Institution Pension Fund/FIPF (Dana Pensiun Lembaga Keuangan/DPLK), which are defined contribution plans. Geographically the great majority of funds are for entities based in Jakarta or west Java.

There is some government support for pillar II provision through the tax system but union influence is less pronounced. Market development, however, remains slow and uneven with the number of registered pension funds contracting by more than a quarter since the early 2000s, from 321 registered pension funds in 2004, to 227 as of June 2019.

Principally this is accounted for by the demise of defined benefit (DB) provision since 2002 with most funds now closed, though they still make up over 70% of total registered funds. Registered occupational defined contribution (DC) schemes, account for the balance, with the number of registered funds more stable.

The launch of the new social insurance scheme from 1 July 2015 has helped bring clarity to the market and increase awareness of pensions. The enhanced state retirement benefits and the increasing contribution rates forced on employers to pay for them, has discouraged an already modest private market for employer-sponsored pensions. In addition, there is no opt out from social insurance contributions for employers already offering supplementary private provision.

Long-term, the prospects can be expected to be bright for the sector, as growing affluence expands the consumer class and awareness and acceptance of pensions gradually takes hold. This, however, remains some distance away with a relatively young demographic profile giving Indonesia a little more time than some of its Asian neighbours.

The principal statute governing private pensions is *Law No 11/1992 Concerning Pension Funds.* This established the two types of pension plan described below.

Employer Pension Funds/EPFs (Dana Pensiun Pemberi Kerja/DPPK) are either DB or DC occupational pensions, with the majority (162 as of June 2019) being DB. They are designed for large employers and are more likely to be self-administered with investment management outsourced by mandate. The employees of more than one employer may be included provided all have access to equal benefits.

The second type of pension plan is the Financial Institution Pension Fund/FIPF (Dana Pensiun Lembaga Keuangan/DPLK). These are DC plans, administered by approved life insurers and banks. FIPFs are designed for the small and medium-sized (SME) group and individual pension markets. There were 24 registered FIPFs as at June 2019 of which the majority are life insurance companies. Multinational insurers Manulife and AIA are leading FIPF distributors.

FIPF membership has risen 43% in the five years to 2018, DC EPF membership has increased also while DB EPF membership has contracted by 7%.

A niche FIPF market has developed to pre-fund employee's termination indemnity entitlement (severance), which can amount to a significant liability for employer's with large workforces. There is understood to be strong demand for the Pension Plan for Severance Compensation (Product Pensiun Untuk Kompensasi Pesangon/PPUKP) product among employers as the pooled fund allows them to retain control of the underlying assets.

Expatriates working for foreign multinational companies typically accrue pension benefits through globalised arrangement on a non-admitted basis. Pension cover for locally employed expatriates may be included in local staff plans or arranged on an individual basis.

Indonesian financial accounting standards concerning pensions were revised to comply with the adoption of International Financial Reporting Standards (IFRS) accounting standards from 1 January 2012.

Legislation

The Indonesian social insurance scheme provides a basic pension benefit for formal sector employees plus the self-employed may join on a voluntary basis. Supplementary pensions may be provided in addition, but the market is underdeveloped and penetration is low.

Law No 11/1992 as amended is the governing statute regulating private pensions. This established two distinct pension structures for corporate-sponsored pension schemes: Employer Pension Funds/EPFs - (Dana Pensiun Pemberi Kerja - DPPK) and Financial Institution Pension Funds/FIPFs - (Dana Pensiun Lembaga Keuangan - DPLK). FIPF may also be a personal pension.

The law has been amended on numerous occasions in areas including corporate governance, solvency, investment, professional standards, sharia, reporting and registration.

The main statute is supplemented by OJK regulations (Perutaran OJK/POJK) and circular letters (Surat Edaran/SEOJK).

An EPF is established by a founding employer affidavit and the setting up of a separate legal entity together with the appointment of trustees, a board of supervisors and the payment of a deposit.

Under *Law No 11/1992* trustee members can be appointed by the employer but supervisory boards must comprise equal representation between company and membership. Supervisory boards are responsible for overseeing the management of pension fund investments and providing an annual report on them to the sponsoring employer. Pension fund assets must be invested in accordance with the investment policy of the sponsoring employer and the laws relating to pension funds.

Pension fund rules are established by the employer. Large DB schemes are more likely to be self-administered with investment management outsourced by mandate. Employers are subject to EPF regulation supervised by the OJK.

A FIPF is a pooled trust fund and may be a DB or DC plan. It is founded and administered by an approved financial institution and this could be the employer's fund manager, a bank or a life insurance company. Legal responsibility lies with the financial institution, with the majority being life insurance companies.

Group FIPFs must set up a supervisory board comprising equal numbers of employer and employee representatives appointed by the scheme's founder. In addition, they must have an administrator, custodian, auditor and actuary (if a DB plan). Standard life company DC FIPF plans offer a choice of risk graded investment funds from low (money market) to high (equities). Independent investment managers are not a mandatory requirement but are provided for under the regulations.

FIPFs can also be set up on an individual basis as a personal pension plan. Individual policyholders may be employed or self-employed.

The OJK regulation *POJK No 33/POJK.05/2016,* established a regulatory framework for the development of sharia pensions in this dominant Muslim country.

Sharia pensions are subject to the governing 1992 pensions act with the OJK responsible for licensing and supervision. The National Sharia Board of the Indonesian Ulama Council is responsible for compliance with sharia law.

Membership of the social insurance retirement benefit schemes ((Retirement Security Program/Program Jaminan Pensiun and Old Age Security Program/Program Jaminan Hari Tua) for private sector employees is mandatory for qualifying employers. There is no opt-out where an employer has put in place a private employee pension scheme.

Historical Development

Corporate sponsored pensions first emerged in the early 1970s when some employers registered their pension funds with the Minister of Finance. Income tax legislation subsequently began to recognise registered pension funds and support them with tax concessions. Contributions to such funds became tax deductible and some investment income became tax exempt.

Formal private sector workers have participated in state-sponsored social insurance schemes since 1977. The initial scheme, run by state-owned PT Astek, funded endowment insurance policies generating a lump sum retirement benefit. This basic life insurance structure was amended by legislation in 1992 (*Law No 3/1992*), which established a defined contribution (DC) provident fund structure, financed by mandatory contributions on private sector employers and employees and administered by a reformed state-owned for-profit administrative social security enterprise, PT Jamsostek (Persero).

Jamsostek provided retirement benefits to private sector employees and to voluntary contributors among the self-employed. It was restructured from 1 July 2015 to become a non-profit public administrative body, BPJS Employment (BPJS Ketenagakerjaan). This reform also added a second defined benefit (DB) pension (Jaminan Pensiun/JP) to the existing DC provident fund (Jaminan Hari Tua/JHT). Compulsory contributions for both retirement programs continue for private sector employers and employees. The self-employed may also contribute to the provident fund (JHT) only on a voluntary basis.

Private pension legislation was also enacted in 1992 *(Law No 11/1992)* for voluntary supplementary Pillar II and III provision. The act established the Employer Pension Fund (EPF) and Financial Institution Pension Fund (FIPF) pension fund structures as legal entities. The majority of registered schemes are EPFs, either DC or DB and are designed to meet the requirements of large employers. DB schemes accounted for 71% of registered funds as at June 2019 and their gradual decline is the main cause of contraction in the pension scheme population.

FIPFs are targeted at SMEs and individuals and opened the door for banks and life insurance companies to sell pension plans, as both types of financial institution may be licensed to administer and manage FIPF funds. FIPFs are accessible to both employed and self-employed workers. Over half of the 24 FIPF licensee, are life insurance companies.

Overall, the Indonesian pensions market remains in its infancy but can be expected to have a big future as the country and its capital markets continue to develop. Presently, however, social insurance reform, with the addition of a second mandatory scheme and the additional cost it imposes on employers and employees, has served to crowd out supplementary private provision. Fresh impetus and encouragement for private provision remains a distant prospect.

