

# **Environment External Forces for the Future of Insurance Industry in Indonesia**

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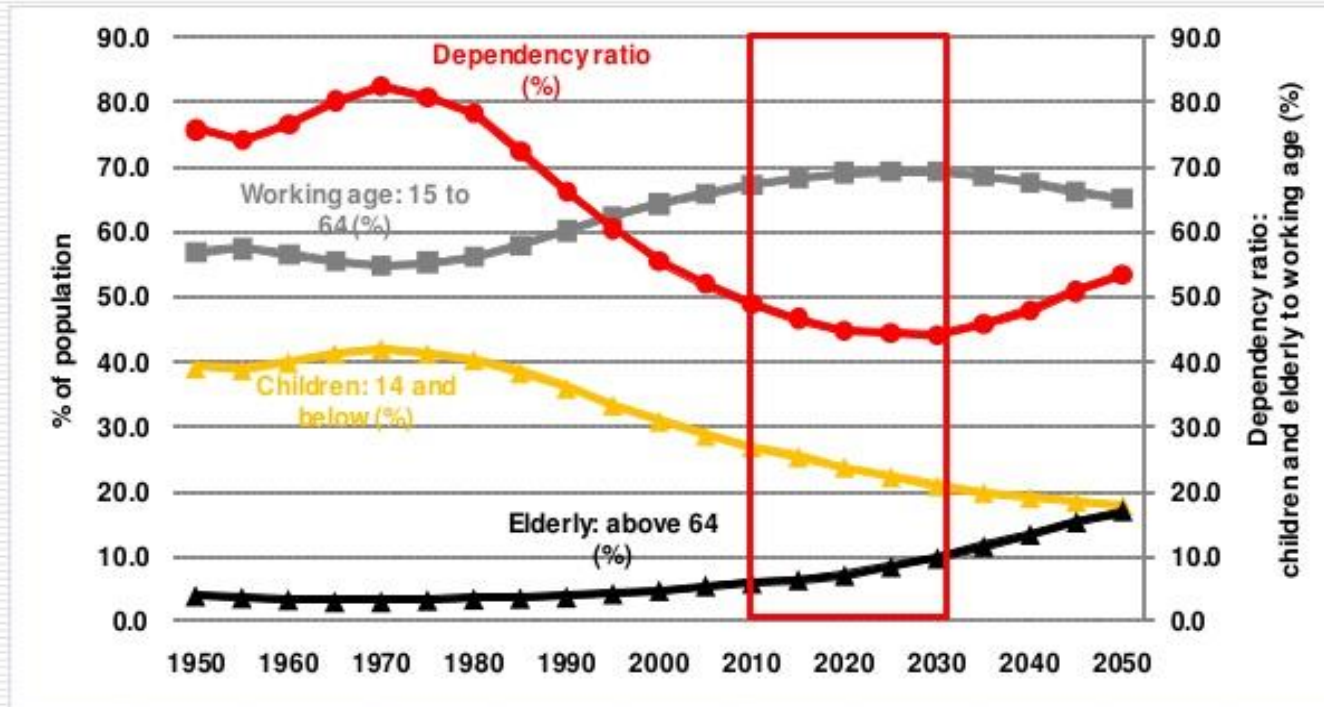
Joint Regional Seminar, Jakarta, July 31, 2019



