

4th **INDONESIAN ACTUARIES SUMMIT 2019**

"ACTUARY AND BUSINESS ETHICS"

A forward perspective of Syariah in Indonesia

Brian Colgan, FIA

Consulting Actuary



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Market landscape

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Survey Results on Syariah Spin-Off

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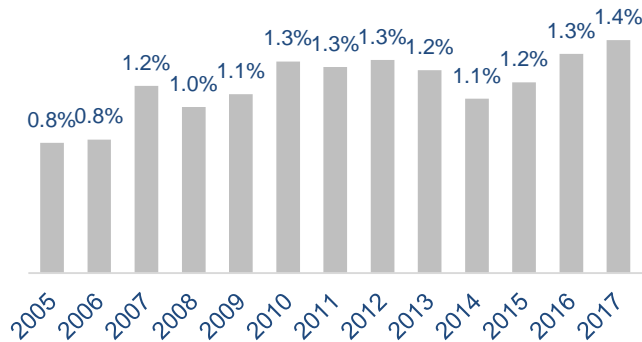
Market landscape

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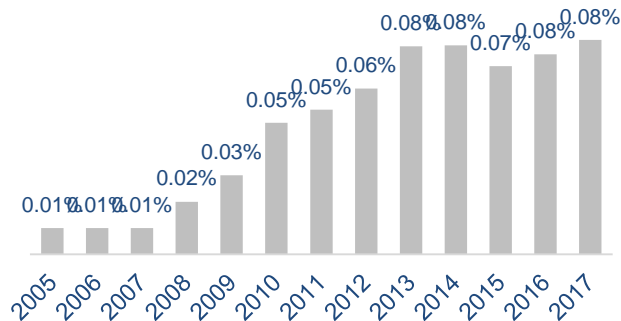
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Syariah Penetration

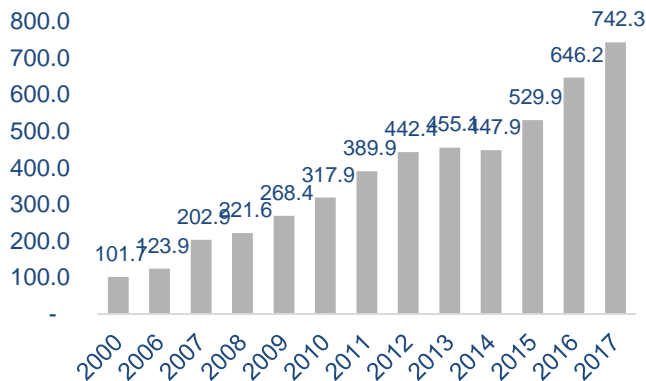
Life premiums as a proportion of GDP (includes Syariah premiums)



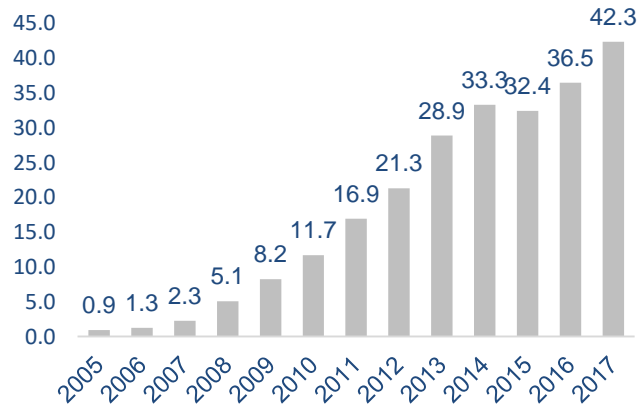
Syariah premiums as a proportion of GDP



Per capita premiums (Rp'000) on life insurance (includes Syariah premiums)



Per capita premiums (Rp'000) on Syariah



- Penetration rate of the life insurance industry is 1.4% of GDP in 2017 (around half of Malaysia)
- The Syariah penetration rate is 0.08% of GDP, which is only a quarter of Malaysia's rate.
- Significant opportunity to grow Syariah business due to large Muslim population
- Challenges remain e.g. due to the lack of public awareness of insurance, a large and dispersed population.