Statistics

The following table shows total pension assets (IDR mn) for the last available five years.

	2013	2014	2015	2016	2017
EPF	133,060,000.00	153,500,000.00	158,530,000.00	170,570,000.00	185,470,000.00
FIPF	29,390,000.00	39,400,000.00	47,980,000.00	63,900,000.00	75,360,000.00
Total (IDR mn)	**162,450,000.00**	**192,900,000.00**	**206,510,000.00**	**234,470,000.00**	**260,830,000.00**
Growth (%)	2.58	18.74	7.06	13.54	11.24

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Membership figures for the last available five years were as follows:

	2014	2015	2016	2017	2018
EPF	1,446,009	1,441,365	1,433,103	1,400,095	1,395,307
FIPF	2,479,435	2,748,162	2,961,942	3,055,617	3,239,767
Total (IDR mn)	**3,925,444**	**4,189,527**	**4,395,045**	**4,455,712**	**4,635,074**
Growth (%)	8.03	6.73	4.91	1.38	4.03

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

There were 227 pension funds reported as of June 2019. The total comprised 203 EPFs (162 DB and 41 DC) and 24 FIPFs. The addition of a regulatory framework for sharia pensions in 2016 has since encouraged activity in the segment with assets of IDR 3,388bn (USD 238.87mn) reported in 2018, a 161% increase over the previous year's total.

FIPFs are administered by life insurance company and bank licensees and while they account for the lesser part of pension assets, membership is growing more quickly.

Taxation

Employer contributions to an approved private pension plan are deductible against corporate income tax and not treated as a taxable benefit on employees.

Employee contributions to approved private pension plans are deductible against personal income tax up to a ceiling of the lesser of 5% of gross income and IDR 2.4mn (USD 169.21) per annum. In addition, there is a combined employer/employee contribution ceiling of 20% of annual income with no limit on salary or income.

Income from approved pension schemes is subject to concessional rates of tax amended in 2009. Pension annuities are tax free on the first IDR 50mn (USD 3,525) of income and taxed at a flat 5% on any excess. Income is paid net of income tax on pensions, old age security savings and severance payments.

There are distinct tax regimes for EPF or FIPF pension income. Under a FIPF the fund is taxed in full when members vest benefits and before the proceeds are compulsorily invested in a retirement annuity. Funds under IDR 50mn (USD 3,525) can be taken as cash. With an EPF, tax is payable on any cash commutation (maximum 20%) plus residual pension income is taxed on a pay-as-you-earn (PAYE) basis.

During accumulation, Indonesian fixed deposits, Indonesian-listed fixed interest securities and stocks listed on the Indonesia Stock Exchange (ISX) are exempt from tax.

Pension Fund Investments

The following table shows the pension fund investments in 2018.

Type of investment	Amount invested 2018 (IDR mn)	Returns (%)
Time deposit	68,308,470.49	n/a
Government bonds	59,296,751.79	n/a
Bonds	55,290,554.05	n/a
Shares	30,600,944.56	n/a
Mutual funds	16,883,797.57	n/a
Land and building	13,608,255.13	n/a
Direct placement in shares	9,373,127.68	n/a
Islamic bonds	3,335,332.65	n/a
Certificate of deposits	1,494,954.25	n/a
Deposit on call	1,059,550.23	n/a
Other	1,692,243.23	n/a
Total investment	**260,943,981.62**	**7.49**

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

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Pension fund investment in Indonesia is renowned for being conservative with the majority of funds invested in term deposits and fixed interest securities.

Pension Market Structure

The Indonesian pension market comprises both public and private provision.

Public and private sector employees are eligible for retirement benefits under the reformed National Social Security System administered by BPJS Employment (BPJS Ketenagakerjaan) from 1 July 2015. This added a DB plan, the Retirement Security Program (Jaminan Pensiun) to the existing DC Old Age Security Program (Jaminan Hari Tua). Employee cover under this social insurance is mandatory, and the self-employed and informal sector workers may be covered also on a voluntary basis.

Employees are entitled also to lump sum benefit payments on termination of employment (severance), linked to wages and length of service.

Separate retirement benefit schemes continue for the civil service (PT Taspen) and the military (PT Asabri). These are scheduled to be consolidated into BPJS Employment by 2029.

In addition, Pillar II employer-sponsored supplementary private provision may be established on a voluntary basis. Pillar II provision is accounted for by Employer Pension Funds (DB or DC-based), suited for large employers, and DC-based financial institution pension funds (FIPFs) for smaller groups and individuals, sold through licensed banks and life insurance companies.

Penetration for private supplementary provision is low, at around 6.6% of an eligible working population.

There are no industry association funds though EPFs can be administered on a multi-employer basis, provided all have access to equal benefits.

EPF schemes are mainly self-administered with charges incurred for contracted outsourced services, such as actuarial consultancy and investment management.

Bank and life insurance company FIPF providers charge a mix of initial and annual fees on FIPF group and individual policies.

Membership

Membership of a corporate-sponsored pillar II supplementary pension plan may be compulsory or voluntary as determined by individual scheme rules.

Under a FIPF the normal retirement age would be set at a minimum of 45 with compulsory retirement at 55 for both men and women.

For EPF the normal retirement age for both men and women was set by a ministerial manpower decree at 55, with compulsory retirement at 60.

Employers typically reference the retirement age under the social insurance programs when setting or reviewing normal retirement age. Under the social insurance retirement programs, the normal retirement age is increasing gradually rising to 57 from 2019 and will continue to rise by a further year every three years to reach 65 by 2043.

All employees over age 18 would be covered after at least three months' service.

Scheme founders must identify the eligibility of categories of workers and there can be no discrimination. Once a member has joined, membership must continue for as long as they belong to an eligible category of worker. If this ends the member cannot withdraw benefits or related funds until 10 years before normal retirement age.

Personal contributions and FIPF contributions vest immediately. Employer contributions vest from three years participation under an EPF.

Employees must be granted permission to retire up to 10 years prior to normal retirement age in both an EPF and a FIPF. In addition, an early retirement provision where a member becomes permanently and totally disabled, may be written into either an EPF or a FIPF. Again, benefits cannot be taken more than 10 years prior to normal retirement age. Employees leaving service with FIPF benefits, however, may then amend the retirement age under what then becomes an individual plan to as early as age 40.

DC EPF and FIPF plan benefits are based on the accumulated fund from employer and employee contributions plus investment earnings.

For a DB EPF plan, the early retirement benefit must provide for an annuity equal to the accrued normal retirement benefit, actuarially reduced according to age.

Benefit Basis

DB plan benefit is based on a maximum member pension of 80% of final pensionable salary. In most instances the actual benefit is between 50% and 60% of final pensionable salary. Pension increases are subject to individual scheme rules.

DC plan benefit is the accumulated fund value at retirement. Pension annuities purchased at retirement are subject to the relevant terms and conditions under the selected annuity.

Scheme rules may distinguish benefit levels according to seniority, with executives eligible for higher benefits.

Overall, corporate pension provision is rare and most prevalent among multinational employers, which are renowned for providing comprehensive and generous employee benefits.

The dominant trend among existing schemes remains gradual DB scheme decline offset by steady growth in both EPF and FIPF DC plans, accounting for an increasing proportion of membership and assets.

The table below shows total EPF and FIPF plan numbers by benefit basis as at June 2019, with 2010 for comparison.

Plan type	Number of plans (Jun 2019)	% of Total Plans (Jun 2019)	% of Total Plans (Dec 2010)
EPF - DB	162	71	76
EPF - DC	41	18	15
FIPF	24	11	9
Total	**227**	**100**	**100**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Benefit Calculation

Under a DB EPF (pension formula) normal retirement benefits are calculated as a percentage accrual rate (up to a maximum of 2.5%) multiplied by the number of years of service multiplied by the employee's final pensionable salary. The maximum pension is 80% of the employee's final pensionable salary but in most cases it will be between 50% and 60%.

