Indonesia Non-Life Insurance Market Segment Outlook

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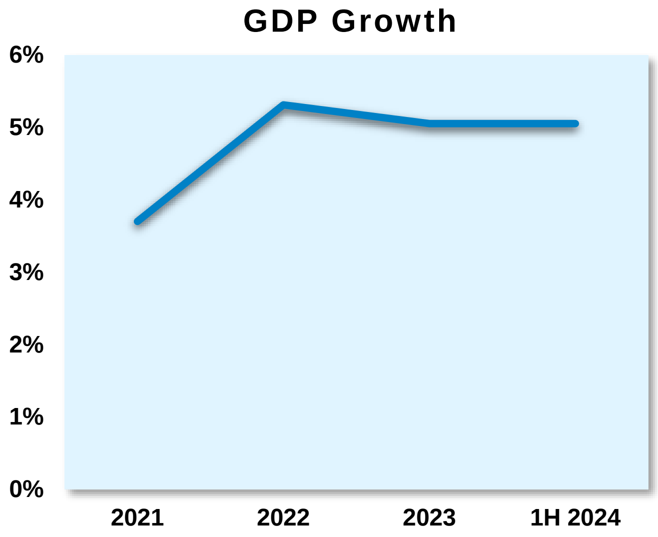
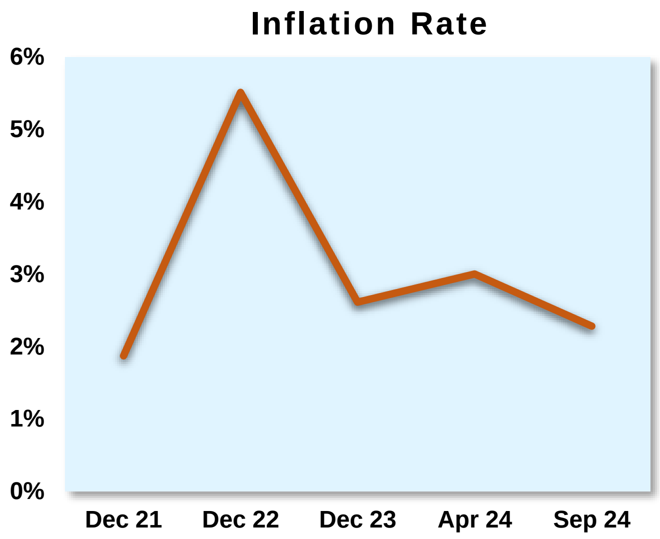
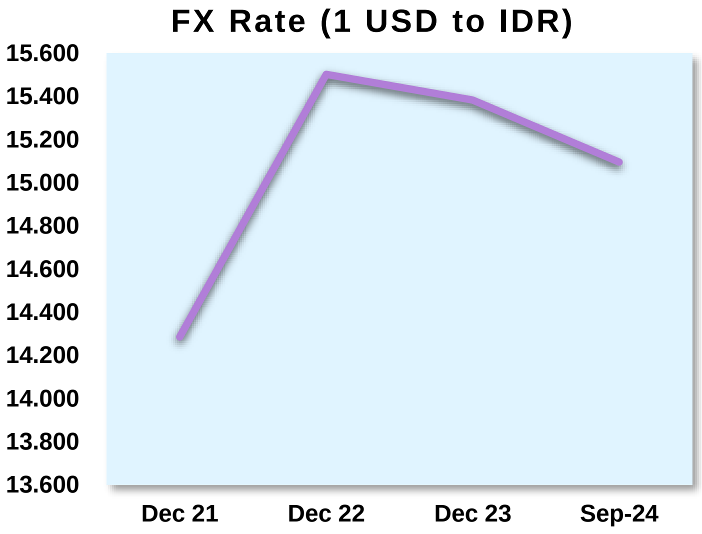
Agenda

