



Session C3.2
Life Insurance Markets

**The Life Insurance Markets
of India and Indonesia**

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Waves of Reforms...Oceans of Opportunities

2013 AGFA & 15th Global Conference of Actuaries

17th – 19th Feb, 2013 | Mumbai, India

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- The views and opinions expressed in this presentation are those of the author and not of the employer he represents



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Market Sentiment

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Market Sentiment



An interesting journey over the past decade (or so); both markets have experienced spells of being the 'hottest' and 'coldest' markets in the region.



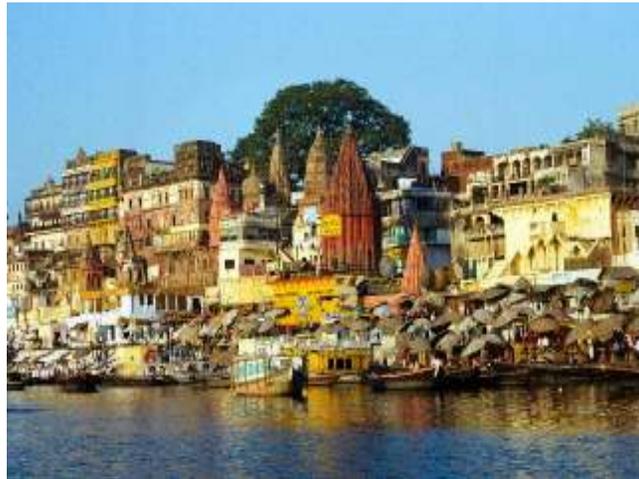
Country Overview

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Country Overview



2012	 INDIA	 INDONESIA
Population (Million)	1,223.17	244.468
Religion	Hindu (80.5%)	Muslim (86%)
Land	2,973,193 sq km	1,811,569 sq km
GDP (US\$ trillions)	1.8 (current price)	0.9 (current price)
Currency	Indian Rupee (INR) 1 USD = 53.09 INR	Indonesian Rupiah (IDR) 1 USD = 9677 IDR
Size of stock market	National Stock Exchange ~US \$1.97 trillion	Jakarta Composite index (JCI) ~US \$449.4 billion

Source : CIA World Factbook , Trading Economics _Feb 2013

Economy: GDP & GDP per capita



Economics



Source: International Monetary Fund

* GDP & GDP per capita is based on the total final expenditures at purchasers' prices

Similar growth patterns in growth of GDP and GDP per capita over the period 2005 to 2011. India's GDP rose 13% per annum during this period compared to Indonesia's 20% per annum, and India's GDP per capita grew 11% per annum compared to Indonesia's 18% per annum.

Demographics



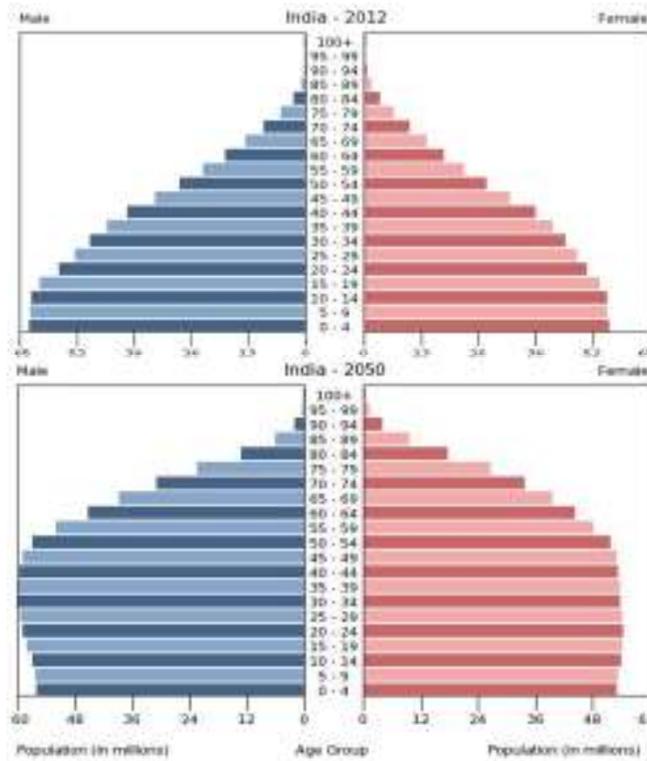
Source: World Economic Outlook (WEO) , IMF

Steady population growth in both markets, with the rate of growth falling slightly in India. Populations projected to increase and remain two of the most populous countries in the world.

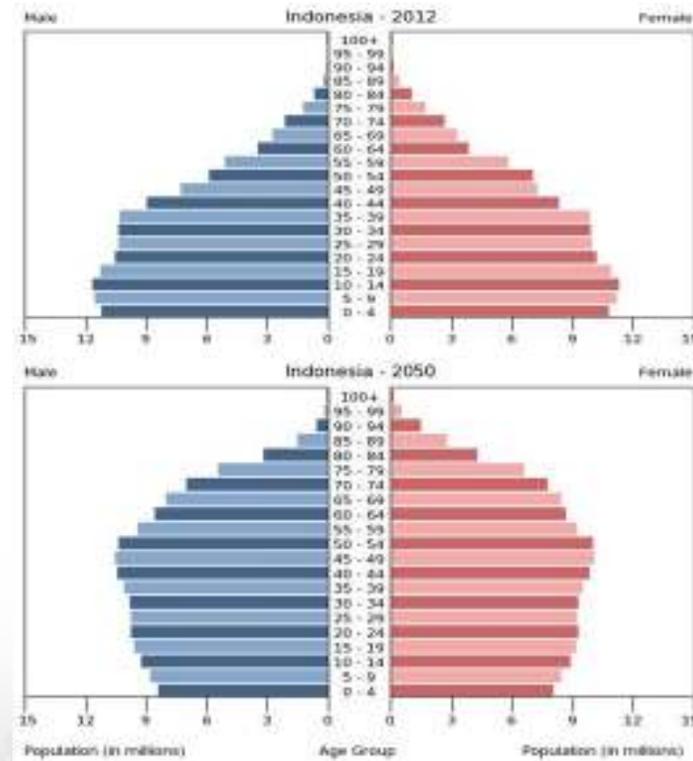
Population Pyramid



India's Population Pyramid



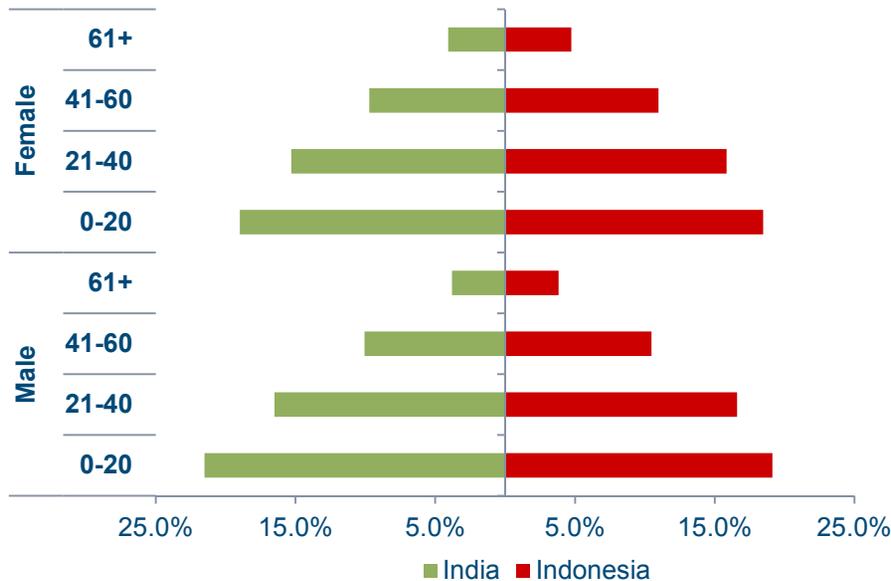
Indonesia's Population Pyramid



Population Pyramid



Population shape -2012



Population shape -2050



Although the populations are currently young, this shape will change dramatically in the next 30-40 years. The insurance industry has a key role to play to support protection, savings and retirement needs.



