Indonesia's Insurance Industry

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Pefindo views the outlook of Indonesian insurance industry to remain stable, but with caution, as the industry braces itself to face the impact of another global crisis. The industry will be supported by strong domestic economy, large potential for demand growth, and stable profitability performance. However, the industry is also constrained by its capitalization challenge in meeting regulatory requirements and intense competition level.

In addition, it is very important for an insurance company to closely monitor their investment holdings performance and take precautionary steps in managing their portfolio as the crisis' impact will most likely come in the form of capital market volatility. The most vulnerable insurers are the life insurers given their large investments in stocks and mutual funds. On the other hand, the non-life insurers, civil and armed forces insurers, social insurers, and reinsurers, are less likely to be impacted as they mainly invest in safer instruments such as time deposits, government securities, and corporate bonds. Nine of the ten companies that Pefindo rates are non-life and reinsurance companies, making them less exposed to the brunt of global crises in Europe and United States.

Overview: Segmented Landscape

Indonesian insurance industry consists of five main sectors: life, non-life, reinsurance, civil and armed forces, and social insurance. Given their similar functions and small number of participants, the civil and armed forces and social insurance companies are often grouped together. The non-life and reinsurance companies are also grouped together due to their integrated business nature.

Life insurance accounted for 43% of total insurance industry assets of IDR439.8 trillion at the end of 2010. This is followed by social insurance with 24.5% and civil armed forces insurance with 21.5%. The high percentage of assets is due to the large investment portfolio on their books in comparison to non-life and reinsurers of only 11%. Life insurance sector also dominates gross premium production with 60% share out of IDR125.1 trillion in 2010. This is followed by non-life insurers (including reinsurance companies) at 26%.

The segmented landscape is apparent across the industry given the key players' dominance in the market and it is unlikely to change in the medium term. The top 10 life insurers from a total of 46 companies control more than 60% shares of total assets and premiums, while the top 10 non-life and reinsurers from a total of 91 companies account for more than 50%. Furthermore, the top two among the five social and civil and armed forces insurance companies account for over 80% of total assets and premiums.

Table 1. Life Insurance's Top 10

		2010 (IDR Tn)	
No.	Company	Net Written Premium (NWP)	Total Assets
1	Prudential Life Assurance	9.7	25.1
2	AIA Financial Indonesia	3.4	20.1
3	Asuransi Jiwa Manulife Indonesia	5.8	17.7
4	Allianz Life Indonesia	4.7	11.7
5	Asuransi Jiwa Sinarmas MSIG	9.3	11.4
6	Avrist Assurance	1.6	9.5
7	AXA Mandiri	2.8	8.5
8	Asuransi Jiwasraya (Persero)	3.5	7.2
9	Asuransi Jiwa Sequis Life	1.3	6.8
10	Indolife Pensiontama	4.3	6.7
	Top Ten	46.5	124.9
	Total Life Insurance Industry	75.1	188.5
	Market share of Top 10 vs. Industry	61.9%	66.3%

Source: various newspapers and magazines, processed by Pefindo

Table 2. Non-Life and Reinsurance's Top 10

		2010 (IDR Tn)	
No.	Company	Net Written Premium (NWP)	Total Assets
1	PT Asuransi Astra Buana	1.5	5.0
2	PT Panin Insurance Tbk	1.5	4.7
3	PT Asuransi Central Asia	0.9	4.5
4	PT Asuransi Jasa Indonesia (Persero)	1.0	3.0
5	PT Asuransi Sinar Mas	1.0	2.8
6	PT Tugu Pratama Indonesia	0.3	2.5
7	PT Asuransi Adira Dinamika	0.7	2.0
8	PT Asuransi Wahana Tata	0.5	1.0
9	PT Reasuransi Internasional Indonesia	0.7	0.9
10	PT Asuransi Tokio Marine Indonesia	0.3	0.9
	Top Ten	8.3	27.5
	Total Non-Life Insurance Industry	15.8	48.3
	Market share of Top 10 vs. Industry	52.5%	56.9%