**PERSATUAN AKTUARIS INDONESIA**  
(THE SOCIETY OF ACTUARIES OF INDONESIA)

# Demographic Bonus

## Maximizing opportunities: Indonesia's remaining demographic dividend

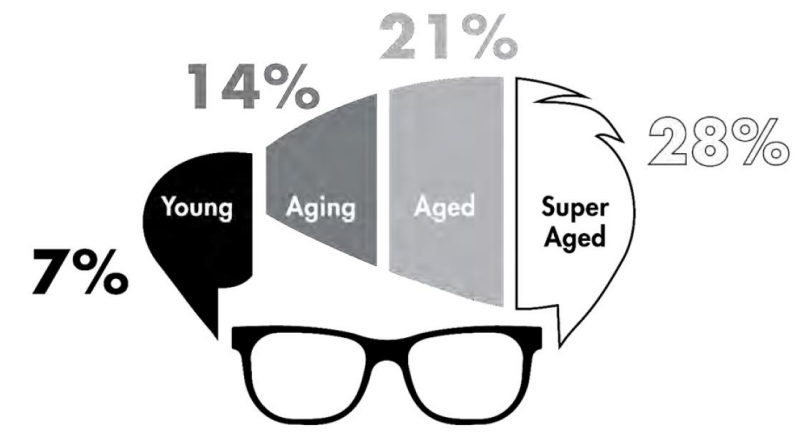
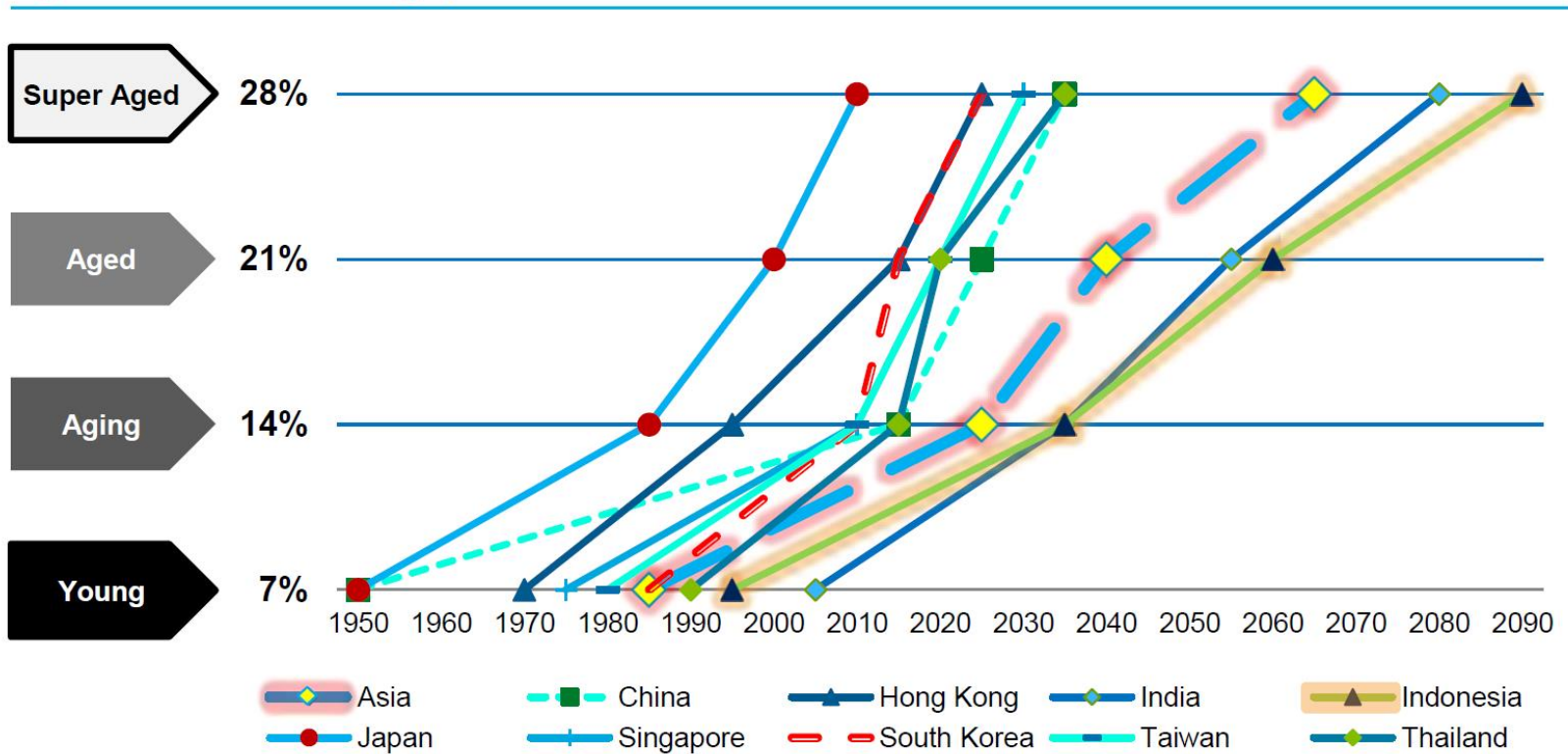


Source: World Bank, "Indonesia economic update: Near-term issues and looking ahead to 2012," March 2011.

- 2010 – 2045 are the years where dependency ratio <50%. Meaning in a family there are twice no of people working vs not working. Median age 28
- Compared with other countries as per 2015 (dependency ratio/median age)
  - China (37.7%/37)
  - India (52.2%/28)
  - Japan (64%/46)
  - USA (51.2%/38)
  - UK (55.5%/37)
- Need to save for retirement, social security,
- Work force will rise, GDP will rise
- Education need to catch up