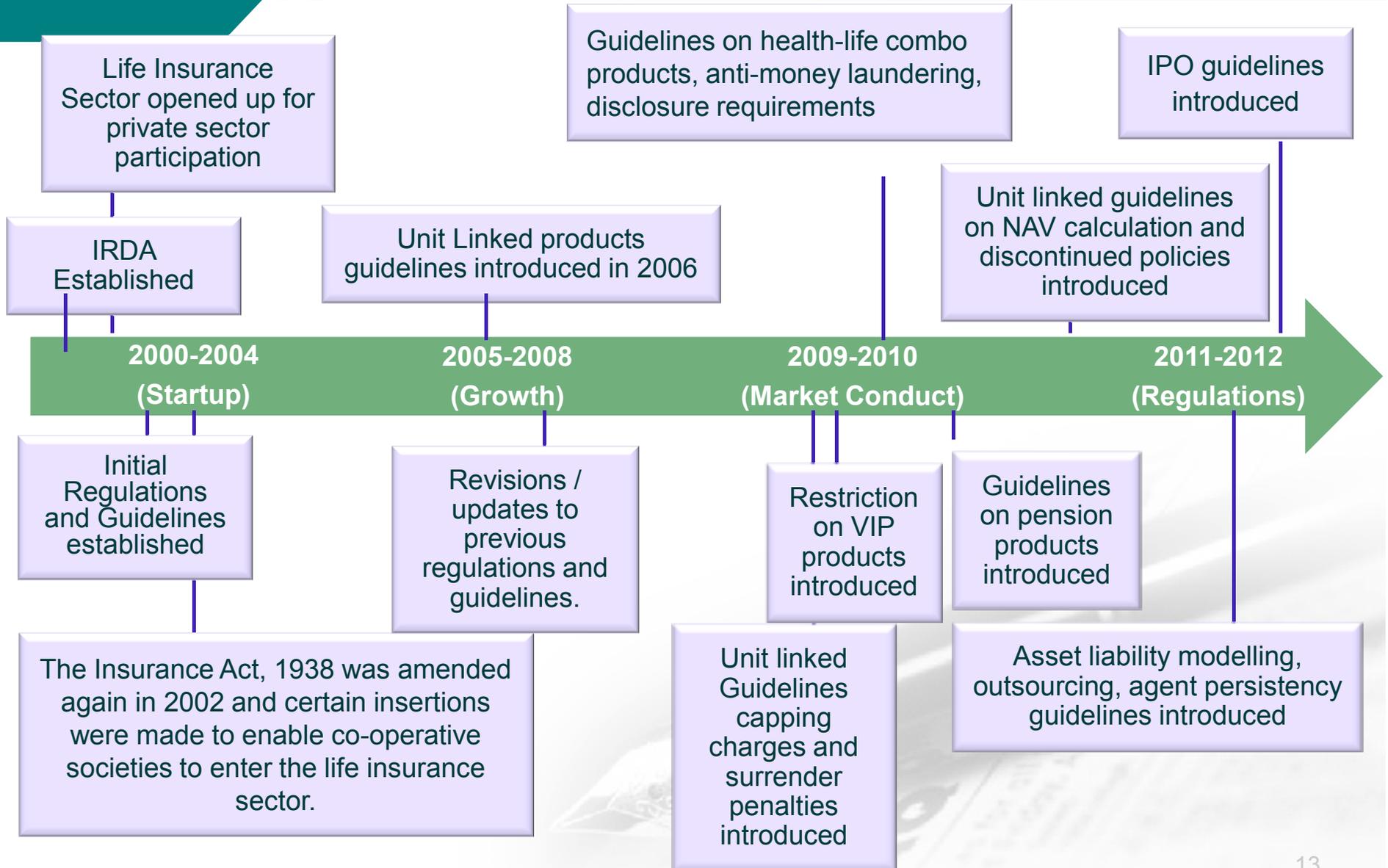
Life Insurance History

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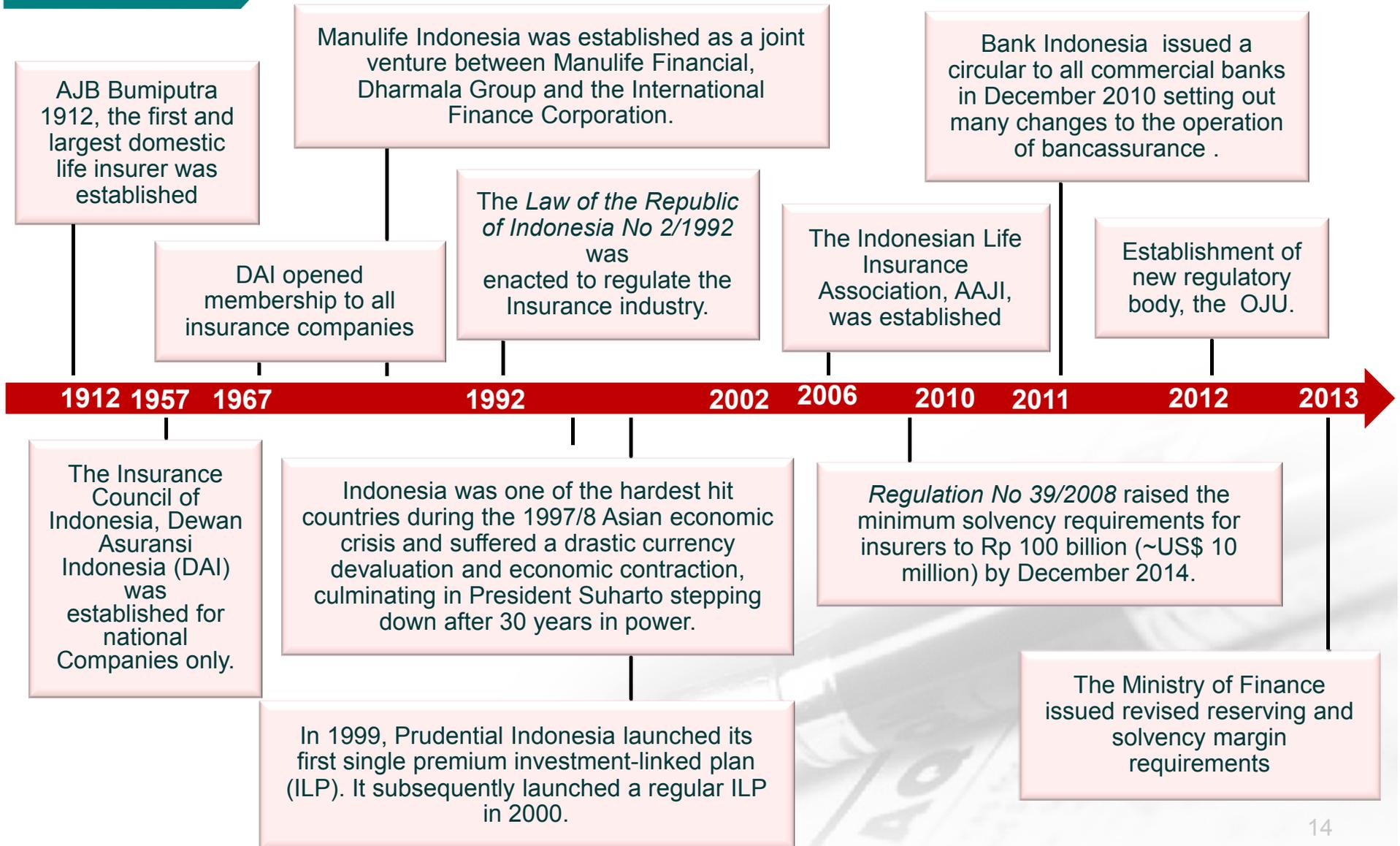
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India Life Insurance History