Source: various newspapers and magazines, processed by Pefindo

Table 3. Social Insurance and Civil & Armed Forces's Top 5

		1H2011	2010
No.	Company	Total Assets	
1	PT Jamsostek (Persero)	109.9	102.6
2	PT Taspen (Persero)	87.8	77.2
3	PT Askes (Persero)	12.1	10.8
4	PT Asabri (Persero)	12.1	6.9
5	PT Jasa Raharja (Persero)	N/A	5.5
	Top 2	197.7	179.8
	Total	221.9	203.0
	Market share of Top 2	89.1%	88.6%

Source: various newspapers and magazines, processed by Pefindo

Supporting Factors

One of the supporting factors in maintaining insurance industry performance is strong domestic economy. About 80% of Indonesia's economic activities are consumed domestically, while the export-import sector only contributing for 20%. Economic growth is still projected to remain robust in 2012 with 6.3% to 6.5% forecast. Indonesian population is still young with median age of 28 years to support the business growth. In addition, export destination to Europe and the US only accounted for 18% of total exports in 1H2011. China, which has large export products both the US and European countries, only contributes 11% of Indonesian exports. Therefore, the slowdown in trade activities from the crisis should be at least partially offset by the growth of exports from other markets such as Asia, Africa and Middle East countries. Furthermore, Indonesia has gone through the 2008 global financial crisis relatively unscathed, and this should help to provide some experience and confidence in handling similar situation. Both the financial and real sectors in Indonesia have kept a close watch and taken many cautionary steps since the beginning of the crisis.

In addition, Indonesian insurance industry still has large potential for demand growth, as reflected by low insurance penetration rate. Indonesia's Insurance Gross Written Premium (GWP) to Gross Domestic Product (GDP) Ratio only reached almost 2.0% in 2010, slightly increased from 1.9% in 2009. The Life Insurance GWP to GDP Ratio was only at 1.2% in 2010, one of the lowest in comparison to some of Asian neighbors. For example, Thailand's, Malaysia's and China's Life Insurance GWP to GDP Ratio are both at over 2.0%, while Singapore's is over 4.0%. More established markets, such as Korea and Japan, have reached a ratio of higher than 6.0%. This gives an indication of the large potentials, which are yet to be realized. The fact that Bank Indonesia cut rates by 50 basis points back in late 2011 should also provide some growth support in 2012.

Given the robust growth in the last four years, Pefindo expects that Indonesian insurance industry will continue to grow steadily in the near to medium term. Indonesian insurance industry grew by an average of 20% year-on-year growth (CAGR) since 2007 to 2010 in terms of GWP, and 26% in terms of total assets during the same period. The growth of GWP to GDP Ratio, while slowly, has been consistent in the last three years (1.8% in 2008). As such, Pefindo views that the GWP to GDP Ratio could reach or surpass the 2.0% benchmark in the medium term, although it may take a while to reach the 4.0% figure.

Another supporting factor is the stable profitability performance. From the major players (see Table 1, 2, 3), only one player suffered a net loss in the last three years between 2008 – 2010 (Indolife Pensiontama, with a net loss of IDR26.0 billion in 2008). This is the only one company among 35 largest companies in the industry. Collectively, all five insurance sectors reported positive net income during those three years. On average, there are about 22 companies per year out of total of 142 that suffer net losses, or about 15%. Most of those companies are the smaller companies, with net premium production well below IDR100 billion on annually. Therefore, the impact on overall insurance industry performance is limited. Among the insurance companies, only 10 companies that suffered net losses in 2010 had net premium production over IDR100 billion: 7 among the life insurers and 3 companies among the non-life insurers. None of those companies are rated by Pefindo. The Indonesian insurance industry has been able to maintain a consistent performance even against the full impact of the 2008 global financial crisis, which led Pefindo to believe that the industry has the capability to maintain its stable profitability performance in the face of another global crisis.

Internal Concerns

The Indonesian insurance industry also faces internal concerns. Lack of capital is a major concern, as many companies still have difficulties in meeting the regulatory minimum capital requirement. The earliest requirement is IDR70 billion by the end of 2012, followed by IDR100 billion by the end of 2014. There are still about 30 companies or more than 20% of total industry's participants that have not met those criteria by the end of 2010, including two companies within Pefindo's portfolio. It paints the slow progress of consolidation process, and has contributed into the fragmented landscape of the insurance industry. Those with large capital are able to dominate market share, and the rest are struggling to survive. The regulator has been willing to give more time for those struggling companies by repeatedly pushing off its deadlines, but the deadline will inevitably be enforced for the sake of the overall industry. In addition, the lack of capital has also resulted in majority of reinsurance premiums going to overseas, highlighting the opportunities lost.