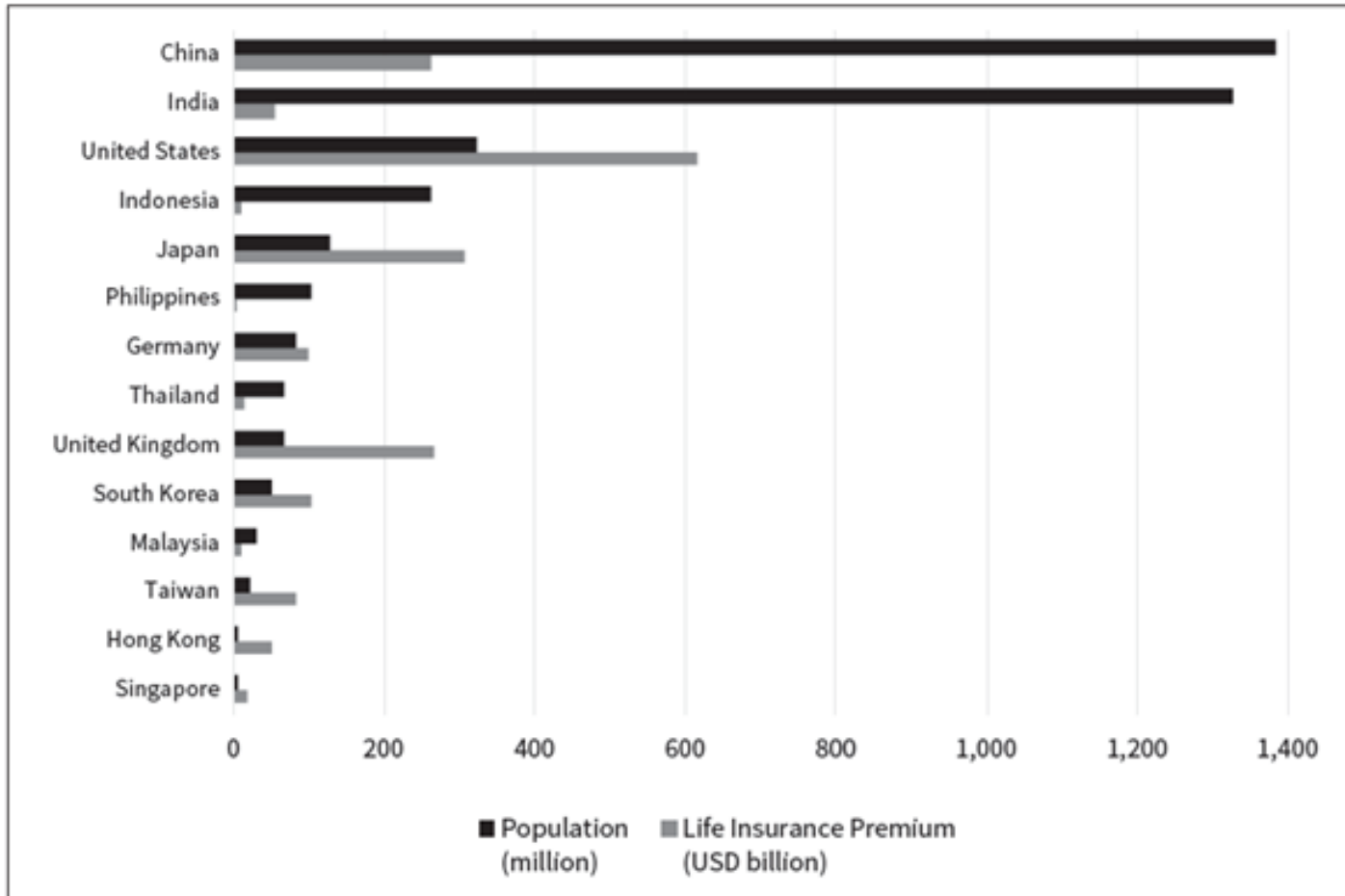
# Phases of demographic transition



When the proportion of age 60+ versus the total population crosses the threshold of...

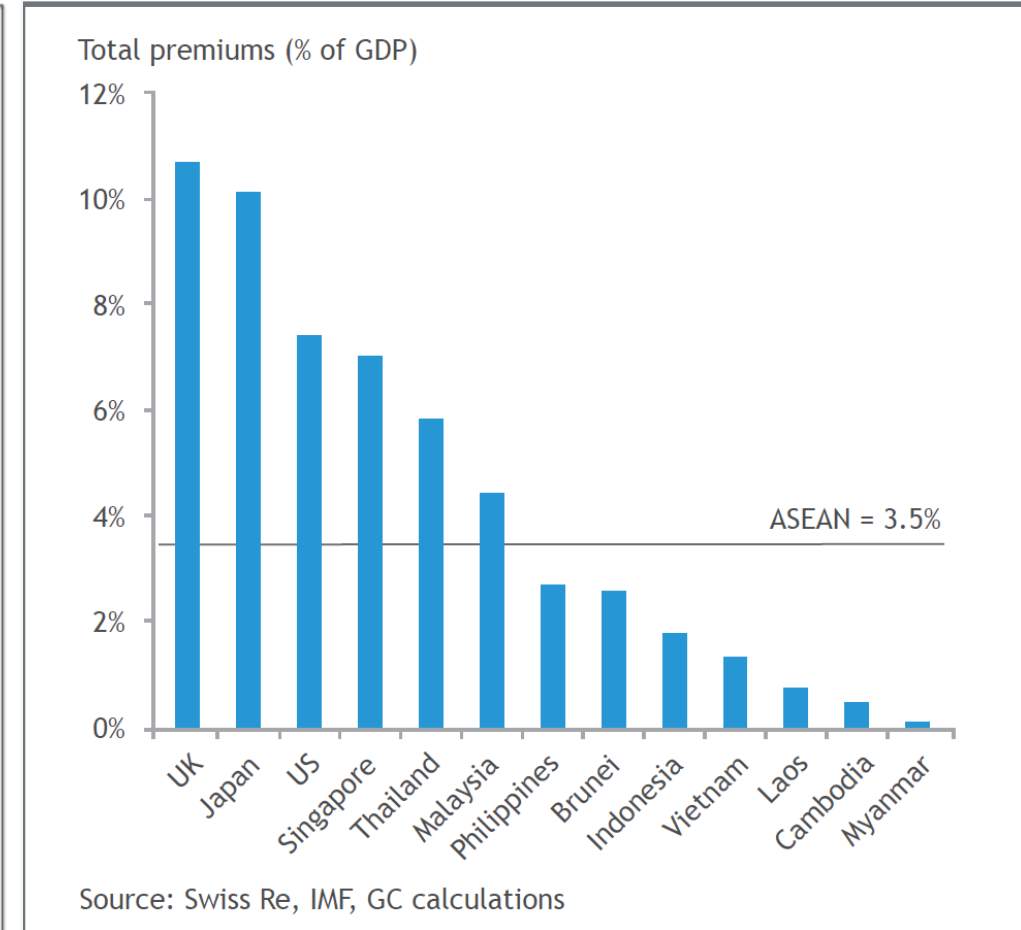
Source: UN Population Division — 2017 data, LIMRA International Research.