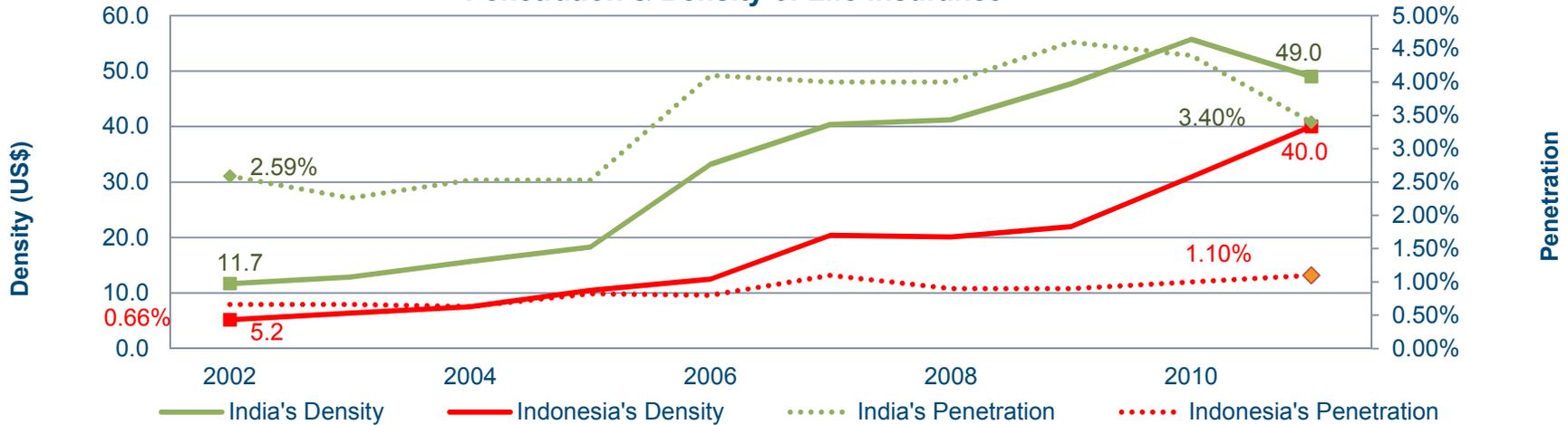
Indonesia Life Insurance History



Penetration & Density

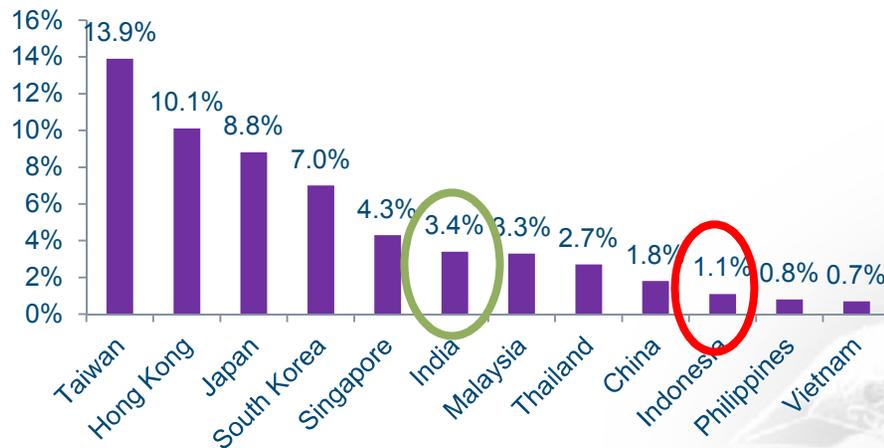


Penetration & Density of Life Insurance



Source : IRDA Annual Report & Swiss Re Sigma Reports

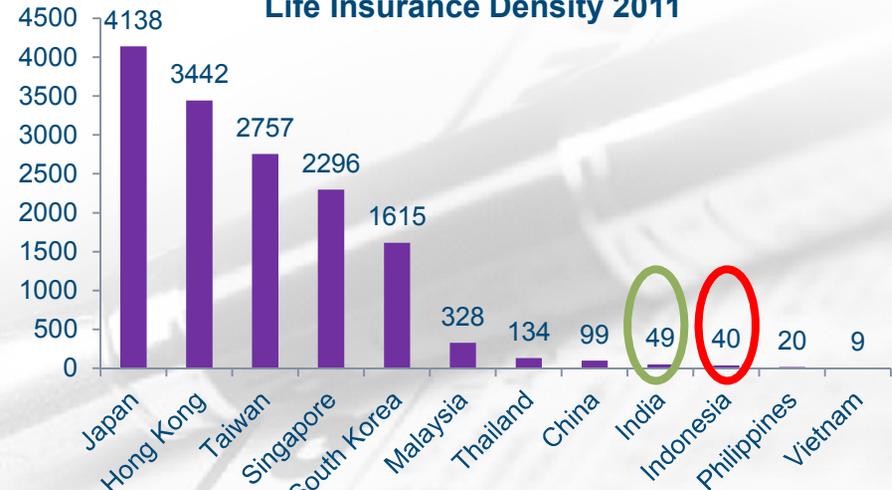
Life Insurance Penetration 2011



Source: Swiss Re Sigma Report

USD \$

Life Insurance Density 2011



Source: Swiss Re Sigma Report



Regulatory Environment

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Regulatory Environment Comparison (1)



	 INDIA	 INDONESIA	COMMENT
Regulator	Insurance Regulatory and Development Authority (IRDA)	Transitioning to new regulator the OJK (Otoritas Jasa Keuangan) from 2013, replacing Insurance Bureau of the Capital Markets & financial Institutions Supervisory Agency – Badan Pengawas Pasar Modal (BAPEPAM)	Both regulators responsible for both development and regulation
Market entry/ Foreign ownership/ Capital	FDI limited to 26%. Minimum level of start up capital limited to approximately US\$ 18 million.	Foreign investment limited to 80% for a start up. Dilution of domestic permitted in existing companies when future capital is required effectively allowing greater than 80% in many cases. Insurance companies have to increase their minimum level of capital to IDR100bn (approximately US\$ 10.3 million) by 2014.	India has a stronger capital regime.
Valuation of policy liabilities	Gross premium valuation methodology with use of best estimate assumptions with margins for adverse deviations (MADs).	Has been net premium for many years, with caps on the valuation rate of interest, but very recently announced plans to revert to a gross premium reserving methodology (but details not well defined).	Indian reserving requirement more advanced and robust. Indonesia slowly catching up.

Regulatory Environment Comparison (2)



	 INDIA	 INDONESIA	COMMENT
Solvency margin requirement	<p>Life insurers are required to maintain a solvency margin of the higher of:</p> <p>a) INR 500 million (~US\$ 9 million)</p> <p>b) a sum equivalent based on a prescribed formula, as determined by regulations, not exceeding 5% of the mathematical reserves for direct business and reinsurance acceptances, and a percentage not exceeding 1% of the sum at risk for the policies on which the sum at risk is not negative</p>	<ul style="list-style-type: none"> Life insurers are required to maintain a solvency margin calculated based on a risk based framework (factor based) covering: <ul style="list-style-type: none"> Asset default risk Cash flow mismatches risk Currency mismatches risk Insurance risk Insufficient premium risk Reinsurance risk. 	<p>Indonesian framework was introduced following currency crisis in late 1990's. New requirements have been introduced recently but regime falls short of the more advanced risk based capital frameworks in Singapore and Malaysia. Indian framework is not risk based and is somewhat 'inconsistent' to reserving approach.</p>
Minimum solvency margin ratio	150%	120%	In practice companies hold much higher levels (eg over 200% in both markets)

Regulatory Environment Comparison (3)

