



# Indonesia Non-Life Insurance Market Segment Outlook

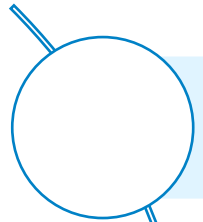
**Chris Lim – Associate Director**

28<sup>th</sup> Indonesia Rendezvous

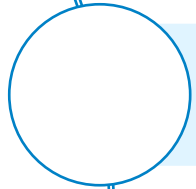
10 Oct 2024

# Agenda

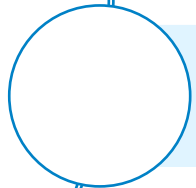
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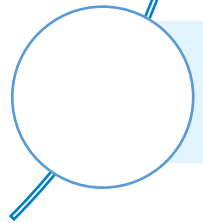
**Macroeconomic Environment of Indonesia**



**Overview of Indonesia Non-Life Insurance Market**

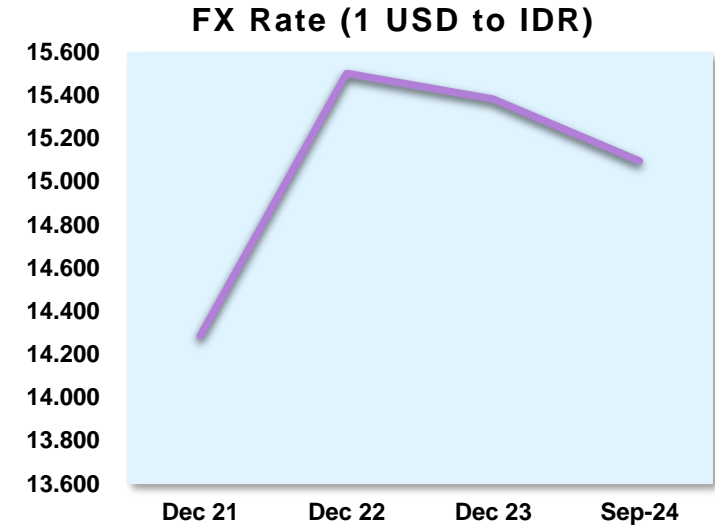
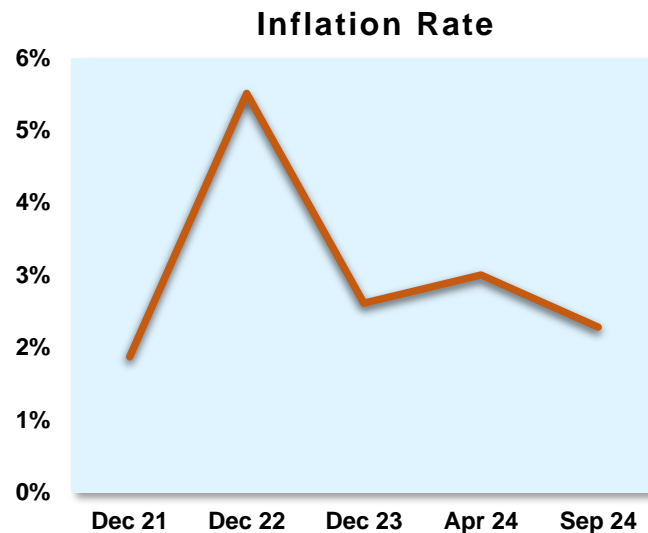
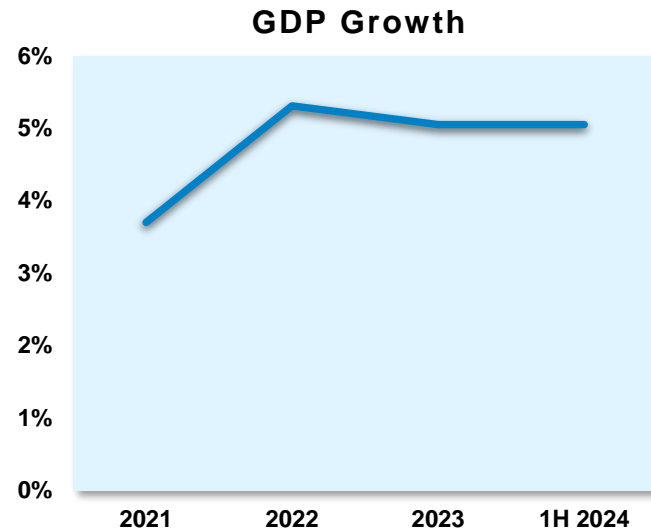