# Life Insurance Market



Source: Axico Insurance Information Services

2016

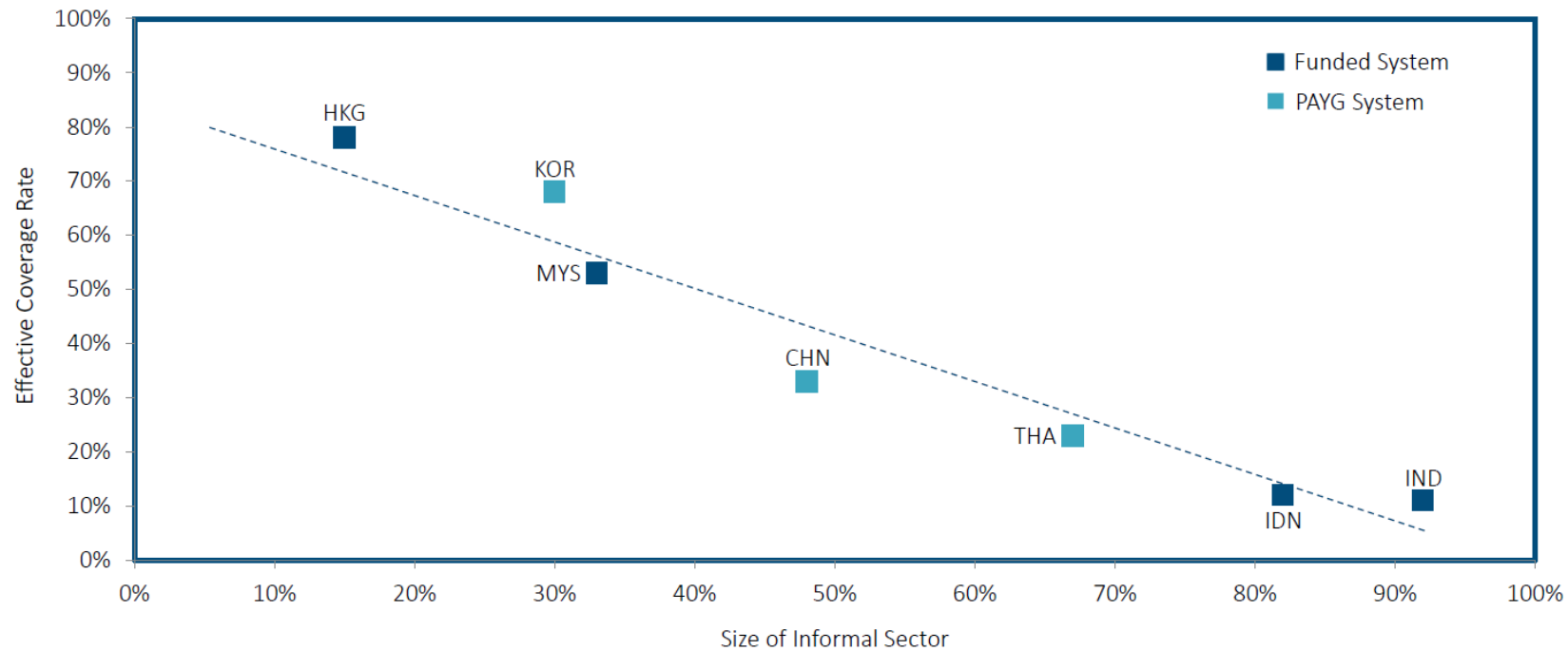


Source: Swiss Re, IMF, GC calculations

2014



# Pension Coverage rate to Informal Sector



Source: Global Aging institute, Voluntary Pensions in Emerging Market. Taken from SOA presentation by Elvin Tharm



# Source of retirement income based on survey

	Young workers	Pre-retirees	Retirees	Indonesia
Personal savings and investments	97%	98%	97%	97%
Life insurance	86%	86%	79%	83%
Social pension/Other local pension	92%	92%	89%	91%
Full/Part-time job earnings	96%	90%	86%	90%
Voluntary Enterprise Annuity/Voluntary plans set up by employer	71%	60%	56%	61%
Family member assistance (including children)	58%	49%	64%	57%
Rental property	81%	73%	71%	74%
Inheritance from death of a family member	63%	52%	62%	59%
Reverse mortgage	53%	40%	45%	45%

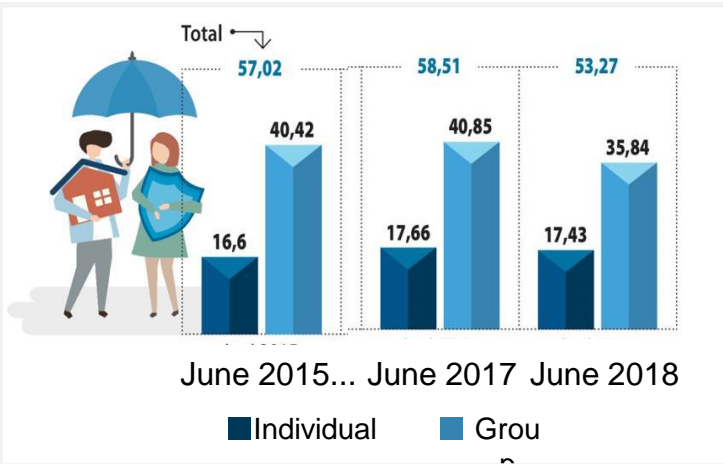
*Note: Above numbers represent summed-up options of Major Source and Minor Source out of the overall options of Major Source, Minor Source, and Not a Source.*