Similarly, under the DB EPF (lump sum formula), normal retirement benefits are calculated as a percentage of the accrual rate (subject to a maximum of 2.5%) multiplied by the number of years of service times the employee's monthly final pensionable salary. Maximum lump sum benefit value is 80 times the employee's monthly final pensionable salary.

EPF DC and FIPF DC benefit is determined from the accumulated fund balance at retirement.

Accumulated funds at retirement in either a DB or DC plan of IDR 500mn (USD 35,253) or less can be paid as a cash lump sum. Where a pension of less than IDR 1.5mn (USD 105.76) per month is payable from a DB plan a 100% cash lump sum may also be paid.

Where DC funds exceed this amount a further 20% can be taken as a lump sum benefit, but the 80% balance must buy an annuity and the annuity must include provision for survivor benefits.

Supply of pension annuities is very limited and marketed mainly by a single domestic life insurer. Any increases in pension income are subject to the terms of the individual annuity purchased.

Income increases under a lifetime annuity through a DB plan are subject to the policy conditions of the EPF.

Premiums and Funding Methods

DB plan funding is determined on a group basis from actuarial calculation and the sponsoring employer's ability to contribute. Plan contributions are assessed in reference to member profile, payroll and investment returns.

Where DC plan contributions are determined on an individual basis as a fixed percentage of an employee's salary, they typically automatically adjust to changes in salary through payroll. In some instances, senior employees may receive top up contributions determined by a formula linked to the employers' profits (profit-based pension), as such these will fluctuate annually with changes in corporate profitability.

The book reserve method of financing pension promises via balance sheet reserving by the sponsoring employer, was banned under the 1992 insurance act.

Contributions From Employers and Employees

EPF and FIPF DC plans are subject to a maximum aggregate employee contribution of 20% of pensionable salary. This is reduced to 10% for FIPFs where the employee is also a member of an EPF.

A typical employer DC contribution ranges between 4% and 7% of salary but may be as high as 10% with a 3% employee contribution.

Employers typically finance 100% of a DB EPF with aggregate contributions determined by actuarial valuation. There is no limit to an employer contribution.

Employee contributions to DB funds are rare but where made cannot exceed 60% of the employer contribution. Aggregate contributions range from 8% to 12% of salary with employee contributions ranging from 1% to 5%.

Major Pension Providers

The top five FIPF providers by total assets in 2017 are shown below.

Company	Market share 2017 (%)
PT Bank Negara Indonesia Persero Tbk DPLK	27.26
Manulife Indonesia DPLK	20.32
DPLK Bank Rakyat Indonesia	11.69
DPLK AIA Financial	8.68
DPLK Allianz Indonesia	7.52

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Distribution

DB and DC EPF pension plans are typically large and self-administered. Sponsoring corporates contract with specialist pension consultancies to design, establish and provide ongoing support services for a plan. Large corporate sponsors are also likely to employ in-house employee benefit consultants.

FIPFs, in contrast, are more aggressively marketed directly to corporates by the licensed advisers of FIPF licensed life insurers and banks.

Insurance brokers and employee benefit consultancies tend not to be involved in corporate pension distribution as commission incentives are modest and supplementary pensions are a low priority for most employers.

There are a few specialist pension consultancies providing a range of actuarial and investment consultancy services.

Other Employee Benefits

Summary and Trends

In the formal private employment sector, employee benefits are an increasingly important element of total remuneration and significant in the recruitment and retention of skilled staff. Employers competing for talent typically benchmark their remuneration policies against industry competitors.

At the top end of the market, foreign multinationals are renowned for generous and comprehensive employee benefits and larger more progressive Indonesian organisations in the financial and professional services sectors may also provide a range of benefits with the concept of flexible benefits starting to take hold. Comprehensive benefits will include supplementary pensions, death, disablement and private medical insurance (PMI). Mostly these are insured, though death and disability benefits may benefits be paid from a traditional DB plan. Cash compensation in lieu of benefits, however, is common.

There remains a considerable amount of self-insurance in the market among larger Indonesian corporates, but the gradual trend is for employers to switch to insured provision.

Social insurance reforms from 2015 introducing material enhancements to social security benefits has had a significant impact on the market. Higher mandatory contributions have squeezed corporate group insurance budgets prompted employers to reassess their needs. This has had most impact in group private medical insurance, where lower level employees are now generally considered adequately covered under JKN alone with private cover retained as a white-collar benefit only.

Expatriates working for foreign companies are typically provided for through global arrangements placed offshore on a non-admitted basis. Expatriates working for local organisations are more likely to be included in local arrangements that are less generous than those for their counterparts employed by foreign companies. Either way expatriates working in Indonesia for more than six months are obliged to join the social insurance schemes (BPJS Health and BPJS Employment) and make contributions. As such, they can access JKN for health treatment.

Taxation

Employer contributions for qualifying, death, accident and health benefit policies are tax deductible for the employer where the contributions are treated as part of the taxable income of the employee. These contributions are considered taxable income for employees. The employer contribution to healthcare insurance for married employees is subject to a maximum.

Benefits for death, accident, and health are free of tax.

Survivors' Pensions

Under a DB EPF, where a covered life's death occurs within 10 years of normal retirement age, a surviving spouse is entitled to at least 60% of the monthly annuity that would have been paid immediately before the member's death.

Where death occurs more than 10 years before retirement, a benefit of at least 60% of the deferred pension value due on termination of employment is paid as a cash lump sum.

For death in retirement, survivor benefits are a minimum of 60% of the deceased's pension.

For death in service under a DC EPF, payment is based on the value of the accumulated fund up to 60% of the retiree's pension. This is paid as a lump where death occurs more than 10 years prior to normal retirement age.

DC EPF benefits are annuitised at retirement, so survivor benefits are determined in accordance with annuity policy conditions. Some annuities offer a widow(er) package or lifetime benefits for a participant's children until they turn age 25.

FIPF survivor benefits are determined by the accumulated fund at death. This is paid as a lump sum where the member died more than 10 years before normal retirement age. FIPF survivor benefits after retirement do not apply unless an annuity has been purchased.

For death before retirement, a spouse is entitled to 100% of a DC pension fund as if the employment had been terminated on the day the pension member died.

If a surviving spouse dies after the commencement of a survivor pension, the benefit continues and is divided equally among any surviving children. For DB plans, if there is no surviving spouse the benefit is divided equally among any surviving children.

Group Life Assurance

Group term life insurance is a common employee benefit among multinationals, large and SME corporates. In comparison with group PMI provision, it is relatively low cost, but it is also a less valued employee benefit.

Under a DB EPF survivor benefits may be an integrated benefit paid from the pension fund. In most instances where a DC EPF or FIPF has been established, a separate stand-alone group term life insurance policy is purchased, which provides an additional lump sum benefit to the balance accumulated under the DC pension plan. Riders may offer additional benefits, notably total permanent disability and accidental death and disablement. In some instances, group PA cover may be preferred as an alternative.

Insured group life business is led by the domestic life companies, which account for the greater part of covered lives, although their share has declined. Notable insurers in the market include the state-owned Jiwasraya. Other players cited in the market include AIA, Allianz, Central Asia Ray, Generali, Lippo Life and Sinarmas.

In aggregate, the group life insurance market accounted for 66% of covered lives as reported by the life industry trade association (Asosiasi Asuransi Jiwa Indonesia/AAJI) in the second quarter of 2016. Average member cover, however, is low.

Group term life premiums are 100% employer paid and insured benefit ranges from 12 to 48 times monthly earnings with 24 to 36 months cited as standard. Alternatively, a fixed sum assured may apply instead for low level staff. A double benefit in the event of accidental death is quite common where an accidental death and disablement rider is attached. Mostly, insured group term life covers employees only and does not include dependants, with employers seeking to hire younger millennials.

It is understood benefit limits may be graded according to seniority as follows:

- senior management/executives - 36 to 48 months' salary
- middle management - 24 to 36 months' salary
- supervisors - 12 to 24 months' salary
- general office staff - 12 months' salary.