**Indonesia Non-Life Insurance Market Segment Outlook**



**National Scale Rating**

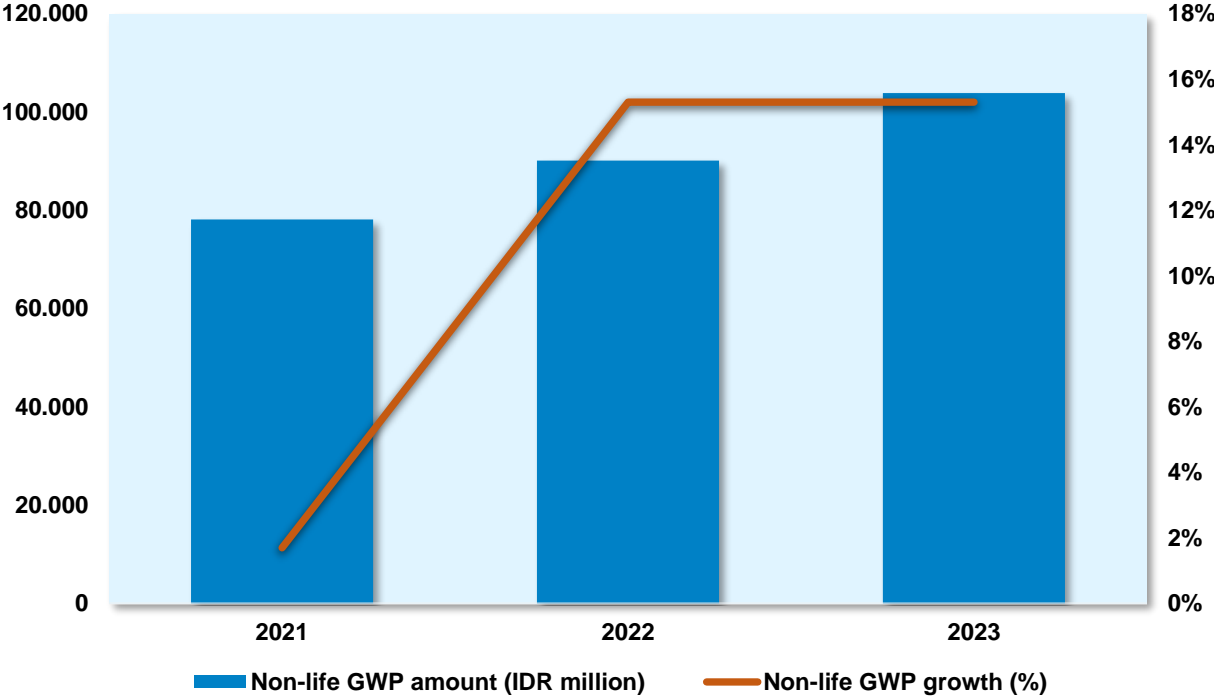
# Macroeconomic Environment of Indonesia



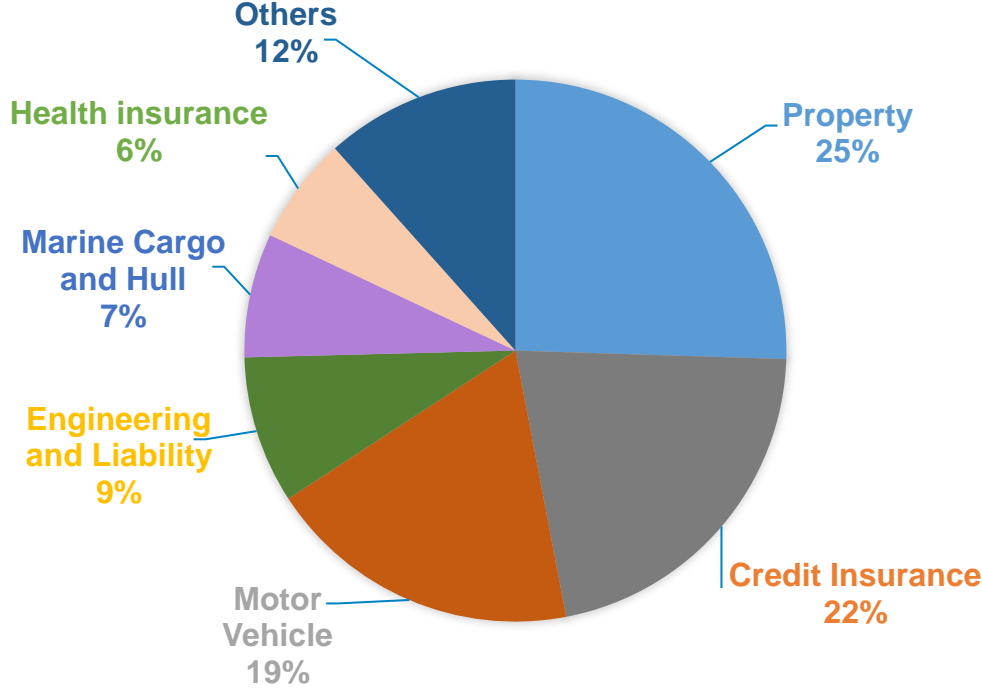
- GDP growth forecasted to average at 5.1% in 2024, with growth maintained at 5.05% as at 1H 2024, supported by domestic demand, rising business investment and fiscal spending
- Inflation rate controlled and within BI's target range
- Rupiah strengthening and is trading firmer than last year's close