Source: SOA research on spotlight of retirement in Indonesia



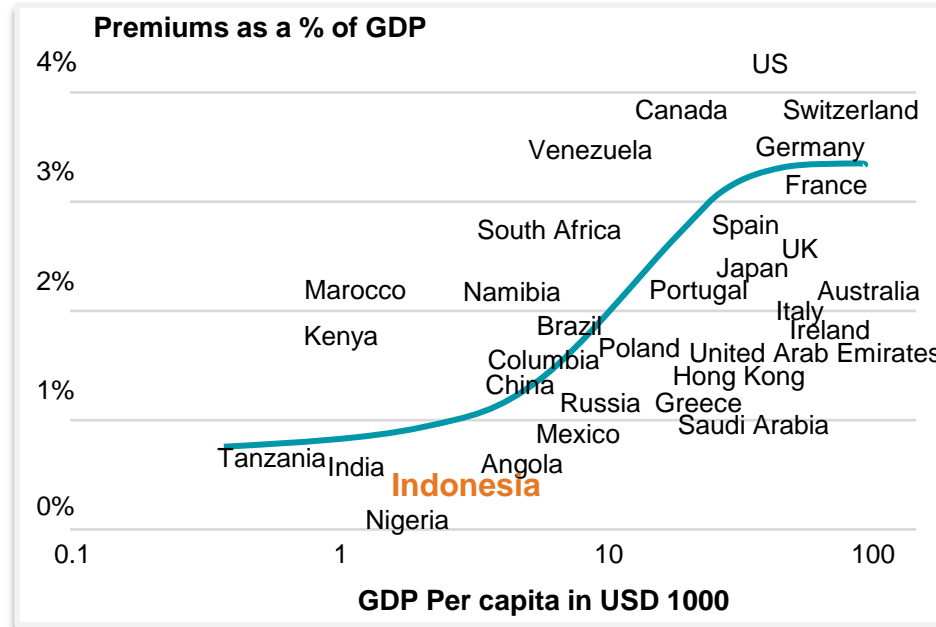
# Indonesia Insurance penetration

Total of Insured in Life Insurance  
Jun'15-18



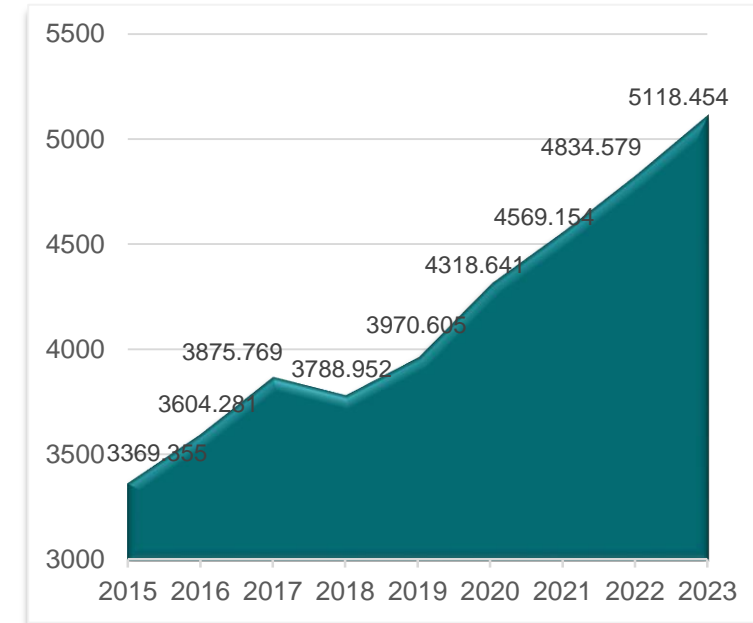
Low insurance Penetration<sup>1)</sup> 17.43 mn policies  
± 10 mn Individual = 3.74% of 267 mn population

Insurance Penetration vs GDP Per Capita



“A minimum **GDP per capita of \$5,000** appears to be the **magic number** at which **insurance take-up** really picks up, as this reflects the **growth of an economy's middle class**”<sup>2)</sup>”

Forecast GDP Per Capita in Indonesia



In 2017 the Gross Domestic Product per capita in Indonesia was recorded at \$ 3,788) and expected will reach \$5,118 in 2023<sup>3)</sup>

Source:

1) AAJI June'15-18; total individual insured

2) Swiss Re Economic Research & Consulting; <https://insurancelinked.com/the-s-curve/>

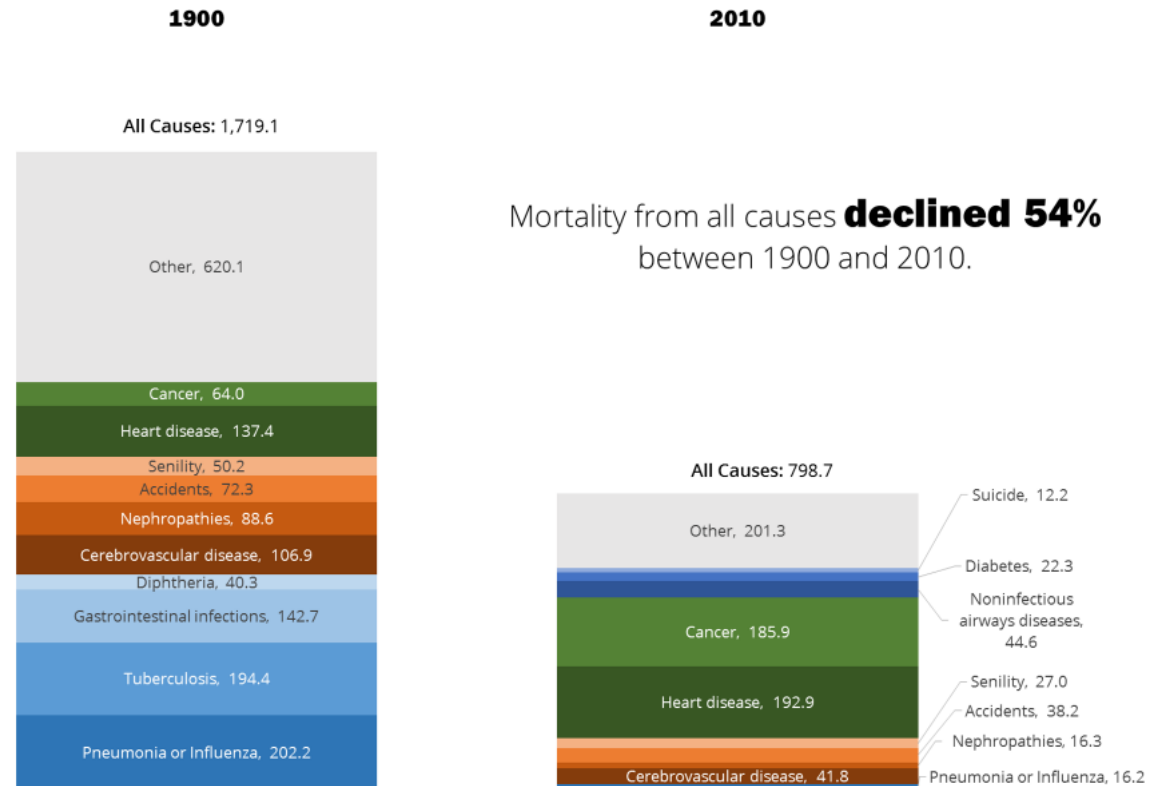
3) IMF Forecast: GDP: Per Capita: Current Prices: USD: ASEAN-5: Indonesia; [WWW.CEKDATA.COM](http://WWW.CEKDATA.COM) | International Moneyary Fund – World Economic Outlook



# Decrease in Mortality

## Mortality and Top 10 Causes of Death, USA, 1900 vs. 2010

(Rates per 100,000)



Data Source: Centers for Disease Control



# IFRS 17

According to IASB (source: IFRS 17 effect analysis)

***“IFRS 17 is not expected to affect insurance products as long as, in applying IFRS 4, insurers price and design contracts based on accurate assessment of their underlying economics”***

because

**Change in accounting requirements does not affect the underlying economic reality within the business. Changes in insurance product design, price or demand should therefore not occur as a direct result of applying IFRS 17.**

**Changes in the products available on the insurance market typically occur because of either:**

- (a) changes in the economic environment; or**
- (b) regulatory changes.**

How true is this thinking?