There are no figures to indicate the profitability or otherwise of group life business but with steadily improving mortality supporting stability and predictability in claims, it is understood to be satisfactory.

The launch of reformed social insurance programs from 1 July 2015 has had a material impact on the market, with enhanced death benefits diminishing the private cover needs for low level employees and maximum cover levels potentially penalised where they exceed in aggregate the maximum 72 times monthly earnings.

Under the death insurance program (Program Jaminan Kematian) lump sum benefit was increased from IDR 14.2mn (USD 1,001) to IDR 16.2mn (USD 1,142). An additional funeral grant increased also to IDR 3mn (USD 211.52) from IDR 2mn (USD 141.01) and a further IDR 12mn (USD 846.07) may be paid for a child's education.

Profit-sharing is not common feature although it is in the market.

Business is generally distributed through employee benefit consultants who are part of large broker operations. Commissions are between 5% and 10% of annual premium depending on the size of the group.

Long-Term Disability

Long-term group disability income insurance is not in the market. The standard insured benefit is lump sum total and permanent disability (TPD), typically attached as a rider to a group term life policy.

TPD benefit is usually based on the formula applied under the main group life policy, so a lump sum ranging between 12 months to 48 months of the employee's salary would be paid, with 24 months or 36 months most often applied. Benefit is reduced in cases of partial permanent disability and may be reduced where state benefits are paid.

Occasionally, policies pay permanent total disablement benefits over a 10-year period in the form of an annuity.

The waiting period can be up to one year during which time sickness benefits are payable. Once a medical report certifies permanent disablement, any insured disability benefit is triggered and sickness benefit ends.

Permanent total disability riders under group life insurance are usually financed entirely by the employer. Claims experience is understood to be stable.

Employees are entitled to disability and work injury benefits under the social insurance system (BPJS Keternagakerjaan).

Medical Benefits

Detailed information on medical benefits is provided within the Private Medical Insurance subsection in the Healthcare section of this report.

Medical Underwriting Considerations

Group free cover limits (FCLs) up to IDR 10bn (USD 705,055) is said to be standard in the market for large group term life cover, with certain joint venture insurers offering up to IDR 12bn (USD 846,066) according to the details of the group.

Medical underwriting requirements vary but in general are based on:

- category of the business and occupations within it
- gender and age profile
- sums insured
- medical history.

Standard practice is to waive medical declarations for groups of 50 or more whilst exclusion of pre-existing conditions is waived for groups with more than 100 members.

Where further medical information is required, full medical reports are requested from an independent doctor.

Terrorism is a standard exclusion.

Savings Plans

Employee savings plans are rare in Indonesia, but some insurers sell group endowment plans providing lump sum maturity and death benefits to covered lives.

While not a savings plan, profit-based pension (PBP) plans may be a top-up benefit to an existing EPF for senior management.

PBP contributions are made annually by the sponsoring employer based on a predetermined formula linked to company profits. Contributions may therefore vary from year to year or may be limited to the minimum contribution of 1% of payroll.

A PBP plan must be established using an EPF as its legal entity.

Additional Employee Benefits

Group PMI is the most widely sold and valued employee benefit.

Employee stock option plans are available in a few companies, mainly multinationals, beyond this group penetration is low.

Senior management and sales employees are typically provided with company cars including running costs and possibly a driver.

Loans for employee mortgages may be provided, particularly for expatriates. Housing allowances may be provided for top level management.

Transportation allowances are often provided on top of company car provisions for senior executives and managers.

PA benefit is quite often included as a rider benefit under group life plans with double benefit (life and PA covers) on accidental death being quite common.

Flexible Employee Benefit Arrangements

Flexible benefits are in the market. While not widespread, interest has spread and there are online platforms available for its administration. Its appeal is limited to a minority of large employers as it is expensive to implement and maintain. It is also said in the Indonesian market that its appeal to employer's in capping employee benefit costs is limited on account of rising insurance premiums, led by often double-digit group PMI premium increases.

Benefit options under an Indonesian flex benefit arrangement are said to be limited presently but this is likely to develop over time. Multinational employers are said to be generally more receptive to flex with domestic corporates generally inclined to maintain more traditional benefit arrangements. Flex needs some form of tax incentive to give it a push in the opinion of one market participant.

Major Employee Benefit Providers

Leading providers of group term life in terms of covered lives in 2017 are listed below.

- PT Asuransi BRI Life
- PT Asuransi Jiwasraya (Persero)
- PT Asuransi Jiwa Reliance
- PT AXA Mandiri.

Distribution

Leading domestic players such as Jiwasraya sell predominantly through their agency network while other, mainly foreign venture operators are more active in other channels as well, notably employee benefit consultancies and brokers.

The market has a range of employee benefit consultancies, which include the multinational groups Aon Hewitt, Marsh and Willis Towers Watson.

Multinational Pooling

Summary and Trends

The insurance companies representing various multinational pools are shown below.

Pool name	Local member
Allianz Global Benefits	Allianz Life Indonesia
MAXIS GBN	PT Astra Aviva Life Indonesia
Generali	Generali Indonesia
Insurope	Allianz Life Indonesia
Swiss Life	PT Avrist
AIG Global Benefits	AIA Financial
Zurich	PT Asuransi Jiwa Manulife Indonesia

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Individual Pensions

Summary and Trends

Notionally, there is a huge and growing long-term need for adequate pillar III provision among the informal working population, which comprise the greater part of the workforce. This group, however, often has little or no capacity to make discretionary savings and are hard to reach.

Where cover is sought joining the social security system on a voluntary basis is likely to be an initial priority. Informal members of the Old Age Security Program (Jaminan Hari Tua/JHT), however, was a mere 143,148 in 2017 from a total information working population of approximately 77 million.

Life insurers traditionally marketed endowment plans as personal retirement savings plans but the 1992 pension act created a legal framework for individual private pensions. This established the DC-based Financial Institution Pension Fund (FIPF) suitable for both group and personal pensions and distributed by life insurance companies and banks.

Individual FIPF membership continues to report modest but steady progress as affluence grows and broadens over time. The OJK reported 876,008 individual active FIPF accounts in 2017, a 4.1% increase over the previous year.

The buyer profile for individual policyholders is not reported but their appeal is likely to be greatest among successful entrepreneurs, affluent individuals without pension provision and potentially some longer-term expatriates.

FIPF pensions both individual and group are marketed and sold by licensed financial institutions of which 24 were registered with the OJK as of June 2019. The majority of these were life insurance companies and the rest are banks.

AIA and Manulife are leading players among life insurers in the FIPF market. The market leader in the segment, however, is the state-owned bank BNI (Persero) Tbk.

Individual Pension Products

Individual Financial Institution Pension Funds (FIPF)

The legally recognised individual pension product in Indonesia is the FIPF (Dana Pensiun Lembaga Keuangan/DPLK). This is a DC retirement account providing policyholders with a legitimate and regulated personal pension plan.

FIPFs are established and administered by a licensed bank or life insurance company, which may act as administrator and investment manager providing access to investment funds. Funds must be legally ring-fenced from the FIPF provider.

Policyholders make contributions to the FIPF provider choosing investments from a range of fund options. Benefits may be taken from age 55. Alternatively, funds may be withdrawn before 55 (earliest from age 40), as return of contributions net of accrued interest.

Pension funds up to IDR 500mn (USD 35,253) may be taken as a lump sum. Funds exceeding that amount restrict the lump sum to 20%, with the balance used to purchase an annuity.

In addition to building a retirement fund, accumulated plans may be directed to provide lump sum death and permanent disability benefits.

Contributions can be made on a monthly, quarterly or annual basis. Single premiums are also accepted.

Variable annuity products are not in the market.

Pension Annuities

Pension annuities are considered a problem for the market. Supply of immediate pension annuities is very limited with few insurers offering product and the market is small, contracting year on year since 2012. Indonesia remains a cash-based culture for the most part and lump sum benefits are preferred.