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Syariah % of Total Insurance Market

Syariah Premiums as Percentage of Total Life Premiums

Rp billion (US\$ million)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Syariah %	0.9%	1.0%	1.1%	2.3%	3.1%	2.8%	4.3%	4.8%	6.4%	7.4%	6.1%	5.6%	5.7%

Syariah Assets as Percentage of Total Life Assets

Rp billion (US\$ million)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Syariah %	0.9%	0.9%	1.0%	1.1%	1.5%	1.6%	3.2%	3.7%	4.4%	2.2%	5.7%	6.5%	6.1%

Source: OJK Insurance Reports Note: Exchange rates used: 1 USD = 13,563 Rp

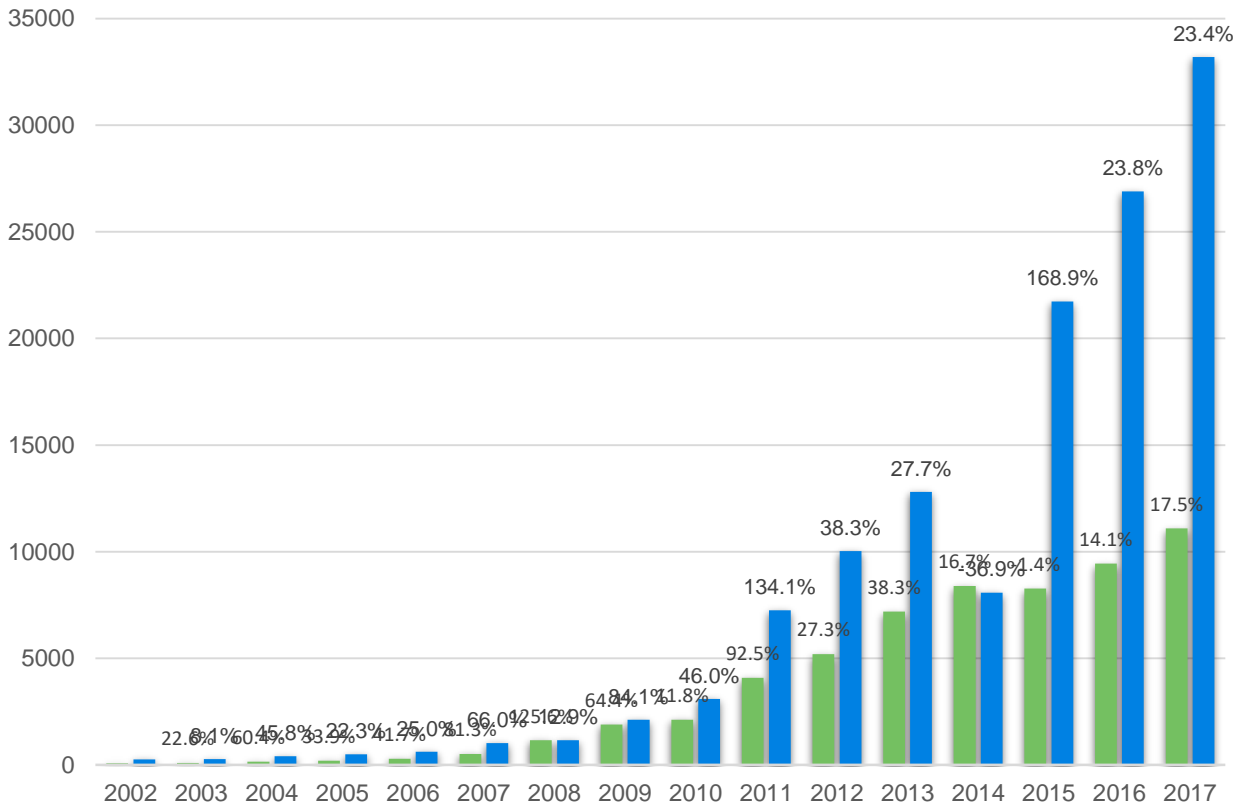
- Increasing market growth, particular in 2008/2009, when Syariah premiums tripled due to new market entrants.
- The Syariah market remains to be small, contributing only 5.7% of total life premiums in 2017