# Overview of Indonesia Non-Life Insurance Market

**Non-life GWP**



**GWP Mix 2023**



- GWP growth of 15.3% maintained in 2023 amid economic resilience
- Property, Motor Vehicle and Credit Insurance remains as the key lines of business in the non-life industry

Source: Indonesian General Insurance Association (AAUI)



# Market Segment Outlooks

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- It examines the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months
- Typical consideration factors include:

**Current and forecast economic conditions**

**The regulatory environment and potential changes**

**Emerging product developments**

**Competitive issues that could impact the success of these companies**

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## Key Takeaway

AM Best has revised its outlook for Indonesia's non-life insurance segment from **Negative** to **Stable**

# Indonesia Non-life Insurance

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## Positive Factors:

- Robust growth prospects amid economic resilience
- Proposed mandatory third-party liability (TPL) insurance to boost motor insurance demand
- Regulatory changes expected to enhance financial resilience
- Favourable investment income supported by high domestic interest rates

## Moderating Factors:

- Underwriting conditions in key business lines remain under pressure
- Increased pricing risk for electric vehicles (EV's) amid growing adoption

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## Positive Factors



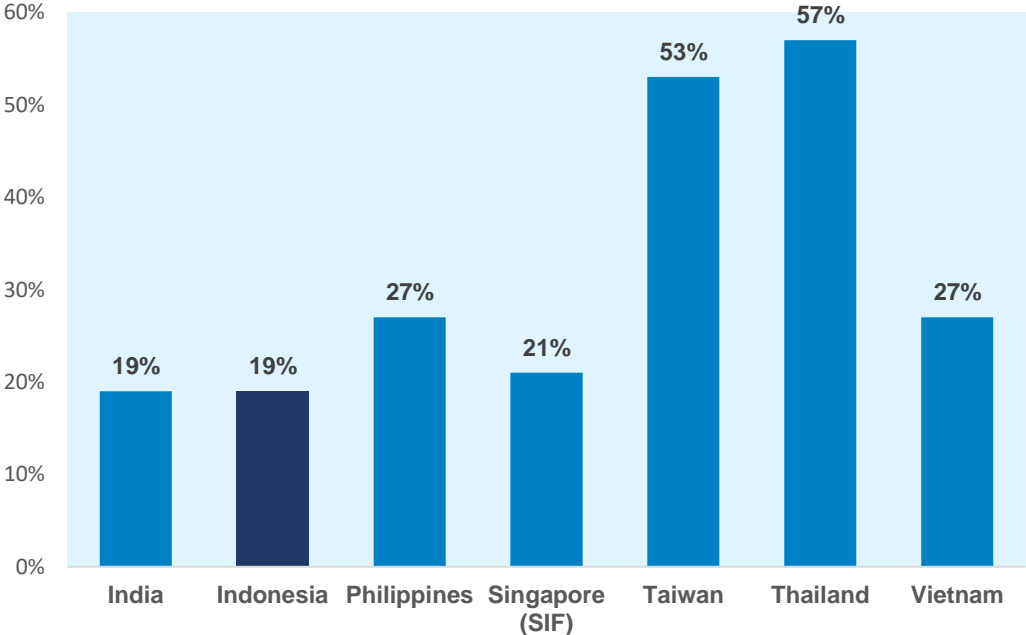
# Robust growth prospects amid economic resilience

Gross Premium by Line of Business (IDR millions)								
Line of Business	2022	2023	Growth	%	Q1 2023	Q1 2024	Growth	%
Property	26,233	26,489	256	1.0%	6,351	9,238	2,887	45.5%
Motor	18,149	19,497	1,348	7.4%	5,201	5,555	354	6.8%
Credit	14,298	22,338	8,040	56.2%	4,146	4,947	801	19.3%
Health	5,932	6,675	743	12.5%	2,721	3,436	715	26.3%
Marine Cargo and Hull	6,936	7,674	738	10.6%	2,190	2,614	424	19.4%
Engineering and Liability	6,742	9,189	2,447	36.3%	2,379	2,586	207	8.7%
Others	11,831	12,005	174	1.5%	2,954	3,376	422	14.3%
<b>Total</b>	<b>90,121</b>	<b>103,867</b>	<b>13,746</b>	<b>15.3%</b>	<b>25,942</b>	<b>31,752</b>	<b>5,810</b>	<b>22.4%</b>