Three domestic and one joint venture insurer reported pension annuity business in 2017. State-owned PT Asuransi Jiwasraya accounted for 72% of the policies with BNI Life a further 21%. Tugu Mandiri and Indolife Pentama accounted for the balance.

Already limited public confidence in the line was further undermined following the disclosure of liquidity problems at Jiwsraya and the postponement of maturity claims on a range of savings products in October 2018. It is also said that loopholes on lifetime annuity policies means they can be encashed by the policyholder in a matter of months after purchase.

A range of three pension annuities are marketed by Jiwasraya for retirees, widow(er)s or orphans. Annuities can be purchased with a single premium payment with monthly income payable for life. Entrants may be aged between 20 and 60. Return of the balance of fund is offered on death.

Year on year annuity premium continues to decline with IDR 642.6bn (USD 45.31mn) reported in 2017, a 6% decline from the previous year.

Endowment plans

Life insurance endowment policies may be marketed as proxy pension plans, with terms up to the applicants' planned retirement date. They accumulate a lump sum benefit over the policy term, which is payable at maturity. Alternatively, the sum assured is paid in the event of policyholder death prior to maturity.

Taxation

Personal pension contributions are deductible against income tax up to 5% of income subject to a maximum of IDR 2.4mn (USD 169.21) per annum.

During accumulation, Indonesian fixed deposits, Indonesian-listed fixed interest securities and stocks listed on the Indonesia Stock Exchange (ISX) are exempt from tax.

Lump sum benefits are tax free. Pension annuities are taxed at 5% for income in excess of IDR 50mn (USD 3,525) per annum.

Proceeds on death are free of tax.

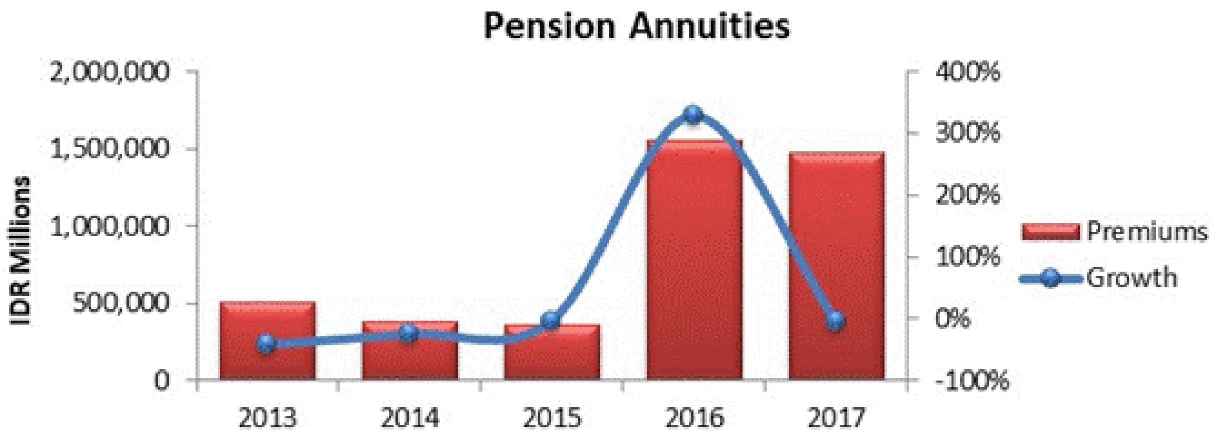
Expatriates

Expatriates may purchase an individual FIPF in the market. In practice, few beyond a minority of long-term residents are likely to buy. Typically, expatriate buyers favour familiar multinational groups for such purchases.

Statistics

Contribution and asset growth trends for individual pensions are not reported. Individual pension membership, however, continues to grow, increasing 4.1% in 2017 to 876,008 individual FIPF policyholders, more than double the total 394,551 reported in 2007.

The table below shows pension deferred annuity premium for the five years to 2017.



Source: Axco Global Statistics/ Industry Associations and Regulatory Bodies

Major Providers

Regulatory reporting does not identify the leading individual pension providers, however, the top five FIPF providers by market share of gross assets (group and individual) in 2017 are shown below.

FIPF Providers	Assets		Growth	Market
	2017	2017	%	Share
	IDR Mn	USD Mn		%
PT Bank Negara Indonesia Persero Tbk DPLK	20,544,240.00	1,535.35	21.7%	27.2%
Manulife Indonesia DPLK	15,308,850.00	1,144.09	23.1%	20.3%
DPLK Bank Rakyat Indonesia	8,809,480.00	658.37	50.8%	11.7%
DPLK AIA Financial	6,544,510.00	489.10	38.0%	8.7%
DPLK Allianz Indonesia	5,664,810.0	423.35	28.4%	7.6%

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Distribution

Individual pension plans are sold by licensed life insurance agents and through the bancassurance channel.

Summary and Trends

Individual life is the dominant market for life insurance companies in Indonesia accounting for the majority of both new business and renewal premium.

The market is underpinned by low penetration and an expanding consumer class in the world's fourth largest country by population. Double digit in-force premium growth, however, slowed abruptly in 2018 and declined 10.3% in H1 2019 as reported by the insurance industry trade body (AAJI).

Provisional statistics for 2018 report total life market premium of IDR 186.05trn (USD 13.12bn), in 2018, up 1.2% from the previous year. Decline was attributed to a weaker economy and the restructuring of some savings policies offering fixed interest returns.

It remains an immature market driven by a narrow range of individual regular premium savings products, either traditional endowment plans predominantly from domestic providers or investment-linked policies (ILPs) which are unit-linked and sold predominantly by joint venture companies. Together these two lines accounted for over 78% of total life market premium in 2017.

These lines are distributed on a product push commission basis through the agency and bancassurance channels together with protection rider options, of which health cover is a valued benefit. Buying motives are split equally between family protection and children's education according to one market professional.

ILP s are almost entirely accounted for by individual life and the product line has grown very rapidly where it is aggressively marketed as a capital light contract which can potentially to deliver higher investment returns than a traditional insurance savings product. Unit-linked policy premium first overtook traditional endowment premium in 2008 and the gap between them has widened since as guaranteed returns have declined with lower interest rates.

Other significant categories of life business are term insurance, including credit life and to a lesser extent whole life. Both deferred and immediate annuities are also in the market, although supply is limited.

There appears considerable latitude in product design though product approval must be gained by the regulator prior to launch. Investment profits made on policies surrendered within three years are subject to tax.

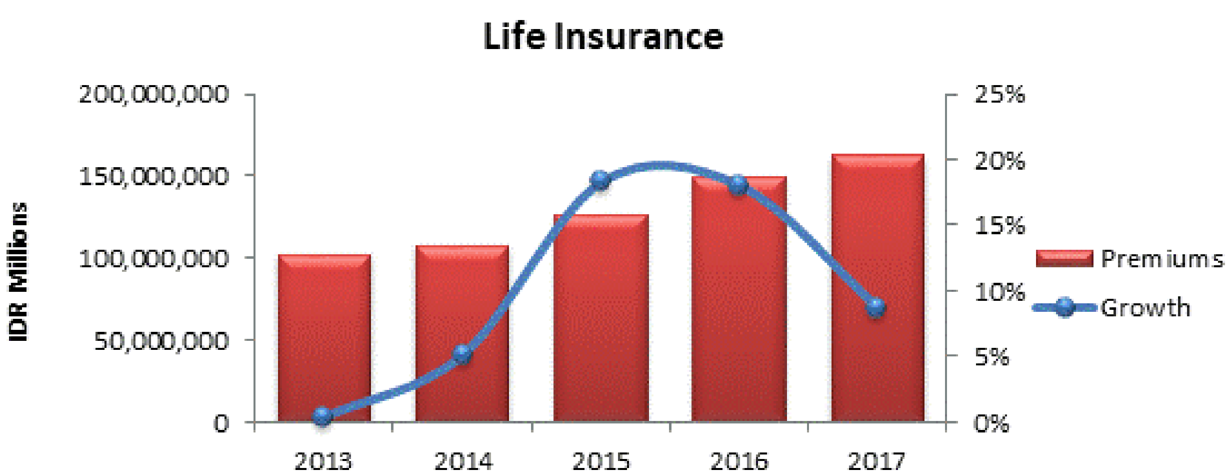
Indonesia also has market segments that are becoming more significant. As a majority Muslim country, it has a small but developing sharia market, which is given strong government support and is served both by an expanding provider base of specialist family takaful operators and the sharia units of joint venture life insurance companies. Written sharia premium comprises ekawarsa (life), term, and personal accident (PA) and medical product lines.