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Syariah – Historic Market Growth

Historic Syariah Gross Contributions (Unweighted) and Assets (Rp Billion)



- Market growth continues to be driven by investment linked business
- Slowdown in overall market growth due to recent stock market volatility.
- Significant growth in Syariah assets and contributions.
- Double digit growth continues for Syariah industry

Sources: OJK Insurance Reports

■ Gross written contributions ■ Assets

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Number of Life Insurers vs. Syariah Providers

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of life insurance companies	60	57	51	51	46	45	46	46	45	47	49	50	55	55	61
- Number of domestic insurers	39	39	35	35	29	27	28	29	26	28	30	31	33	31	37
- Number of foreign joint ventures	21	18	16	16	17	18	18	17	19	19	19	19	22	24	24
Number of fully-fledged Syariah insurers	2	2	2	2	2	2	2	3	3	3	3	3	5	6	7
Number of Syariah windows	2	3	8	9	12	13	17	17	17	17	17	18	19	21	23

Source: OJK Insurance Report, 2007 – 2017

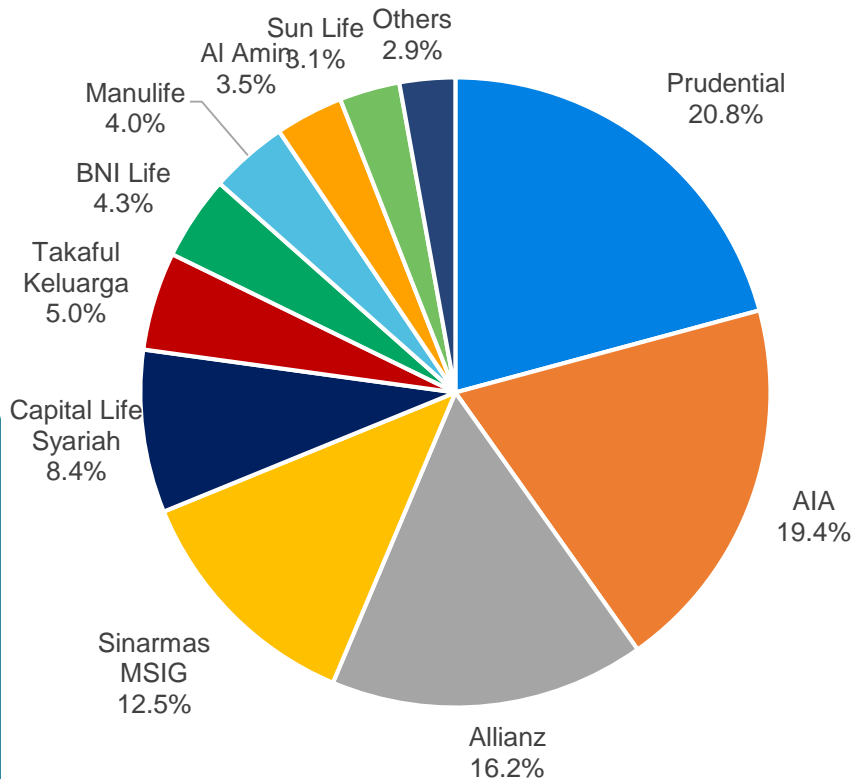
- In recent years there has been considerable additions of market players in the life insurance industry, with the number of life companies increasing from 45 in 2011 to 61 by the end 2017.
- Foreign asset ownership and foreign-controlled premiums now account for more than 50% of the total market.
- In 2003, there were only two fully-fledged Syariah insurers. This increased to 7 by 2017. According to local news in 2018, PT Asuransi Simas Jiwa have initiated the process to spin-off their Syariah unit, and PT Pacific Life Insurance and PT Bhinneka Life have initiated the process to set up a fully-fledged Syariah insurer without having a Syariah unit.
- In 2017, the number of Syariah windows had increased to 23, as many conventional players set out to the maximise the opportunity from the growing appetite for Syariah business in Indonesia. According to local news, PT MNC Life Assurance (MNC Life) has been reported that they have initiated the process to set-up Syariah windows in 2018.