Market rank and size of industry are measured by Total Premium, First Year Premium, Annualized Premium Equivalent, etc

- Based on IFRS 17, deposit components of insurance contracts are excluded from both premium and claim
  - Life insurance industry will shrink
  - Universal Life, Unit Linked, Par will be dogs
  - Group Medical will be king

Current reporting: IFRS 4, Stat reporting and Tax accounting are 90% similar with some adjustment. (IFRS 4 as base, adjusted asset for Stat, adjusted depreciation and expenses for Tax)

- More likely that insurance companies will add reporting rather than change reporting
- Between those 3 reports, numbers will be more difficult to reconcile, thus need separate reporting team



Not many actuaries know accounting and not many accountants know actuarial. Both don't know about IT  
None of software provider is ready now  
In Indonesia there are 25% of Life Insurance companies still use Excel for reserving and projection

There will be impact such as:

- Reporting under IFRS 17 will not be feasible for small company, capital requirement for Indonesia is 10 mn USD. While IFRS 17 implementation cost is at least 5 mn USD
- Talent will be more scarce to look for and increase HR cost
- Increase cost will be burdened by customers

IFRS 17 promise a more transparent report

- Market intelligence will be easier
- Customer get more assurance
- Window Dressing with 101 product is no longer exist
- Insurance company will focus on protection



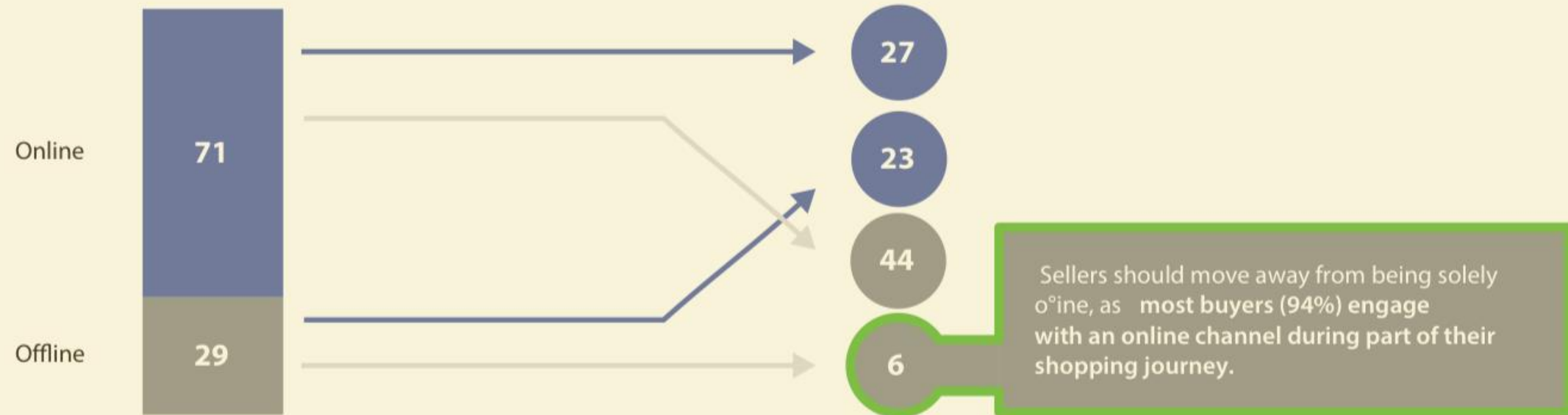
# Internet of things

Customers are becoming multichannel—globally, only 6% of all buyers have no online touchpoints.

Global customer breakdown by shopping journey, %

Where did customers start their search?

Where did they purchase?