Reports of its progress, however, are mixed. The regulator states sharia is growing faster than conventional business, while the industry trade body counters it is not really growing at all. The fine distinctions between conventional and sharia insurance products are also said to be lost on most in a market where few have a clear understanding of life insurance. One market professional estimated 20% of sharia policies are bought by non-Muslims.

Microinsurance is another business segment that is developing with the support of a government policy promoting financial inclusion. The key challenge for insurers is cost-efficient distribution with digital platforms and smartphone penetration providing new possibilities. Government policy seeks to create inclusive access to financial services through microfinance and microinsurance initiatives for the poor and large informal working population. Financial assistance from the World Bank has supported a range of financial sector objectives including enhancements to the microinsurance framework and the launch of conventional and sharia microinsurance programmes. The regulator has also developed the regulatory framework under the 2014 insurance law with the issuance of *SEOJK Regulation No 9/SEOJK.05/2017* concerning microinsurance products and their distribution.

Statistics

Gross written premiums and growth rates for the last available five years are shown below.



Source: Axco Global Statistics/ Industry Associations and Regulatory Bodies

Regulatory reporting does not distinguish between individual and group premium, so this chart shows combined premium. The individual market, however, accounts for the majority of market premium.

Taxation

Information on personal income tax rates is provided within the Personal Taxation subsection in the Taxation section of this report.

There is no relief on individual life policy premiums, but proceeds are exempt from tax. Where a life policy contains a savings element, however, the excess of any amount redeemed within three years of policy inception over the premium paid is subject to a 20% withholding tax.

The main income tax law (*Law No 36/2008*) is silent on specific qualifying criteria for life insurance policies to benefit from tax privileges but it is assumed these refer to regulatory approved life policies sold by admitted life insurance companies to Indonesian residents.

Expatriates

Expatriates may purchase individual life insurance products in the local market but, in practice few, other than long-term expatriates. are likely to do so.

Premiums

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Update January 2020

An updated mortality table was issued in December 2019. TMI IV is the fourth in the series with contributions from the Indonesian Actuarial Association (PAI), the Financial Services Authority (OJK), Reasuransi Indonesia Utama, the life insurance trade body, AAJI, and the Canadian University of Waterloo.

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In general, competitive market pressures force life insurance premium rates into broad convergence with risk cover levels often low in what is a savings-driven market.

Premium pricing is understood to be stable with mortality rates continuing to benefit from improvements in life expectancy. Rates for all products must be filed with the but life companies are free to use their own mortality tables. The regulator has the power to approve, reject or modify terms but this is rare in practice.

The most recent mortality tables date from January 2012 (Tabel Mortalita Indonesia-III or TMI-III) compiled jointly by the life industry trade body AAJI and the Indonesian Actuarial Association (PAI) based on data from 40 life insurers. TMI-III is the third in the series and replaced TMI-II dating from October 1999 bringing lower rates. Some insurers, however, may still apply the Commissioners Standard Ordinary (CSO) tables developed by the US National Association of Insurance Commissioners (NAIC) and used prior to Indonesia issuing its own mortality tables.

While the incidence of smoking is high among Indonesian males, differential smoker and non-smoker rates are not widespread. Preferred rates are not a feature of the market, but separate rates are used for men and women with a differential of five years. Indexation of future premiums and sums assured is not available.

Premiums are accepted by insurers in a range of frequencies including annual, semi-annual, quarterly and monthly.

Bonuses

Traditional Indonesian life insurance policies generally pay cash bonuses or dividends on participating policies. In addition, policies may include a terminal bonus.

Policies may guarantee fixed or variable bonuses linked to investment results but subject to a guaranteed minimum, perhaps 2%. This is paid on each policy anniversary after a qualifying period. Other policy terms may link bonuses to the sum assured every three or five years.

Monetary easing over more than a decade has seen the benchmark interest rate trend down from 12.75% in 2006 to 5.50% from August 2019. This has significantly diminished the risk-free investment returns traditional providers can offer policyholders and so the appeal of such guarantee policies.

Surrenders and Lapses

The following table shows the surrender and lapse ratios for the last available five years.

	2013	2014	2015	2016	2017
Lapse ratio (%)	13.89	11.81	8.54	53.16	6.29

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The trend in the lapse ratio in recent years has reported considerable volatility, which reflects an immature market and volatility in returns. Explanation of the huge increase in 2016 over previous years, however, is unclear.

There is no second-hand (traded) life market.

Product Summary

The majority of market premium is accounted for by two product lines: unit-linked and traditional endowment plans. Between them they accounted for 78% of total life market premium in 2017.

Individual Life Assurance

Investment-linked (unit-linked) products are written almost entirely on an individual regular premium basis. Introduced by the leading joint venture insurers, the line has grown very rapidly as domestic life insurers added the product to their ranges. Today almost all life companies sell ILPs. The relatively transparency of these plans in the allocation of investment content, charges and mortality is in contrast to traditional endowment and whole life alternatives and adapts well to the sharia market.

ILP market premium first overtook traditional endowment premium in 2008 as the leading product line and the gap between the two has widened since with unit-linked premium exceeding endowment premium by 62% in 2017.

Endowment business has traditionally been the core product for domestic life insurance companies with aggressive guaranteed deposit rate returns, that can exceed bank interest, marketed under short term contracts from as little as three months in duration. The mainly domestic insurers marketing these products have found an increasingly challenging environment from falling long-term interest rates, which diminish promised returns. Public confidence in such products has also been shaken by the revelation in October 2018 that state-owned life insurer, PT Asuransi Jiwasraya (Persero), which received USD 1bn in single premium in 2017, was postponing maturity claim payments on individual savings policies owing to solvency issues.

Minimum life cover on savings-linked policies is said to be 125% of the value of the single premium or five times the annual premium, though this can be circumvented on a single premium policy by splitting it into a small initial single premium following by a large top-up where the minimum cover requirement does not apply.

Other significant lines of business are term life insurance, with return of premium policies a popular feature. Deferred and immediate annuities are also marketed. There is growth in deferred annuities given the very low penetration of supplementary pensions but immediate annuities continue to contract with buyers further discouraged by the revelation of liquidity problems at leading provider, Jiwasraya.

The principle reasons for buying life insurance are as a structured savings vehicle and motive is split between financial planning and children's education, according to one market source, with medical rider benefits a significant product differentiator and buyer motive.

As a majority Muslim country, Indonesia has a developing sharia market with many conventional life companies offering sharia products through specialist units. Microinsurance is significant also, being strongly supported by a government policy of financial inclusion as well as through digital innovation bringing ease of access via smartphone applications.

AAJI market reporting from 2017 shows an individual life market heavily weighted towards single premium traditional and unit linked life insurance policies sold through the agency and bancassurance channels.

Term Life

Term life insurance reported a 4.9% fall in written premium in 2017 to IDR 14.85trn (USD 1.05bn) over the previous year.

This is the first reported contraction since 1996 in a market that previously reported compound average annual premium growth of 26.1% between 2000 and 2016 in local currency terms. This result reflects weaker performance across the life insurance market.

The market for both conventional and sharia term, is predominantly group-based with individual conventional cover accounting for less than 3% of covered lives. Average cover in the individual market, however, is higher.

Purchase motives for individual term life insurance include bank credited related cover, family protection and some commercial cover, such as keyperson assurance. Term life insurance may also be offered as an additional benefit rider beyond the base cover provided under a traditional endowment or unit-linked policy.