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Syariah Players - Life

The top 10 Syariah life insurance players in the Indonesian market based on gross contributions for 2017 is set out below.



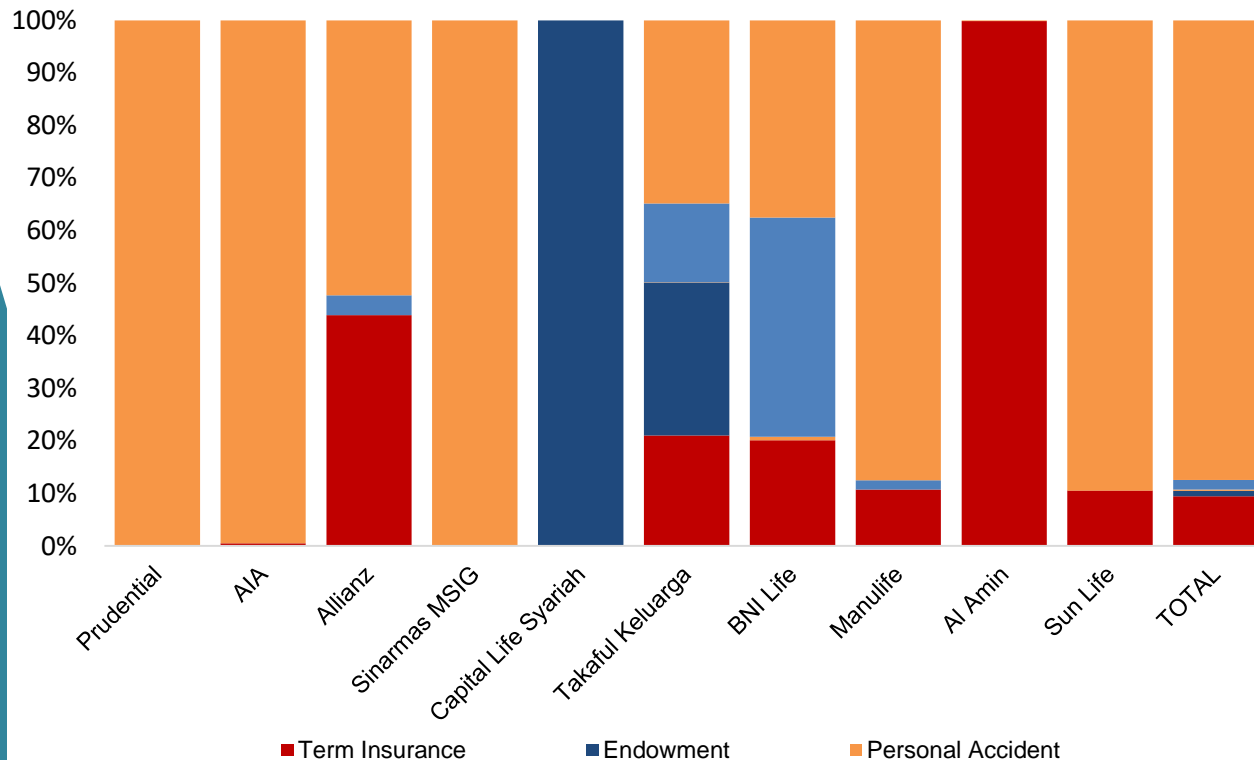
- Top 5 players are Prudential, AIA, Allianz Life, and Sinarmas MSIG making up more than two-thirds of the total market share in 2017.
- Prudential have overtaken AIA as the largest Syariah player in 2017.
- The two largest players, Prudential and AIA, contribute to around 40% of the total market share
- This is largely driven by the success of its regular premium investment-linked Syariah products, and their large agency force

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Syariah Life Product Mix

Product mix (based on gross contributions for 2017) for the 10 Syariah life players in the Indonesian market is set out below.