- Non-life insurance segment reported robust top-line results in Q1 2024, continuing growth momentum from 2023
- Key lines driving growth include property, credit, health and motor insurance
- The government's "Golden Vision 2045" strategic plans are expected to drive higher demand for commercial insurance over time

# Proposed mandatory TPL to boost motor insurance demand

Proportion of Motor Business as a Share of Total Market



- Following the proposed regulatory push for mandatory TPL, Motor insurance demand is expected to grow significantly over the medium term and help to narrow the country's insurance protection gap
- Successful implementation will require effective product design, robust risk management and adequate pricing strategies

Note: Data is based on statistics from 2021/22.



# Regulatory Changes Expected to Enhance Financial Resilience Over Time

## Minimum Equity Requirements

Type of Insurance Company	First Phase (31 December 2026)	Second Phase (31 December 2028)	
		KPPE 1	KPPE 2
Conventional Insurance Company	250 billion	500 billion	1 trillion
Conventional Reinsurance Company	500 billion	1 trillion	2 trillion

### Key changes include:

- Mandatory risk sharing between financial institutions and insurers
- Revised policy coverage periods and acquisition costs
- Greater transparency in underwriting data disclosure requirements

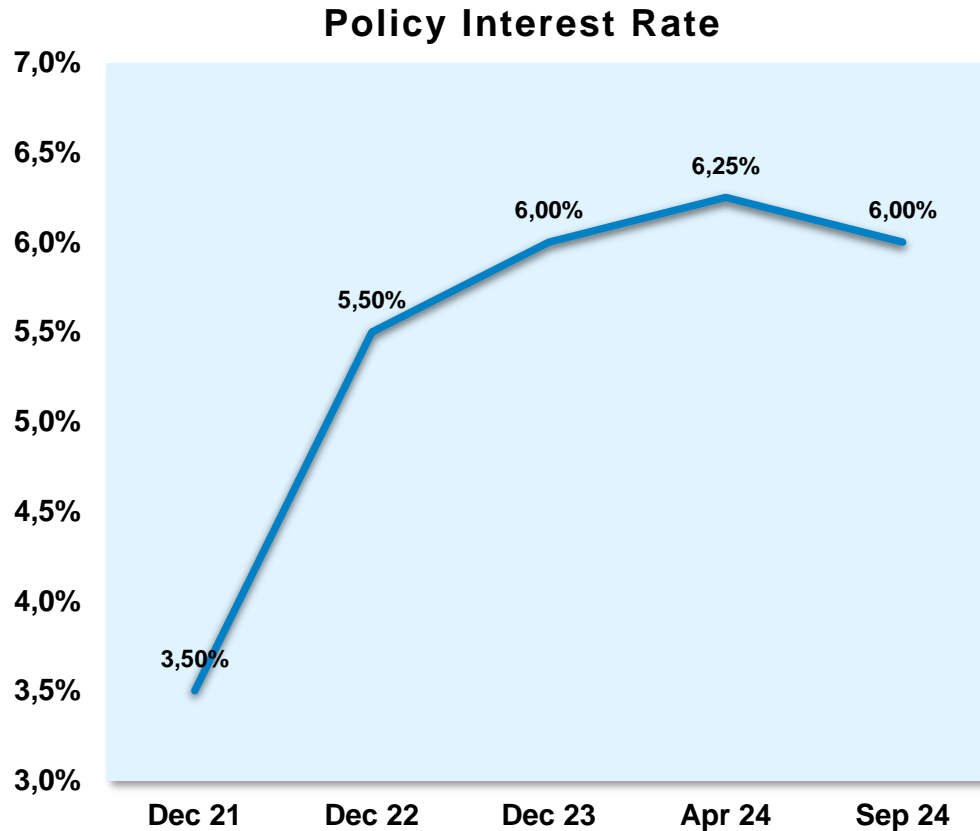
- Following the issuance of Regulation Number 23 of 2023, the planned increase in insurers' capital base is expected to bolster the industry's financial resilience

## POJK 20/2023 – Credit insurance

<b>What?</b>	Credit Insurance Restructuring
<b>How?</b>	Risk-Sharing Mechanism Better pricing More informed underwriting
<b>Now what?</b>	To promote healthier competition and financial stability