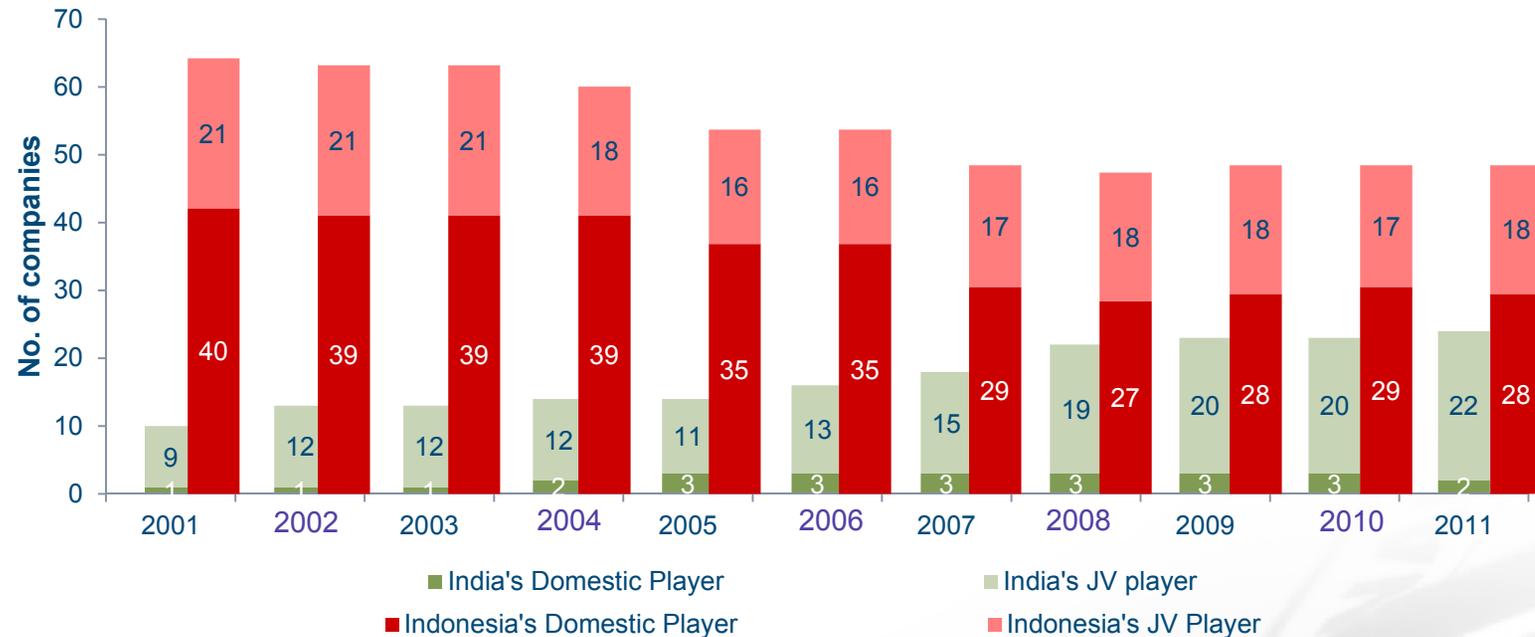


	 INDIA	 INDONESIA	COMMENT
Taxation	<p>a) Currently an E-E-E system of taxation:</p> <p>b) Tax on profits of 13.518% payable by insurance companies with eight year carry forward of losses.</p> <p>c) Service tax on provision of services payable by insurers/ agents. Service tax on charges on ULIPs and 'risk premium' in other business payable by policyholders</p>	<p>Corporate tax rate of 25% is payable by insurance companies, but investment income that has already been subject to withholding tax is not included in the tax computation. Impact is that very few companies pay corporate tax, and tax loses have no value.</p>	<p>Indian system has been under review for some time, with much uncertainty over future tax structure. Indonesian system is generous to shareholders, but little prospect of it changing in the medium term.</p>
Product approval	<p>File and wait formal approval which can take a long time. Many regulations on product design and charging structures.</p>	<p>File and wait for approval. Banking regulator also needs to approve bancassurance products. Time frame can take 2-4 months for non bancassurance products, longer for bancassurance products. Product design can be flexible.</p>	<p>Neither country adopts 'use and file', which adds to delays on product approval. Indonesia has more flexibility on product designs.</p>
Commission levels	<p>Regulated with commission caps through various channels.</p>	<p>No regulation of commission levels</p>	<p>Very different approaches.</p>

Number of Companies



Number of life insurance companies



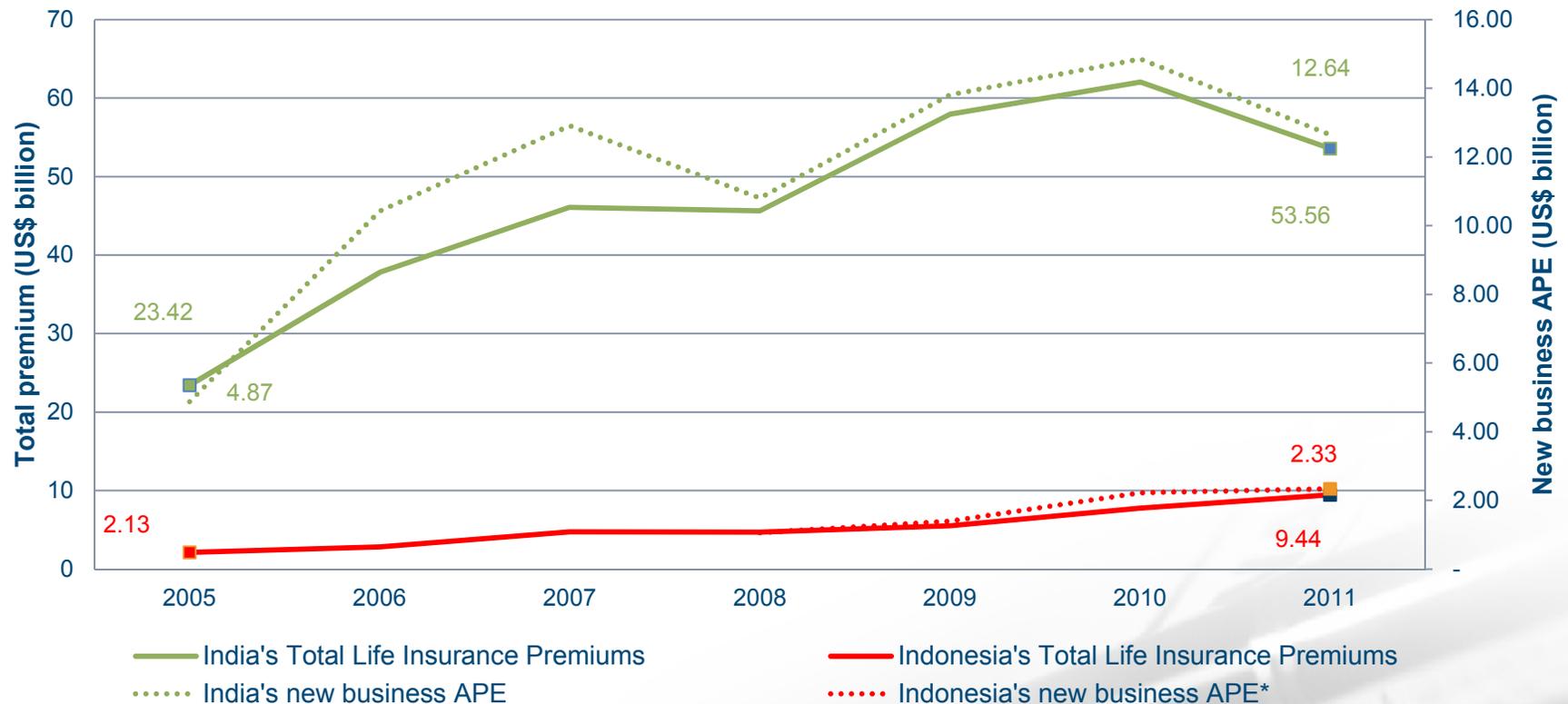
Source: IRDA & BAPEPAM Indonesian Insurance Report, AAJI

The number of companies in Indonesia has reduced as a result of some companies exiting the market in the early 2000's, the regulator not issuing new licenses for several years, and some consolidation. It is interesting to speculate on how many licenses each market can support; a combination of geography/population/minimum level of capital and FDI.

Life Insurance Premium



Life Insurance Premium (Total and New business APE)



Source : Swiss Re Sigma Reports & IRDA annual report

*: There is no data for new business APE for Indonesia from 2005 to 2007.

Historically both markets have shown strong growth. Whereas Indian growth has stalled new business APE in Indonesia continues to grow at around 15% per annum. Much growth is being fuelled by the expansion of new/existing players and the growth of the middle classes.