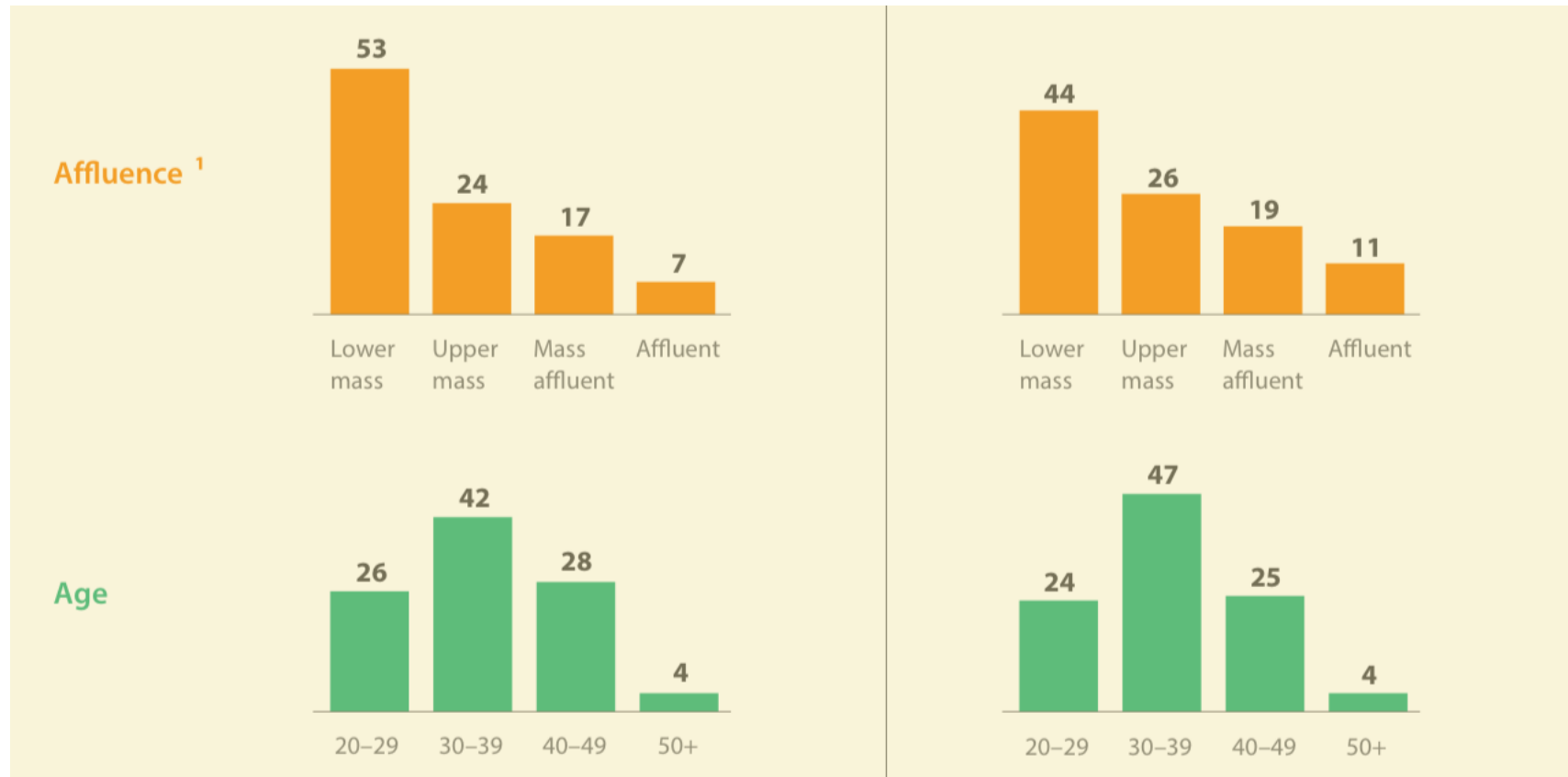


Note: Figures may not sum to 100%, because of rounding.

Source: McKinsey: The Digital Archipelago



# User of online retail by segment



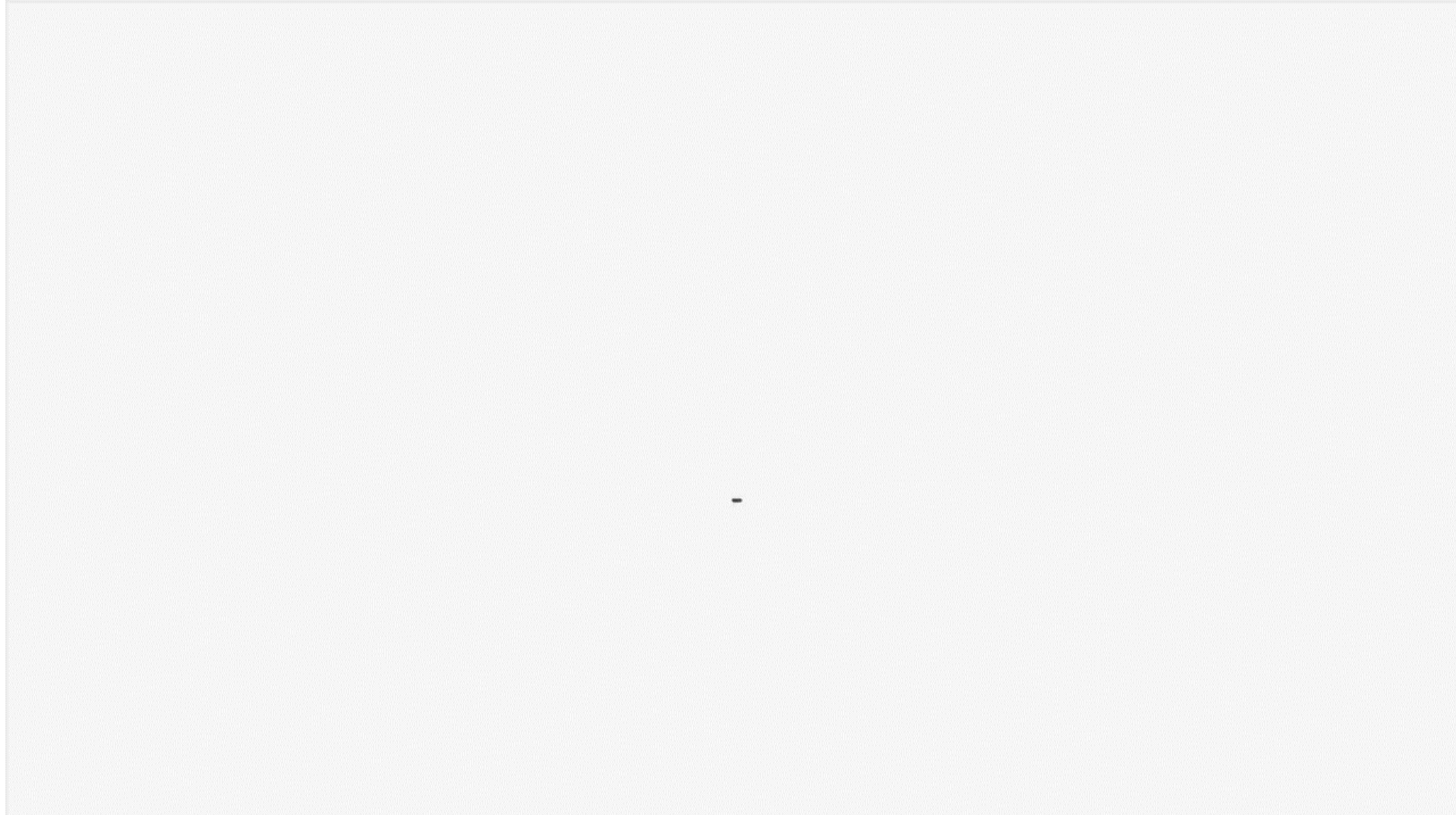
Source: McKinsey, taken from Marketeers magazine