- 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



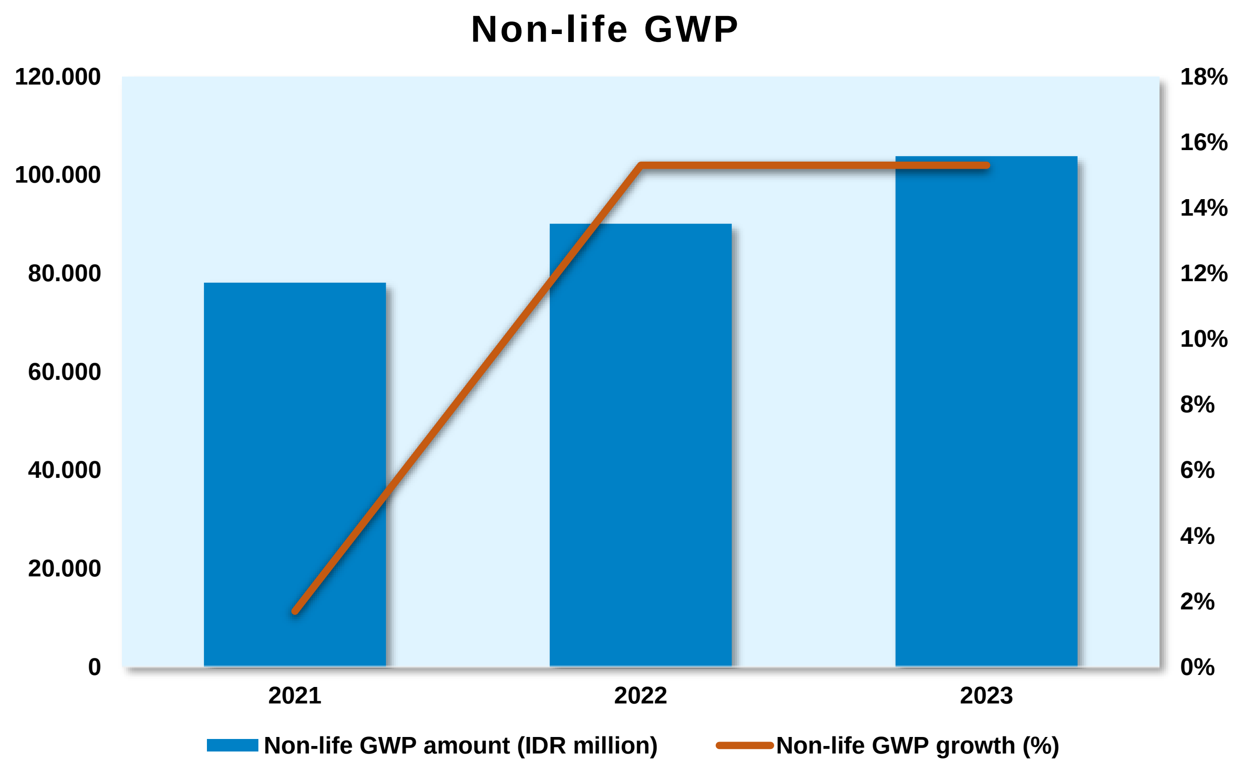


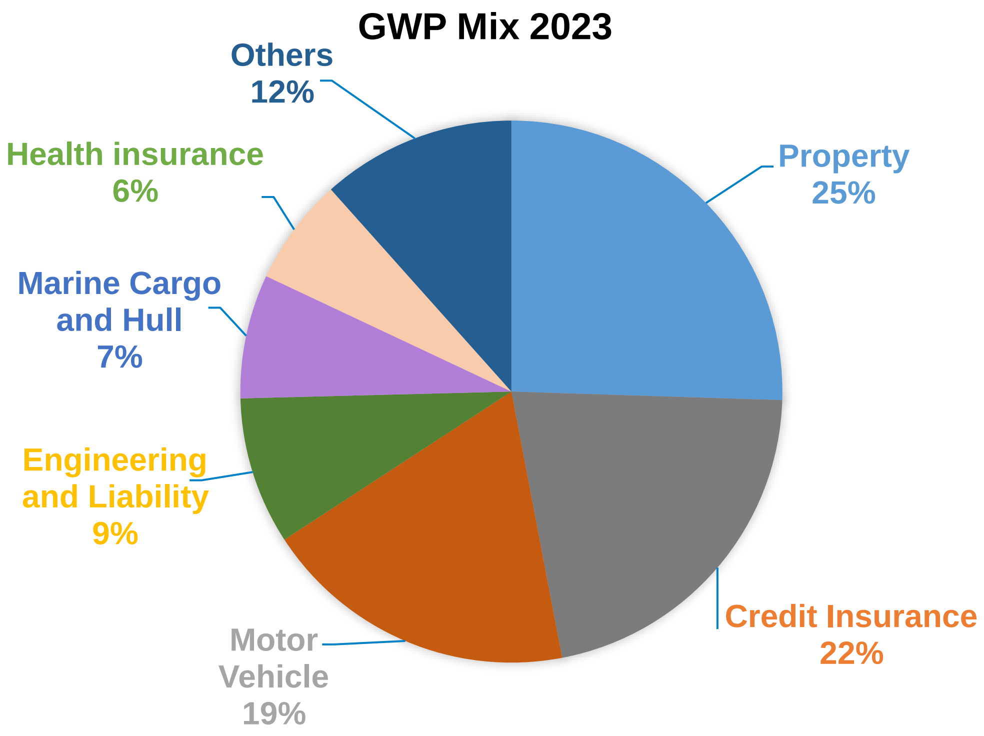


- GDP growth forecasted to average at 5.1% in 2024, with growth maintained at 5.05% as at 1H 2024, supported by domestic demand, rising business investment and fiscal spending
- Inflation rate controlled and within BI’s target range
- Rupiah strengthening and is trading firmer than last year’s close

Sources: Bank Indonesia, Worldbank

Overview of Indonesia Non-Life Insurance Market





- 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

- 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

Key Takeaway