Product options provide a range of cover choices: level, convertible and decreasing term policies on a single or joint life basis. Most contracts specify a five-year minimum term although some may offer annual renewable terms. Policy entry ages range from 0 (more often 16 to 18) up to age 70. Terms of 5, 10, 15 and 20 years are standard alternatives and cover may be extended up to age 99. Premium payment alternatives include monthly, quarterly and annual with some contracts offering refund of all or a percentage of premiums at maturity.

Riders that may be included with term life include accidental death, permanent total disability, critical illness, hospital cash, waiver of premium and medical expenses. Double the sum assured may be a further benefit in the event of accidental death.

The Indonesian life industry trade body, AAJI, reported the average sum assured for individual life insurance policies in 2017 at IDR 109,642,949 (USD 6,846).

Generally, suicide within one year of commencement is the single policy exclusion.

Critical Illness

Critical illness insurance is a complex product not widely understood in an immature market. It is available on a stand-alone basis but sold predominantly as a rider to a life policy with the term of critical illness cover matching that of the main policy. Accelerated life contracts may pay 50% of the sum assured on diagnosis of a qualifying critical illness and the other 50% on death. Stand-alone contracts are also in the market.

Market premium for critical illness insurance is not reported in isolation in official market statistics, but it is understood demand is weak as premiums are considered too expensive for the mass market.

Critical illness pays a lump sum benefit on diagnosis of a covered condition included in the policy. Covered conditions and their definitions are subject to market forces and vary between providers but core conditions common to all are as follows:

- heart attack and related heart disease
- stroke
- cancer
- kidney failure
- transplantation of major organs.

Market leader Prudential Indonesia offers a stand-alone CI covering 60 conditions. The policy is available to buyers between the age of one and 59 with limited premium payment periods of five, 10 and 15 years. The policy makes a single payment on claim for critical illness of death and then ends. Policyholders who continue cover to policy maturity at age 88 without claiming are paid 100% of the sum assured. AIA also offers a stand-alone policy covering 60 conditions with cover to age 99 and premium payment periods of 10 or 20 years. Claims are subject to a 90-day waiting period.

Critical illness is underwritten on the basis that the applicant has no pre-existing medical history of the conditions under which cover is offered.

Group Credit Life

Credit life is a significant product line in a market with expanding credit growth. Bank Indonesia reported 139 million debit cards and 17 million credit cards in 2017.

Standard group credit life is a term insurance policy where the policyholder and beneficiary is the credit institution. Its principal benefits are debt repayment for the lender in the event the creditor dies, and the settlement of outstanding debt for the surviving dependents of the deceased. Cover is typically bundled into retail credit agreements such as personal loans and credit cards. Underwriting acceptance is generally automatic up to a cover limit.

Premium payment is made by retail bank creditors via a single premium payment, with the premium cost added to the loan and paid as additional interest. Terms are in the region of five years with a reducing sum assured reflecting with loan amortisation. Typical sums assured and premiums are low but persistence is relatively high.

It is distributed through affinity partners mainly banks and credit card providers via in-house bancassurance agents, telemarketing and other direct marketing operations, such as supermarket chains.

It has also been successfully developed as a microinsurance product, with Allianz a leading player in the niche distributing via Indonesia's numerous microfinance institutions.

Suicide is a standard cover exclusion.

Endowment

Dual life insurance (Asuransi Jiwa Dwiguna) as it is often referred to in the market, on account of providing both a savings and life insurance benefit has long been the staple contract in the Indonesian life insurance market. Formerly the leading product line it was overtaken from 2008 by ILPs but has since remained the second most significant product line and in 2017 reported 8.4% premium growth to IDR 55.6trn (USD 3.92bn) with 2.1 million insured lives.

Joint venture insurers accounted for two-thirds of policies in 2017 with AIA the leading writer in terms of number of policies, together with Jiwasaya. Commonwealth Life (being acquired by FWD Group), Indolife Pentama, Manulife, BNI Life and Sequis Life are also significant in terms of individual policy numbers.

The conventional product is a long-term savings-based plan marketed as a wealth builder to finance major life events including children's education, marriage and retirement. Riders offer optional protection benefits, in particular medical cover. Less conventional products marketed by domestic life companies can be short-term, with insurers offering policy terms as short as three months with minimal life insurance cover. One China Life endowment contract, for example, promises a death benefit of 105% of the premiums paid or the accumulated fund value.

"Gross written premium is driven by short term savings contracts" comments one industry executive. Such policies offer guaranteed deposit-based returns over periods as short as three months with interest rate returns exceeding those of the banks. Following the revelation of capital strain at PT Asuransi Jiwasraya (Persero) in October 2018 and forced postponement of maturity claim payments on savings contracts distributed through the bancassurance channel, such contracts have been under regulatory scrutiny leading to product withdrawals and repricing. Some in the market cite rates of up to 12% being offered, in excess of bank deposit savings rates and twice the Bank Indonesia base rate. This is understood to have made a significant contribution to market growth flattening in 2018 and contracting in the first half of 2019.

One example of a more conventional 20-year endowment savings contract includes the following contract terms:

- an annual policy bonus, not guaranteed but based on investment performance which may accumulate or be withdrawn

- a guaranteed cash payment of 5% of the sum assured (3% for USD policies) payable after five, 10, 15 and 20 years
- a cash payment of 100% of the sum assured payable on death before maturity
- annual, quarterly or monthly premium payment options and rupiah or USD-denominated policies
- premium payment period of five years
- a range of rider options including term life, PA, critical illness, hospital expenses and waiver of premium.

A typical education savings plan would provide a percentage of the sum assured at key stages in a child's education from pre-school to university.

In addition:

- from age 19 to 21, 25% of the sum assured is payable annually with a further 40% at 22
- a death benefit is payable during the policy period equal to 100% of the sum assured
- premiums can be made annually, quarterly or monthly with policies available in rupiah or USD denominations
- entry age ranges from one month to 18 years
- various types of riders such as term life, PA, critical illness and waiver of premium may be added.

The single general policy exclusion is suicide within one year of commencement.

Unit-Linked

Unit-linked ILPs are the leading individual life product line in this savings driven market, accounting for over half total life market premium at IDR 90.18trn (USD 6.36bn) in 2017 following an 11.6% increase written premium over the previous year. The product line was introduced to the market in the late 1990s by joint venture life insurers and quickly took hold with 38 companies reported to be marketing ILPs in 2017. Greater transparency in the allocation of premium between investment, mortality cost and charges, also makes it readily adaptable for the sharia market.

Domestic providers have followed the joint venture insurers into the market, expanding their distribution and driving further growth. ILPs overtook traditional endowment plans in 2008 as the leading product line by premium income.

Unlike the endowment market, which includes a significant amount of group business, ILPs are overwhelmingly an individual product, as reported by the life industry trade body, AAJI.

Joint venture insurers are leading providers in this product line and accounted for 74% of premium income in 2017. Most domestic insurers also offer unit linked products. Prudential is by a distance the leading insurer in the line, accounting for a quarter of total premium income. Other leading writers include AIA, Allianz Life Indonesia, AXA Mandiri and Manulife Indonesia. Generali Indonesia is a growing presence also.

Contracts may be single or regular premium and denominated in IDR or USD. Single premium contracts usually specify minimum investment criteria, typically between IDR 10mn (USD 705.06) and IDR 30mn (USD 2,115). Minimum investment for a USD-denominated contract is in the region of USD 5,000.

Depending on cause of death during the policy life, contracts may pay the policy value, or the sum assured plus the policy value. Single premium sums assured are usually in the region of 25% of the initial premium or IDR 250mn (USD 17,626), whichever is lower.

The eligibility age typically range from 1 month to 70 years and there is a minimum five-year term. Policy rider options include PA, health cover, total permanent disability (TPD) cover, term insurance, waiver of premium and critical illness. Fund withdrawals can be made at any time.

Most companies allow fund switches. Free switches are often capped at two per annum and subsequently become chargeable. Typical charging structures include an initial 5% for single premiums and a 1% annual management charge. Some companies and funds may be higher.