In addition, the intense competition level in the insurance industry has often become unhealthy due to lack of pricing standardization, which is particularly evident in property/fire sector. Given the large number of participants, customers often have stronger bargaining power against the insurance companies, leading to lower premiums which at times, insufficient to compensate for the claims being paid. Stronger regulations and supervisions, in our view, are needed to maintain good overall underwriting quality. While the underwriting results can at times be covered by investment income during bullish capital market activities, such approach is risky considering the volatility of the capital market.

Most vulnerable to capital market volatility

We also note that life insurance sector is the one most vulnerable to capital market volatility mainly due to the composition of its investment portfolio. From a total investment portfolio of IDR167.7 trillion, 61% is invested in instruments, which are relatively more volatile, including 33% in mutual funds, 18% in stocks, and 10% in corporate bonds and medium term notes (MTN). The rest is dominated by government-backed securities (15%) and time deposits (12%). The combined portfolio of mutual funds, stocks and bonds of 61% is the highest in the last four years since reported at 42% in 2007, steadily rising. As such, volatility in the capital market, in our view, could have a direct impact on the performance of life insurers.

Overall Pefindo's insurance portfolio to remain stable

In the face of global crisis, Pefindo's insurance portfolios should be relatively unaffected by the impact as majority of the portfolio (ten rated companies) are non-life insurers, which operate locally. There is only one life insurer in the portfolio, which is Asuransi Jiwa Nusantara (rated $_{id}$BBB-/stable). However, the Company is supported by the fact that it has very little investments in stocks and has not offered any investment-related products. In addition, there are two companies in the portfolio, Citra International Underwriters and Asuransi Sarana Lindung Upaya (both rated at $_{id}$BBB-/stable) that face the challenge of meeting the regulatory minimum capital requirement of IDR70 billion by the end of 2012. However, Pefindo acknowledges that, both companies should be able to meet the minimum capital requirement as both of them have planned capital injections from shareholders in case of retention of retained earnings falling short. Nevertheless, Pefindo will monitor closely their progress closely. The strongest of the portfolio is PT Asuransi Jasa Indonesia (Persero), which is rated at $_{id}$AA-/stable. The ratings range between $_{id}$BBB- to $_{id}$AA-. The portfolio includes life and non-life insurers, as well as reinsurers.

Table 4. Insurance portfolio

No.	Companies	Pefindo Rating / Outlook	Segment	Capital Ratios 2010		Operating Ratios 2010		Liquidity Ratios 2010
				RBC (%)	Equity (IDR Bn)	Loss Ratios (%)	Combined Ratios (%)	Liquid Asset / Liability (%)
1	Asuransi Jasa Indonesia (Persero)	$_{id}$AA- / stable	General	134.5	1,086.2	44.7	85.5	155.2
2	Maskapai Reasuransi Indonesia Tbk	$_{id}$A / stable	Reinsurance	172.6	182.2	59.5	84.1	162.2
3	Jasaraharja Putera	$_{id}$A / stable	General	347.4	332.0	32.2	83.3	216.4
4	Reasuransi Nasional Indonesia	$_{id}$A- / stable	Reinsurance	133.3	191.4	61.5	101.8	131.5
5	Asuransi Bangun Askrida (under review)	$_{id}$A- / stable	General	536.9	235.3	19.8	80.9	122.1
6	Asuransi Umum Bumiputeramuda 1968	$_{id}$BBB+ / stable	General	171.5	146.0	39.0	92.3	129.9
7	Asuransi Parolamas	$_{id}$BBB+ / stable	General	342.5	103.2	37.2	81.7	242.2
8	Asuransi Jiwa Nusantara	$_{id}$BBB- / stable	Life	140.3	127.2	68.0	106.3	96.4
9	Citra International Underwriters	$_{id}$BBB- / stable	General	168.0	51.0	45.3	97.9	138.0
10	Asuransi Sarana Lindung Upaya (under review)	$_{id}$BBB- / stable	General	254.2	62.3	7.9	87.4	141.2

Source: Pefindo's portfolio