# Uprising of Insurtech



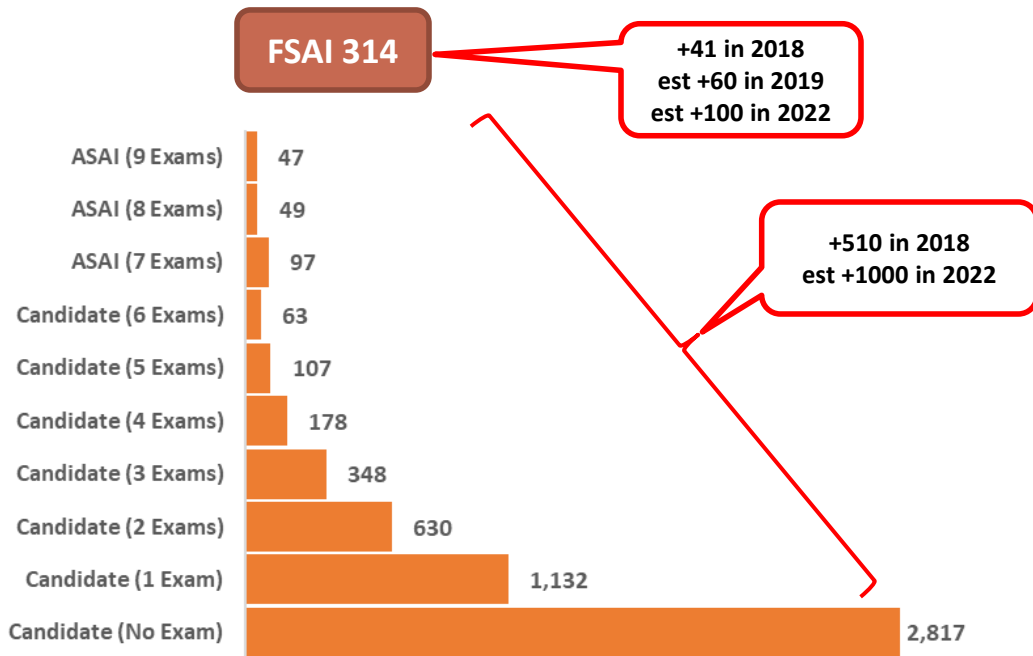
# Uprising of Insurtech



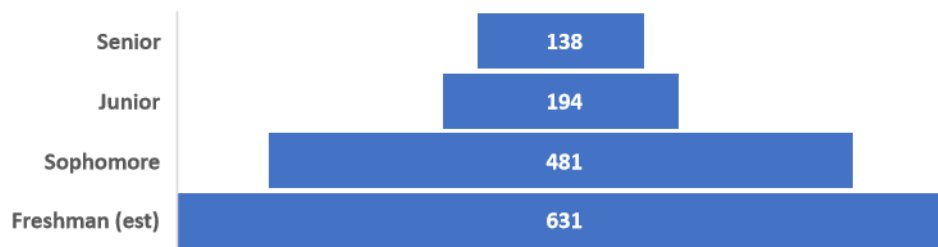
# Uprising of Insurtech



## Members and Candidates June 2019



## Actuarial Study students 2019

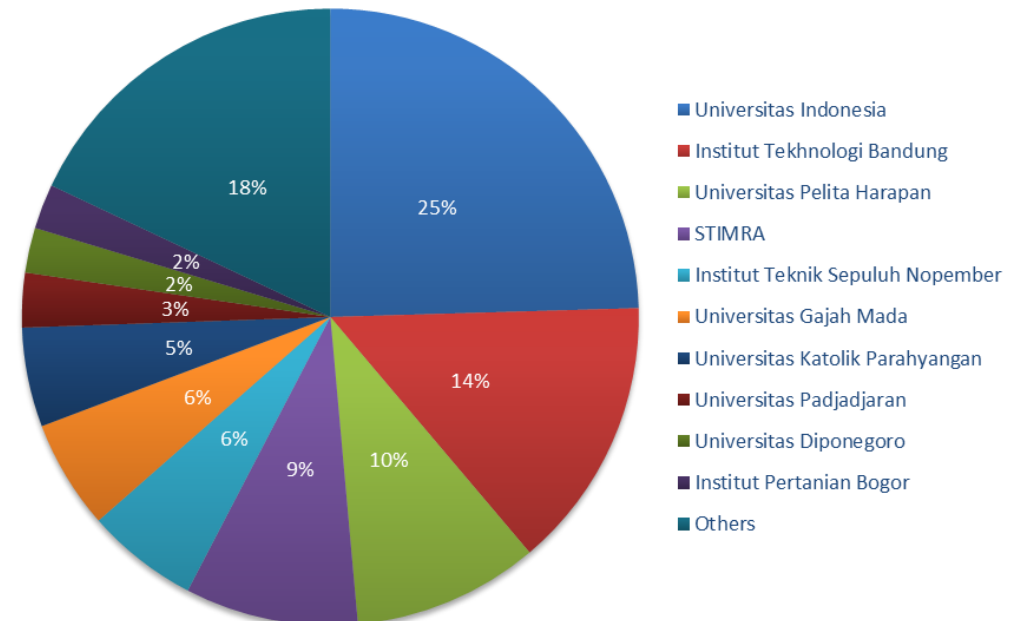


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## Universities with Actuarial Study 2019



## Source of Candidates 2016-2019





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