# Favourable Investment Income Supported by High Domestic Interest Rates



- Despite a 25 basis point drop in interest rate as at September 2024, favourable interest rate conditions are expected to be maintained over the near term
- Term deposits and fixed-income instruments constitute the majority of the segment's investment
- Favourable interest rate conditions are expected to benefit the overall earnings as non-life insurers reinvest their assets into higher yielding fixed-income instruments upon maturity

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## Moderating Factors

# Underwriting Conditions in Key Business Lines Remain Under Pressure

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## Headwinds remain for core business lines

Key drivers include

- Tight reinsurance market conditions
- High medical inflation
- Further reserve strengthening on credit insurance remains probable

Nonetheless, insurers have implemented remedial measures, including pricing adjustments, which would likely mitigate performance volatility.

# Increased Pricing Risk for EV's Amid Growing Adoption

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## Growing adoption of EV's

- New car sales target in 2024 ~ 1.1 million
- New electric car sales expected in 2024 ~ 3-5% of total car sales
- EV market currently small, but rapidly growing

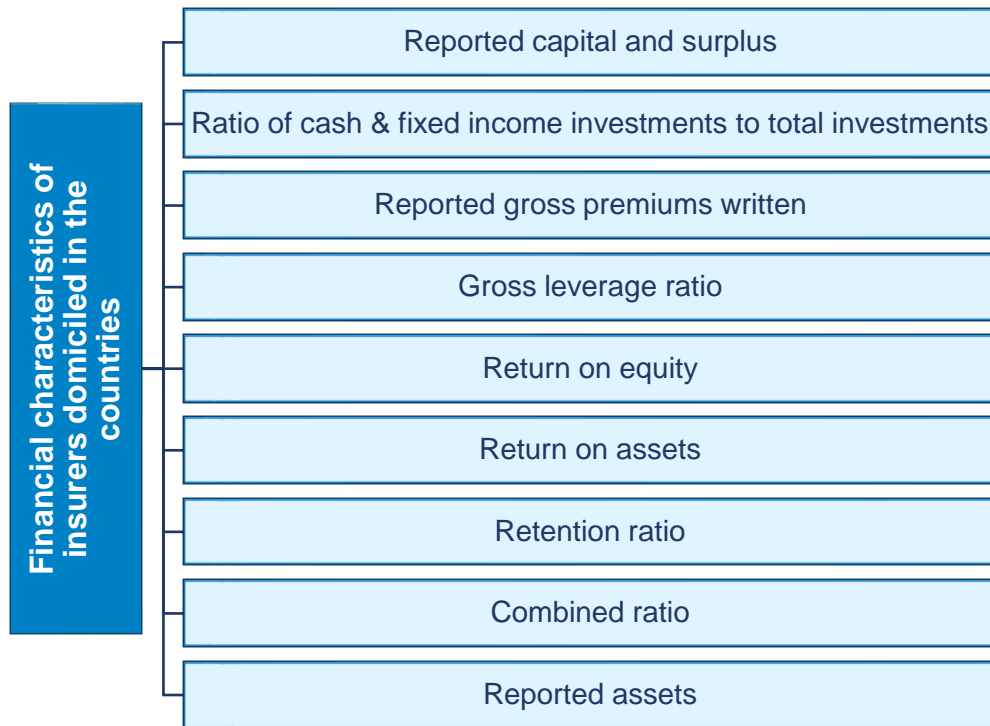
## May Lead to Increased Pricing Risk

- EVs currently subject to the same motor insurance tariff rates as internal combustion engine vehicles
- Rising pricing risk for EV's due to different underlying risk profiles of EV's compared with non-EV's
- Regulation refinements currently under consideration may alleviate pricing risk over the near term

# National Scale Rating (NSR)

Best's NSR is a relative opinion of an insurer's financial strength within a single country.

NSR allows for maximum differentiation among insurers operating in a given country.



AMB FSR	AMB ICR	ID NSR
A++	Aaa/aa+	
A+	aa/aa-	
A	a+/a	
A-	a-	
B++	bbb+	aaa.ID
B+	Bbb	aa+.ID
B	bbb-	aa.ID
B-	bb+	aa-.ID
B--	Bb	a+.ID
B---	Bb-	a.ID
C++	bb-	a-.ID
C+	b+	bbb+.ID
C	B	bbb.ID
C-	b-	bbb-.ID
C--	ccc+	bb+.ID
C---	ccc	bb.ID
D	ccc-	bb-.ID
D-	cc	b+.ID
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# Q&A

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