Products

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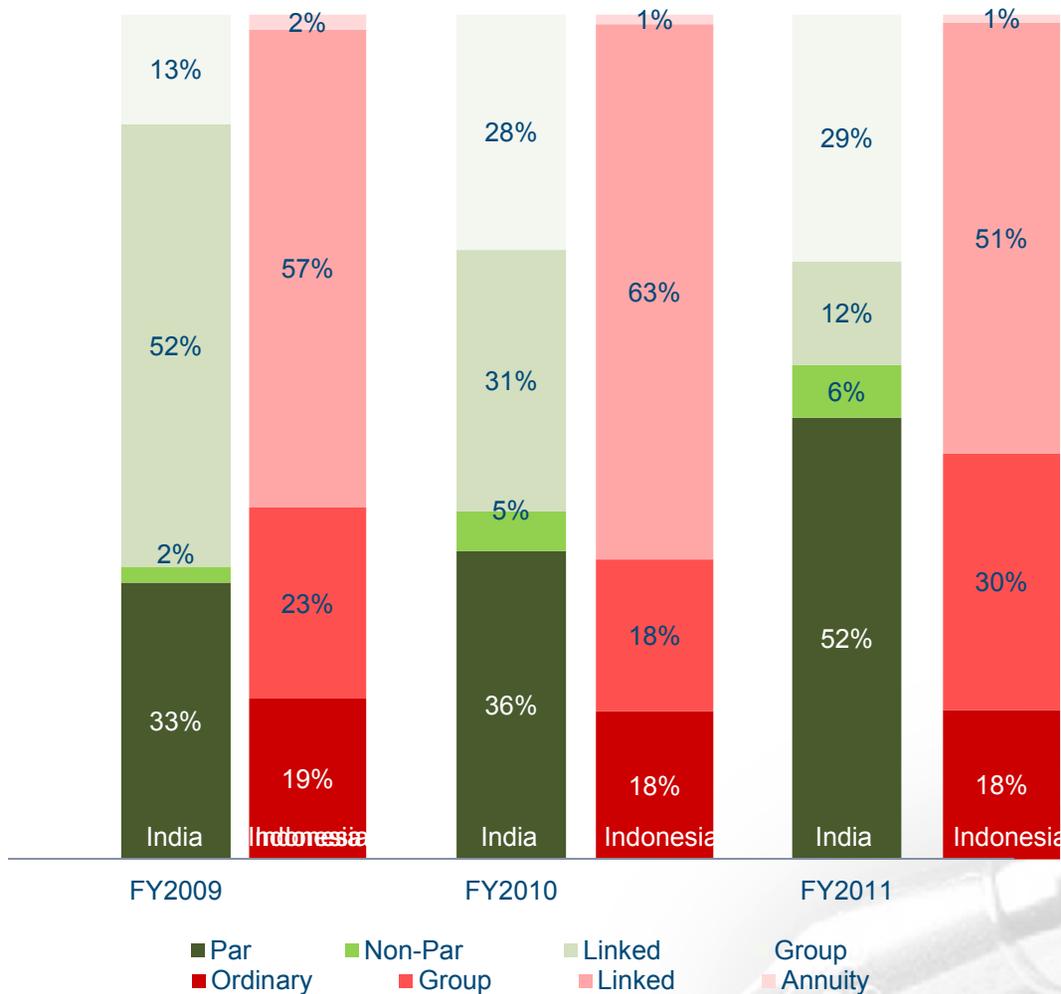
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Product Evolution



Product Split



The product classification is not identical but whereas India has seen a significant reduction in linked business since 2010, Indonesia has a fairly stable and significant proportion of linked business. Interestingly much of Indonesia's linked business is protection in nature, with companies like PCA offering many protection riders within a linked platform.

Stock market performance



Both stock markets show a similar pattern, however the Indonesia stock market has experienced a much sharper rise since 2009 reflecting the current and relative sentiment between the two countries.



Distribution

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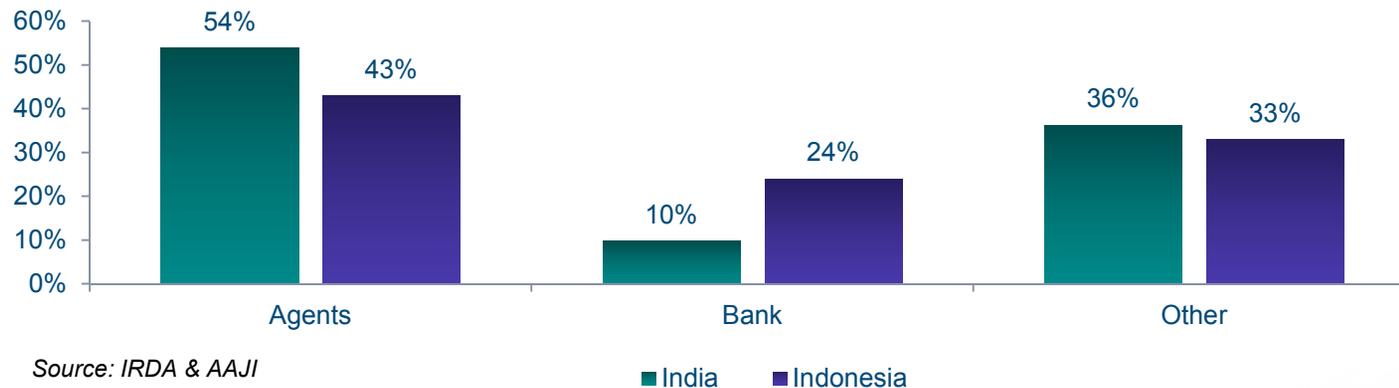
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Distribution



**Distribution Channel Split
by weighted new business (APE) premium 2010**



Distribution mix does not differ significantly between markets. India has a greater number of banks participating through direct shareholdings compared to Indonesia. Indonesia has the 'regional benchmark' for bancassurance with AXA Mandiri which continues to be very successful. In Indonesia banks have to offer a choice of three providers for packaged and protection related products. Bank staff are also not permitted to sell 'products with 'equity' content, with insurance companies needing to set up their own networks of financial advisors within bank branches to sell such products. Indonesia has also seen an expansion of 'the 'general agency' model which has helped the geographical expansion of some players.



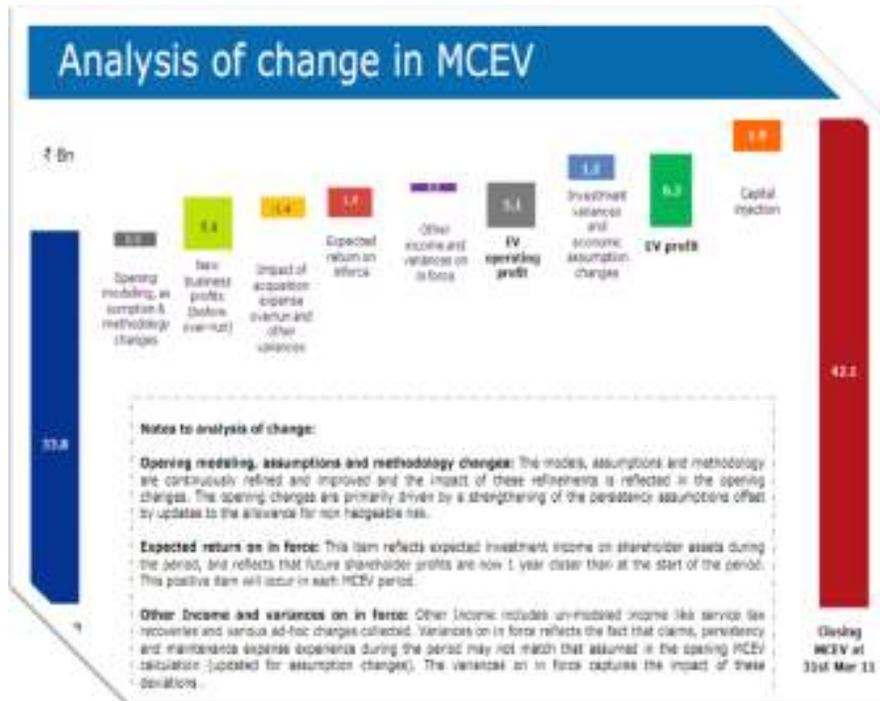
Disclosures

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Disclosure India



Several disclosures in India, mostly from the Indian promoter companies to support the valuation of the group as a result of the significance of the life insurance joint ventures. Disclosures range from a disclosure of new business margins, to the disclosure of the movement of embedded values. Such disclosures have also led to the release of several analyst reports on the insurance sector.