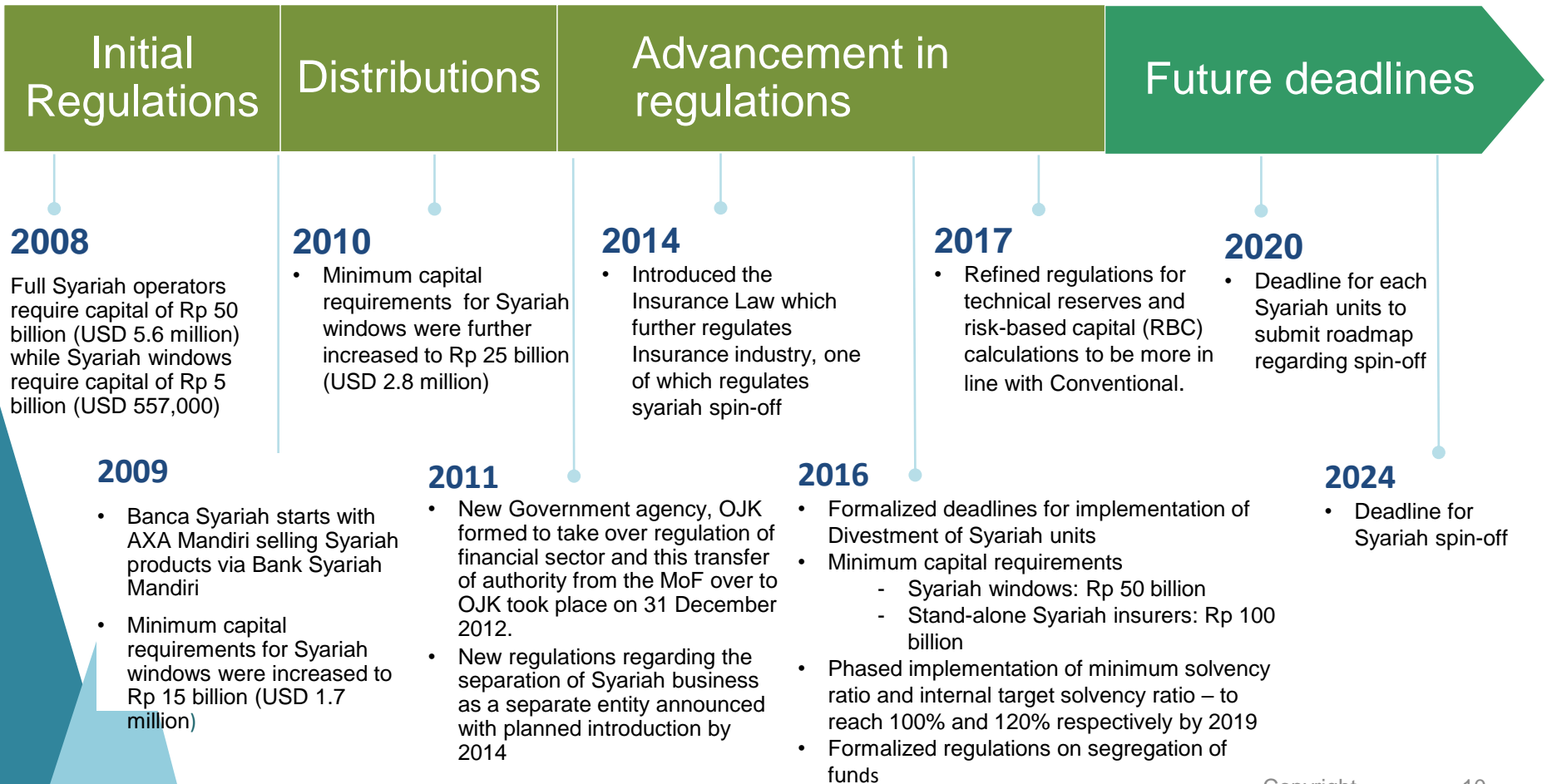


- Investment-linked business continue to dominate the market in 2017 (>80%).
- The multinationals tend to focus on selling investment-linked business whereas the local players tend to focus on traditional products.

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Key Milestones - Syariah



Challenges on the spin-off requirement

Syariah spin-off

Challenges

Potential long-term objectives?

- Syariah spin-off regulations, together with a more comprehensive regulatory framework is intended to stimulate further growth in Syariah
- Encouraging more focus by companies in growing Syariah business, moving from 'window' to 'standalone entity'
- Developing skilled human resource in the long term in Syariah

Short to medium term implications

- Increased expenses and capital requirement
- Uncertainty in overall profitability
- Uncertainty on whether there it is financially viable to continue Syariah business
- Lack of skilled human resources

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Actuarial role is Syariah spin-off

- The actuarial department has the responsibility of investigating the feasibility / viability of the company to go through the Syariah spin-off.
- Is there a business case for the company to spin-off its Syariah business?
- Or is it better of foregoing Syariah business and to focus on the conventional insurance business
- The Actuary and its team will need to model these projections to allow shareholders to make an informed decision on this key issue.



Assessing Syariah spin-off viability

Feasibility study

Indonesian Syariah Insurance Association (AASI) stated that insurers with Syariah business units should conduct feasibility studies covering the following:

- business and strategic plans
- capital
- legal aspects
- licensing
- information technology