Unit-linked funds typically offer a range of investment choice in cash, fixed interest and equities. Broad categories include:

- cash/money market
- fixed income
- balanced
- equity
- managed (IDR/USD).

Suicide in the first year is the only exclusion attaching to death benefit. For index-linked policies a return of premiums is payable.

Universal Life

Conventional universal life is not sold in Indonesia, although flexible contract terms similar to a universal life plan are in the market. Products sold by some joint venture insurers may enable policyholders to change both the sum assured and premium payments and take premium holidays.

Whole Life

Individual whole life policies account for the great majority of whole life sales with the product line dominated by joint venture companies.

Whole life contracts provide combined certain long-term protection and savings benefits. The main protection benefit being lifelong life insurance cover, though there is often a maturity date of 99 or 100 at which point a cash value would be paid to the policyholder.

Whole life policies are structured on a traditional basis and there is no investment choice to be made by the policyholder (unlike a unit-linked policy). Contracts undertake to pay a benefit at death, maturity or at set periods during the term. Policies may be written on a single or joint life basis and there is choice in premium payment. Minimum and maximum age at inception varies between providers with one accepting applicants between ages 1 and 65. Another insurer product targets an older demographic between ages 55 and 80 seeking to leave a legacy for dependents.

Standard currency denomination is IDR but USD contracts are also in the market. Riders are important policy differentiators and can add further term life cover, waiver of premium, PA, total permanent disability and critical illness. The only policy exclusion is suicide in the first year. For index-linked policies a return of premiums is payable.

Whole life products have adapted to what is a savings-driven market but have lost ground to ILPs and to a lesser extent to cheaper term insurance in the protection market, with term life products often adding a full or partial return of premium at maturity. The long-term guarantees implicit in whole life also make them more capital intense for life insurers under modern solvency standards, which are generally focused more (or exclusively) on unit-linked alternatives.

Year on year performance in market premium shows considerable volatility, reported whole life premium in 2017 increased by 24.8% growth to IDR 1.07trn (USD 75.44mn) but is 47% below its 2008 peak. Total insureds rose 2% in 2017 over the previous year to 663,921.

Joint venture insurers dominate the line with Manulife accounting for 48% of individual whole life polices and half total sum assured in 2017.

Annuities

Information on pension annuities is provided within the Individual Pensions subsection in the Pension and Employee Benefits section of this report.

Other Policy Types

Personal accident may be written on a stand-alone basis under a life licence and significant business is written by both domestic and joint venture insurers in the individual and group markets.

Life company PA policy benefits generally include accidental death and disablement (AD&D) plus permanent partial disablement (PPD) as stand-alone contracts with medical expense riders, and sometimes weekly compensation benefits for temporary total and temporary partial disablement.

Manulife is dominant in the individual market accounting for 41% of in-force individual policies reported in 2017. BNI Life, Prudential, Astra Aviva and CIGNA are also significant individual writers.

Rider benefits are significant in the market across the leading individual product lines providing both product differentiation and valued additional protection benefits. These include various disability covers, accidental death and disability (AD&D), total and permanent disability (TPD) and waiver of premium. Hospital and surgical benefits plus hospital cash plans are also widely available and popular benefits.

Microinsurance is another business area that is growing in significance as the government policy of financial inclusion demands insurers develop products to serve this market and digital technology brings opportunity for cost effective distribution. Regional banks serve as distributors for microinsurance, mainly decreasing term insurance to support credit. Specialist microfinance institutions and formal and informal local community representatives may also distribute microinsurance products.

Microinsurance policy premiums may not exceed IDR 50,000 (USD 3.53) and benefits may not exceed IDR 50mn (USD 3,525) per customer.

Equity release is not in the market nor is individual permanent health insurance (PHI).

Medical Underwriting

Digital innovation together with data analytics is increasingly automating the underwriting process. Agents for leading life insurance sell from tablets and submit new proposals electronically with immediate acceptance granted for standard lives. Where cover exceeds set thresholds or the applicant is deemed a non-standard life, medical evidence is requested with one leading office underwriting between IDR 2.5 to 3bn (USD 176,263 to 211,516) before requesting a medical. In a savings driven market with average cover per policy of IDR 110mn (USD 7,756) in 2017, this is a relatively infrequent request.

Underwriters normally require an independent medical examination. This is to avoid the risk of possible collusion between the applicant and his or her doctor and due to many not having a regular attending physician. A medical attendant's report is often the last item of evidence obtained for higher sums insured. In some circumstances the life office will pay for an examination.

A full range of standard tests are triggered for large sum assureds. These include X-rays, urinalysis, blood and chemical tests, and ECG (resting and exercise when necessary) together with a full physical examination. HIV/Aids is often tested on a random basis unless answers in the proposal suggest otherwise and some underwriters will have a set limit for HIV/Aids testing. HIV/Aids has become more prevalent in Indonesia, predominantly in population groups with particular lifestyle characteristics, namely intravenous drug users and sex workers.

Leading life companies employ in-house physicians, others appoint chief medical officers. Online medical consultation is a rapidly developing area also, with the Halodoc health-tech platform accessed by leading insurers including Allianz and Prudential. Prudential is incorporating Halodoc into a digital platform with services that include online medical consultations and the booking of lab tests and hospital appointments.

No life companies specialise in the underwriting of substandard risks. Impaired lives are underwritten on the basis of treaty reinsurers' guide manuals, which may allow some companies to underwrite such risks without reference to the lead reinsurer up to 250% of mortality. In other cases, all such risks are referred to treaty reinsurers. It is usual for such risks to be ceded to treaty on a risk premium basis.

Genetic testing and preferred lives underwriting are not a feature of the market and have not been considered so far.

Financial Underwriting

Financial underwriting thresholds vary but are generally triggered for life insurance cover exceeding IDR 1bn (USD 70,506) to IDR 2bn (USD 141,011).

Required information includes personal financial questionnaires and agent reports justifying the need for such a high level of cover. Further requested information can include audited financial reports, where related to business assurance, bank statements and income tax reports.

Other Underwriting Considerations

Other underwriting considerations can include occupation and pastimes. Dangerous occupations usually receive a loading on the premium whilst certain pastimes would normally be excluded risks.

Major Insurers

The leading life insurers and their market shares by premium in 2017 are shown below.

Company	Market share 2017 (%)
PT Prudential Life Assurance	15.33
PT Asuransi Jiwasraya (Persero)	12.54
PT Asuransi Simas Jiwa	10.07
PT Asuransi Allianz Life Indonesia	6.47
PT Asuransi Jiwa Adisarana Wanaartha	6.41

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The UK-domiciled Prudential remains the leading life insurance company in Indonesia and has a powerful franchise in Indonesia, having first established its business in 1995. It is a leading provider of individual unit-linked life insurance distributed through the country's largest agency force and bancassurance distribution partners.

Distribution

The distribution of individual life insurance products in Indonesia in both conventional and sharia markets is dominated by the bancassurance and agency channels. Bancassurance accounted for 46% of market premium in 2018 and agency 37%.

Providers typically structure products to suit the channel through which they are sold, with agency and bancassurance channels marketing distinct policies.

Agency and bancassurance channels also serve the growing sharia market and microinsurance is distributed through partner banks and microfinance institutions (MFIs).

Direct marketing is also widely used for simple life products such as term life and personal accident.

Commission

Commission is not subject to regulatory restrictions, so rates are established by the market. The following table shows typical market rates paid.

Line of business	First year commission (%)	Renewal commission (%)
Term/whole life/endowment	15 to 40	5 to 20 second year, 3 to 10 subsequent years. Top-up premium at 10
Unit-linked	45 to 80	Up to 60 in second year
Credit life	15 to 25 single, 10 to 15 regular	
Family takaful	50 to 70	

Source: Market sources

Claims

No particular claims issues are known, with mortality experience continuing to improve. Instances of fraudulent multiple policy claims for health benefits are said to have occurred prompting increased scrutiny on health-related claims.