Disclosure Indonesia



Milliman

3 January 2012

The Directors
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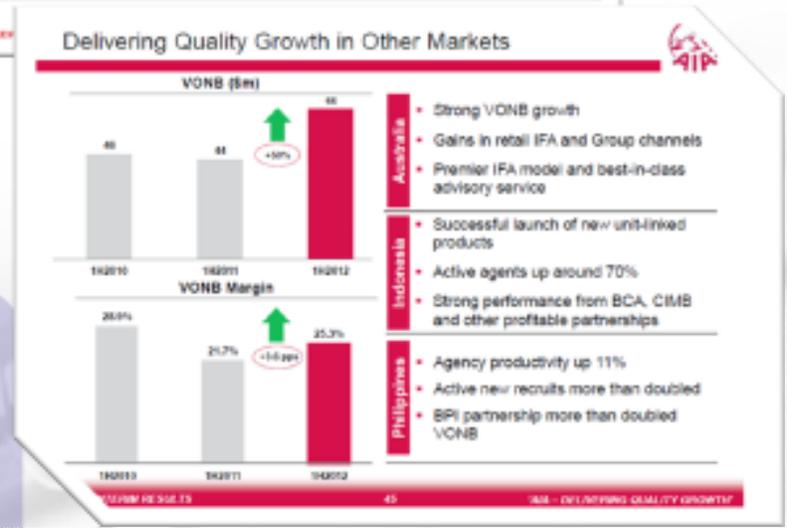
Dear Sirs,

Actuarial Consultants' Report - Components of Economic Value of SINARMAS MSIG as at 31 December 2010

Milliman Private Limited ("Milliman") has been engaged by PT. Asuransi Jia Sinarmas MSIG ("Sinarmas MSIG" or the "Company") and PT. Sinar Mas Mulia Tbk ("Sinar Mas") (collectively referred to as "you", "your", "yours") to provide actuarial advice on certain matters relating to Sinarmas MSIG. In particular, Milliman has been engaged to prepare a report (this Report) on the components of economic value of Sinarmas MSIG (formerly PT. Asuransi Jia Sinarmas) prior to the acquisition of a 50% shareholding by Mitsui Bussan Insurance Co., Ltd. (MBIC) on 1 July 2011.

Prudential Indonesia

William Kuan
Chief Executive Officer
10 November 2011



Very little disclosure in Indonesia. Sinarmas MSIG disclosed a valuation report in 2012 (on a TEV basis). PCA, AIA and others disclose new business margins, and PCA discloses further information on its market leading business.



Actuarial Societies

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Actuarial Societies



	 INDIA	 INDONESIA
Actuarial Society	Institute of Actuaries India (“IoAI”)	Society of Actuaries of Indonesia (“SAI”)
History	Established in September 1944 Became full member of IAA in 1979 Member of East Asian Actuarial Congress (EAAC) in 2005.	Founded on 19 October 1964 Has been a full member of IAA since December 2005
Membership	As at November 2012 membership comprised of: Fellows : 254 Associates : 133 Students : 9,446	In 2012 there were 178 Fellows and 158 Associates (compared to 111 Fellows and 138 Associates in 2003), So growth in number of Fellows etc has been slow. A shortage of skilled actuarial resource (with importing of talent from Malaysia and more recently India)
Exam System	In 1982, started its own Fellowship level examination system leading to the professional qualification of an actuary, prior to which accreditation was based on Institute and Faculty of Actuaries.	Revised examination system during the 2005-2008 period to meet IAA minimum requirements of full membership. Does not recognize international qualifications, but some international fellows can become Appointed Actuary (case by case basis)
Professional guidance/CPD	Many Actuarial Practice Standards (Guidance Notes) across all disciplines.	Few guidance notes, and less organized activity compared to other markets.

The Indian actuarial body is far more developed and has reacted well to opening up of the insurance market and the changing regulatory environment



Market Comparison

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Comparison of the two markets



	 India	 Indonesia
Economy	Positive	Positive
Political environment	Stable	Stable; encouraging
Demographics	Young, emerging middle class	Young, very fast emerging middle class
Regulation	Recently has become very regulated	Less interventionist; changes likely to be gradual.
Environment for growth	Difficult (currently)	Attractive margins, favorable demographics and conducive regulatory environment
Foreign equity cap	26%, ongoing uncertainty regarding the timing of increase to 49%	Can be high, greater than 80%. New licenses?
Overall	Significant uncertainty	Many conducive factors



Challenges & Opportunities

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Challenges



Many challenges and uncertainties remain, but long-term prospects remain good - Consensus amongst the Indian life insurance CEOs - *Milliman Survey of Indian CEOs in 2012*

 India	 Indonesia
Uncertain, resulting from significant regulatory change over a short period	Recruitment of management; distribution (agents and financial advisors)
“What next?”	An influx of new players with increasing competition
The marriage and possible divorce of joint venture partners	Unrealistic valuations setting high expectations amongst promoters, and uncertainty regarding new licenses
The sentiment of the stakeholders	Delivering on aggressive business plans

Observation: In many ways India has seen many of the challenges that Indonesia has and could be grappling with in the next few years.

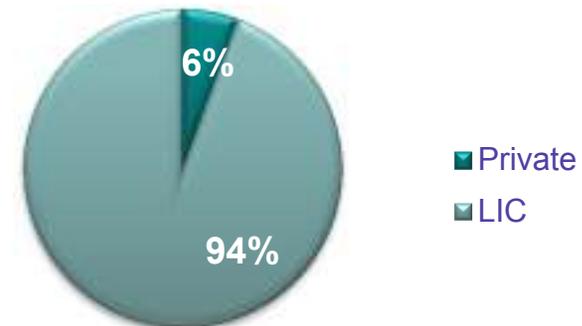
Opportunities - Microinsurance



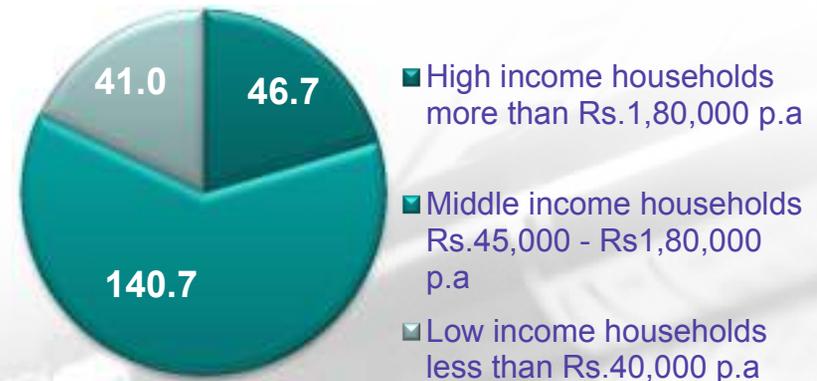
India

- “Micro-insurance” is seen to be synonymous with “rural” or “social” sector requirements as imposed by the IRDA.
- Most insurers see this as regulatory compliance as opposed to a business opportunity. More effort has been expended on developing the core distribution channels.
- Most insurers have a few “micro-insurance” products, which are used mainly to meet the minimum rural and social sectors obligations.
- However the opportunity would appear to be significant given the significant level of population in unorganised sector with volatile income profiles.