- human resource.

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What does it mean for companies?

Evaluating the viability of spinning-off the Syariah business

Business projections

- Sales growth projections
- Capital projections
- Expenses

Resources

- Availability of resources for the spin-off review work
- Resources for the standalone Syariah entity

Wider considerations

- Wider business considerations
- Tax
- Legal (e.g. local partners, single presence)

Lack of clarity in the regulations (as they are in development) making it difficult for companies to do their business projections

Key considerations

Uncertainties faced in the Syariah spin-off journey

1

Extent of shared services / systems allowed?

2

Business growth potential?

3

Foreign shareholding limits / Challenges in finding a local partner

4

Transitional arrangements?

Potential changes in the future Syariah landscape

Opportunities

Standalone entity

- Higher capital requirements
- Higher expenses
- Increased effort to grow business
- Compliance e.g. IFRS17!

Market exits?

- Companies with small Syariah blocks may exit the market

Market consolidation?

- To achieve scale as quickly as possible
- Larger businesses acquiring smaller business (e.g. portfolio transfer)?

All these strategic decisions need to be supported by business projections to enable management/Board to make a sound business decision.

Early vs delayed spin-off

High level assessment of an early spin-off

Pros

- Early mover advantage
- Wider choice of JV partner and distribution partner
- Ability to acquire other takaful companies to accelerate growth
- Building Syariah brand name sooner in the market

Cons

- High capital requirement from outset
- Higher operational expenses (no economies of scale)
- Limited skilled human resource
- Limited opportunity to learn from others' mistakes.