Share of new business premiums under microinsurance for FY2010-11



Number of households by income levels in FY2009-10 (in millions)



“More entities may be allowed to sell micro-insurance”

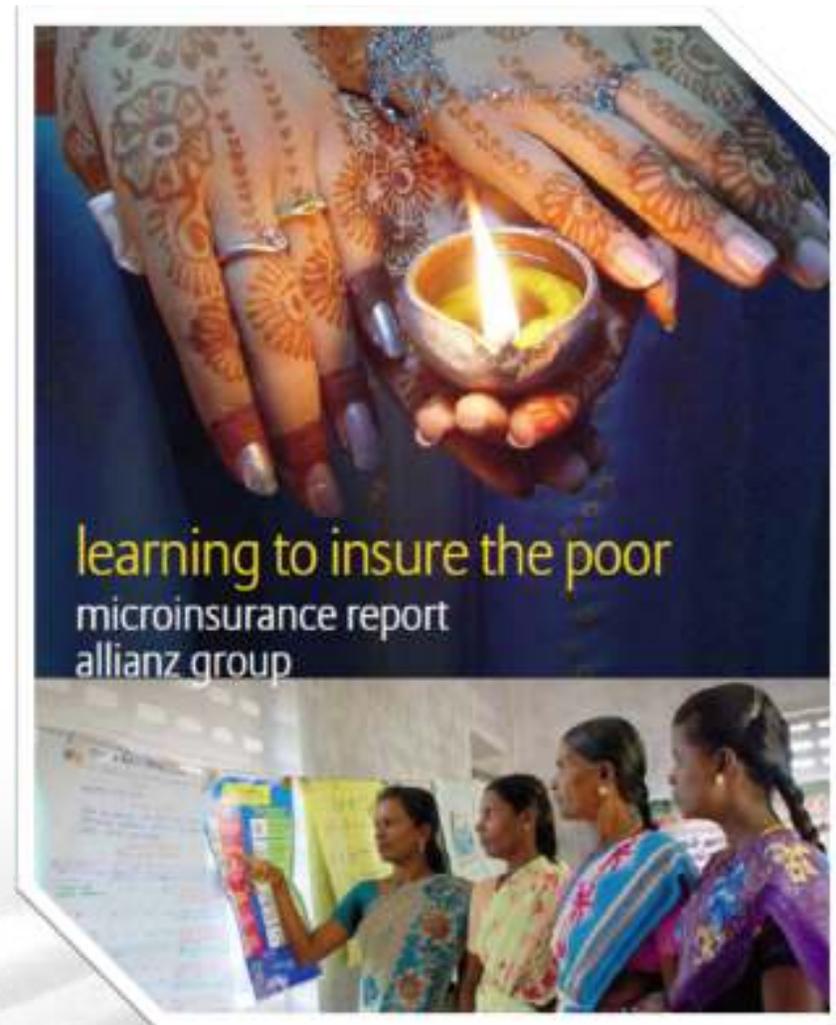
The Hindu Business Line; February 2013

Opportunities – Microinsurance



Indonesia

- No regulatory requirements so not necessary for companies to focus on mass and microinsurance sectors
- Allianz has been one of the more prominent players, with disclosure of their microinsurance initiatives globally, including Indonesia. Others are exploring microinsurance but no clear committed or profitable models at this stage.
- A similar landscape to India with regional and 'rural' banks and a large geography. Microinsurance or microtakafulinsurance may emerge as players look to tap the mass/lower markets.



Microinsurance/mass initiatives



5. Indonesia: Micro-Endowment

A. Product Specifications

5. Indonesia: Micro-Endowment

B. Product Assessment

5. Indonesia: Micro-Endowment

C. Product Brochure

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Building a prosperous future

Tamadara - Secure and clear

- TAMADARA combines the benefits of saving for the future with insurance protection
- No administrative charges
- No medical examination needed for joining
- Attractive membership certificate
- Life insurance protection starts on the first day
- Free for the 5 critical illness* starts after the 90th day
- Free usage of the maturity benefit, for example for the education costs of your child
- You can choose the beneficiary, for example your child
- Your traditional car job is well with a separate membership
- The staff of the group policy holder will assist you if there is a claim. After a claim, the membership ends.
- 100% of your premium will be returned to you after 5 years (there is no claim)
- Gratification of membership will be subject to a charge of 1.5% of the premium already paid**

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Allianz is one of the largest insurance and financial services providers in the world, established in Germany in 1893. Today Allianz is present in over 70 countries and serves approximately 75 million customers worldwide.

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SBI Life
INSURANCE

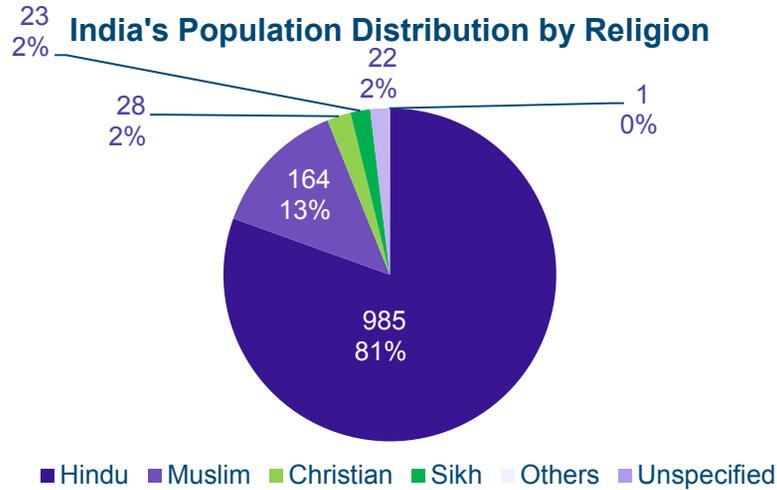
With Us, You're Sure

SBI Life - Grameen Shakti

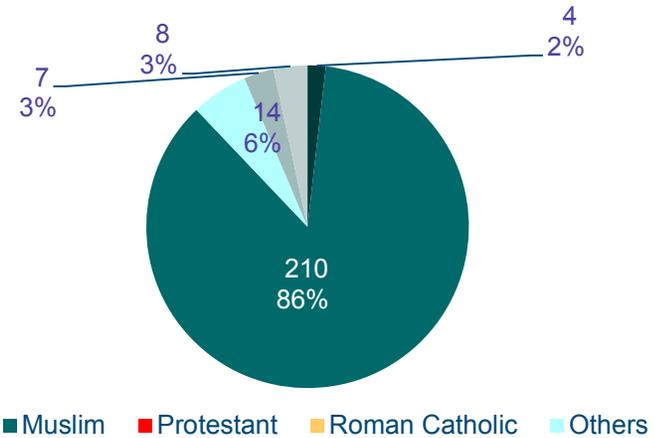
The Takaful Opportunity?



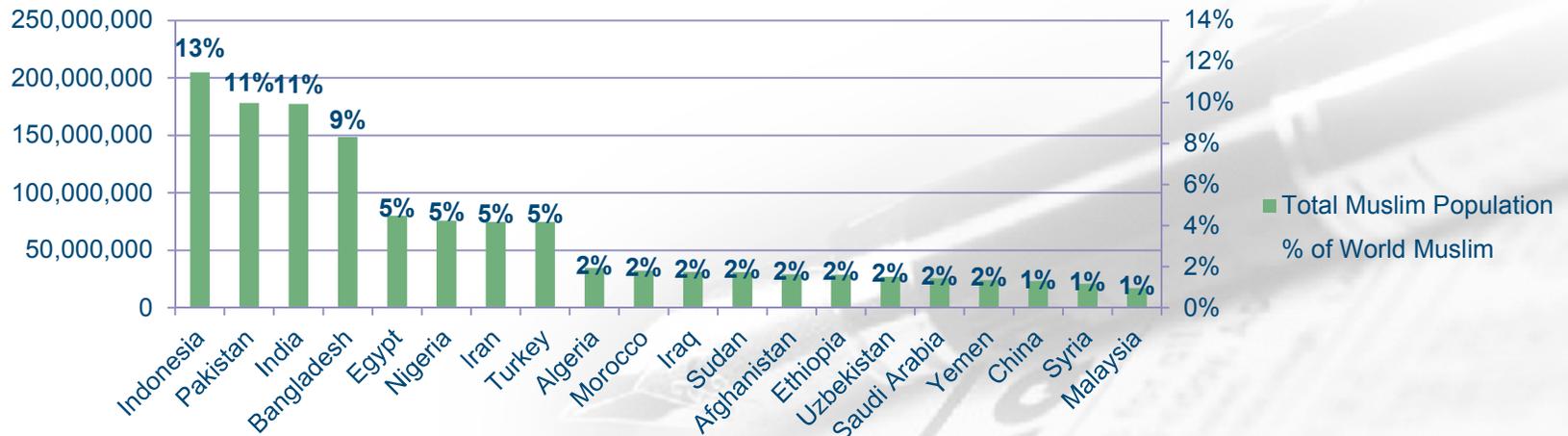
India's Population Distribution by Religion



Indonesia's Population Distribution by Religion



Most Populous Muslim Countries

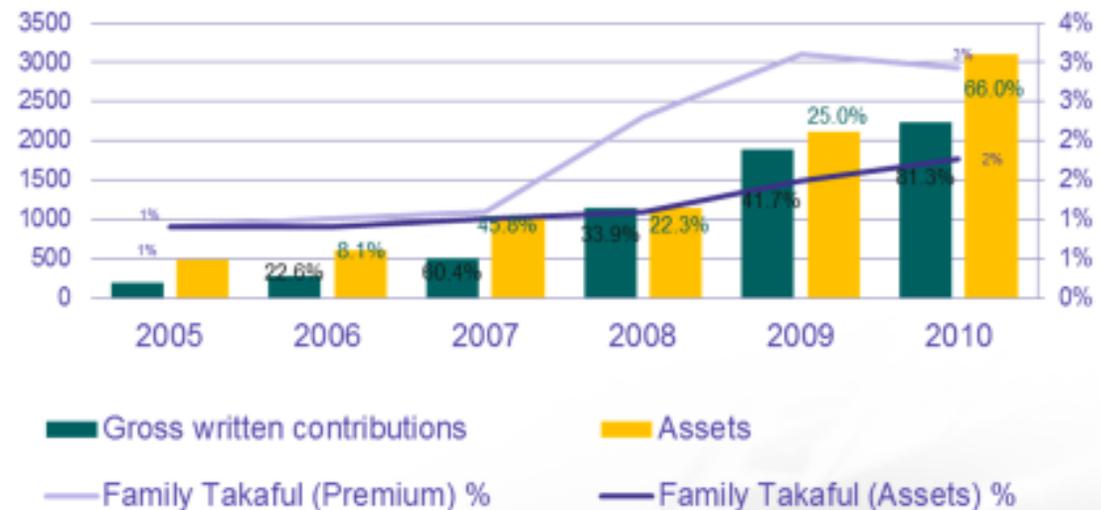


Sources: CIA World Factbook, 2000 Census; Wikipedia

The Takaful Opportunity

- India and Indonesia have two of the world's largest Muslim populations
- Indonesia has one dedicated (but small) takaful (Syariah) insurance company, with other companies permitted to sell takaful products through takaful windows within the conventional insurance license (~ 25 windows).
- We estimate that family takaful premium now comprises of around 4% to 5% of total premium (conventional life insurance and family takaful)
- Plans by the Indonesian regulator to require takaful to be written through stand alone licenses (maybe from 2014) is likely to lead to more dedicated and serious takaful players (as is the case in Malaysia)
- Less clear cut how takaful could emerge in India but a large potential target market. . .

Historic Family Takaful Gross Contributions (unweighted) and Assets (Rp billion)



Sources: BAPEPAM LK, 2009 Insurance Report (2005-9), 2007 Insurance Report (2002-2004)
 Note that 2011 Family Takaful statistics were not available at the time of writing this report



The Next Decade Predictions

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The Next Decade Predictions



India



- Regulations need to ease, but how quickly? We have hit a 'regulatory rock bottom'. Conflict between market development and market regulation to be addressed. Growth initiatives required.
- FDI cap will increase; the current market sentiment will be conducive for this happening sooner, rather than later
- The number of players likely to increase as sentiment improves.

Indonesia

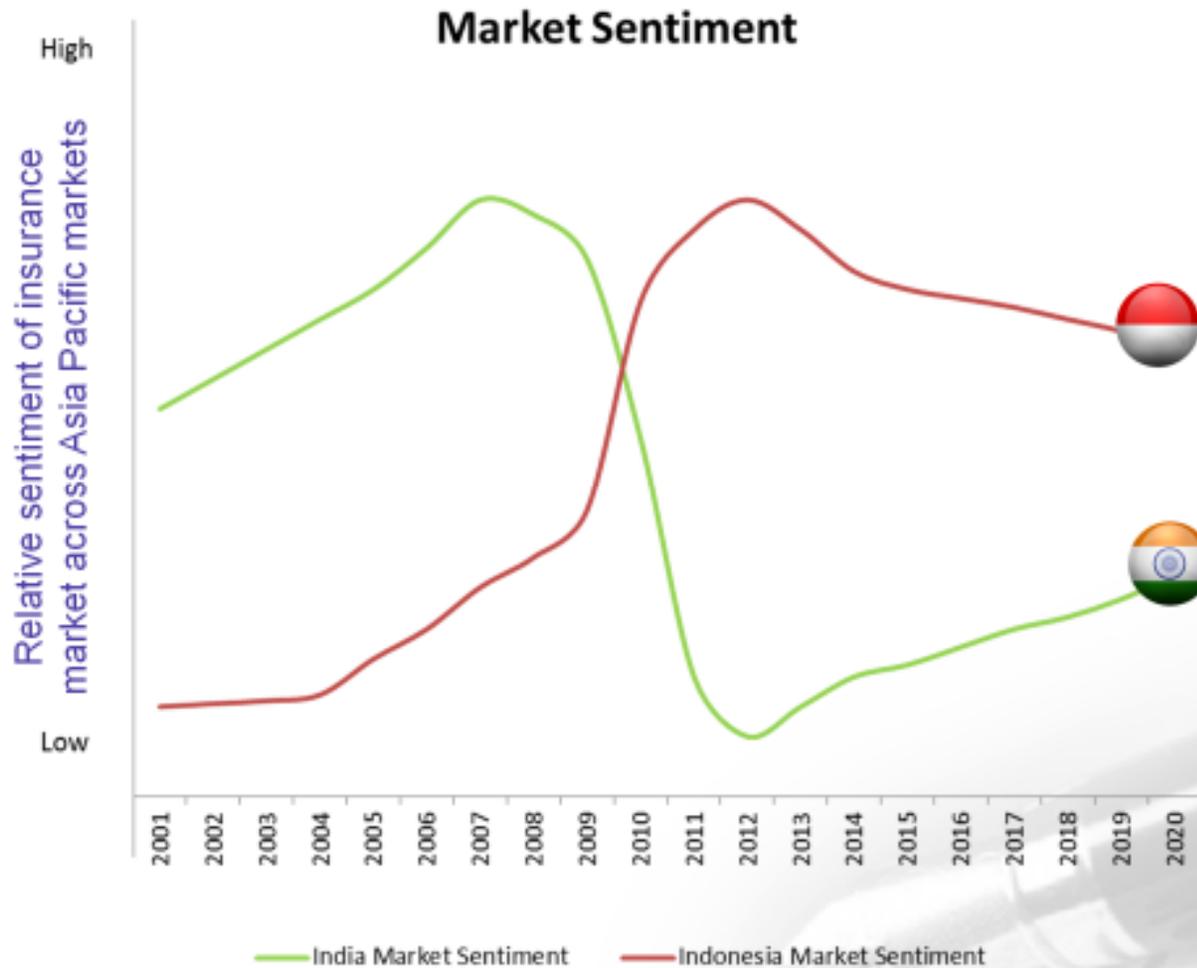


- Regulations will develop, but hopefully in a more structured manner than India.
- New entrants will find it harder to recruit management and distribution and margins will be under pressure for smaller players as competition increases.
- The OJK will come under greater pressure to address the state of the few insolvent companies.

The Next Decade Predictions



Market Sentiment in 2020?



Looking forward Indonesia is likely to remain one of the hottest markets for some time (but the Japanese interest may cool), and hopefully India will recover with the relaxation of the regulatory environment making the market more conducive to promoters.



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