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Key lessons learned from Malaysia

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Key success factors

Growth of takaful in Malaysia

Key drivers to takaful growth in Malaysia

- Support from the government to grow Islamic finance
- Government businesses to support takaful growth
- Robust regulations and corporate governance, with strong regulators (including National Sharia Council).
- Effort on education and increasing public awareness
- Availability of suitable assets (e.g. sukuk)
- Developing human talents in Islamic finance
- Selective and gradual process in issuing Takaful license

Takaful industry progress and pitfalls

The Malaysia experience

- Largest family takaful market globally - significant proportion of single premium / credit-related business due to government business and growth of Islamic banks
- With increased awareness, there are consumers who are willing to pay slightly more for Syariah compliant products
- Companies often sell Takaful and conventional products that 'look and feel' the same. Often this is intentional for the ease of managing distributions.
- Thus Takaful is subject to the same regulations (e.g. RBC capital). As most takaful companies are still small with expense overruns position, this impedes the growth of the market.
- Average premium size is lower, but has improved. Issue of poor persistency remains (partly due to the socio economic background of the customers)

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Splitting of composite license

Family and General Takaful in Malaysia

Takaful Act 1984	Insurance Financial Service Act 2013	Viability assessment	Reduction in General Takaful players	Encourage industry growth
<ul style="list-style-type: none">▪ Allows for takaful composites to exist	<ul style="list-style-type: none">▪ Requires split of general family / licence by 2018	<ul style="list-style-type: none">▪ General business is small▪ Requires RM100m capital	<ul style="list-style-type: none">▪ By 2018, number of General Takaful provider halved	<ul style="list-style-type: none">▪ Increased focus▪ Develop skilled human resource

Shortage of talent in Malaysia remains

Key lessons learned in Malaysia

Separate actuarial team

- Higher operational cost
- Less skilled and experience, often much smaller team
- Relies on the 'innovation' from the conventional company
- Tends to have higher turnover rates
- Concentration risk of expertise (e.g. only one strong Prophet modeller).

Shared actuarial team

- Lower operational cost
- Ability to leverage on conventional experience
- Attractive to employees – provides valuable exposure to both conventional & Syariah
- Ability to work together, rather than compete, with conventional business

Key challenges for Takaful

The Malaysia experience

- Mainly driven by investment-linked business
- Regulators are questioning the appropriateness of such product for the lower income group
- Recent investment-linked guidelines may have a negative impact on ILP sales (lower sales illustration rates, higher minimum allocation rate)
- Takaful industry are required to 'reform'
- Encouraged to differentiate themselves compared to conventional business
- The regulators are keen to increase penetration in the lower income group

Key opportunities for Takaful

The Malaysia experience

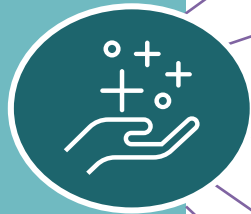
- Most multinationals continue to view takaful as the key growth market in Malaysia
- Upper mass / high net worth market which was previously served by the conventional market is largely saturated
- There is now focus is to develop the mass and lower income market via takaful
- There is a need to develop products that are suitable for such target markets, using appropriate distribution channels (e.g. simple products)

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Leveraging on Insurtech

Opportunities
For The
Industry



- **Better customer experience and value**
- **New Markets - uninsured**
- **New products and new business models**
- **Lower cost structure**
- **Greater transparency and better analytics**
- **Emerging Risks**

Survey Results on Syariah Spin-Off

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Multiple-choice poll

 Milliman

Syariah: What is your biggest concern about Syariah spin-off requirements?

036

sufficient growth in the market to support the minimum capital requirement

 58 %

ability to find a local partner to meet the 80/20 shareholding requirement

 28 %

finding a suitable distribution partner

 3 %

availability of qualified and experienced insurance professionals

 3 %

lower profit margin from Syariah than conventional

 8 %

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Multiple-choice poll

 Milliman

**Syariah: For a spin-off what strategy
would you consider most appropriate for
your business?**

037

Selling current block of Syariah business and exiting the
Syariah market

 24 %

Spin off and aim to grow the Syariah business organically

 59 %

Spin off and aim for inorganic growth

 16 %

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Thank you

Brian.Colgan@milliman.com

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