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

Indonesia Non-life Insurance

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

Positive Factors

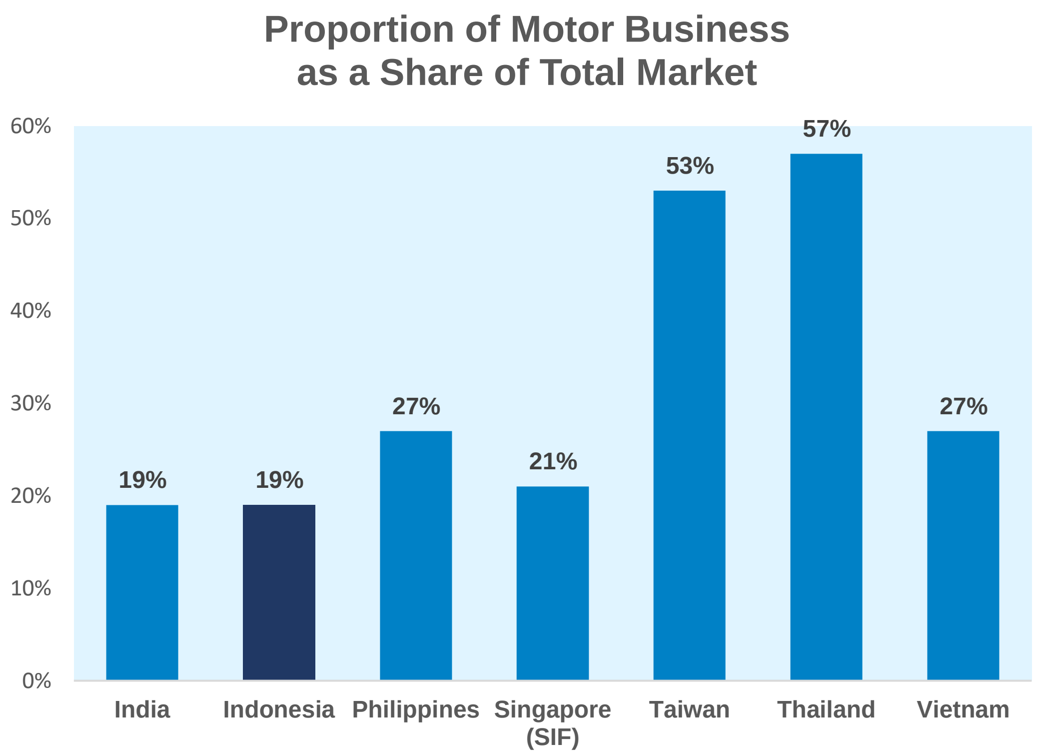
Robust growth prospects amid economic resilience

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%
Total	90,121	103,867	13,746	15.3%	25,942	31,752	5,810	22.4%

- 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

Source: Indonesian General Insurance Association (AAUI)

Proposed mandatory TPL to boost motor insurance demand



- 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.

Source: Gallagher Re

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

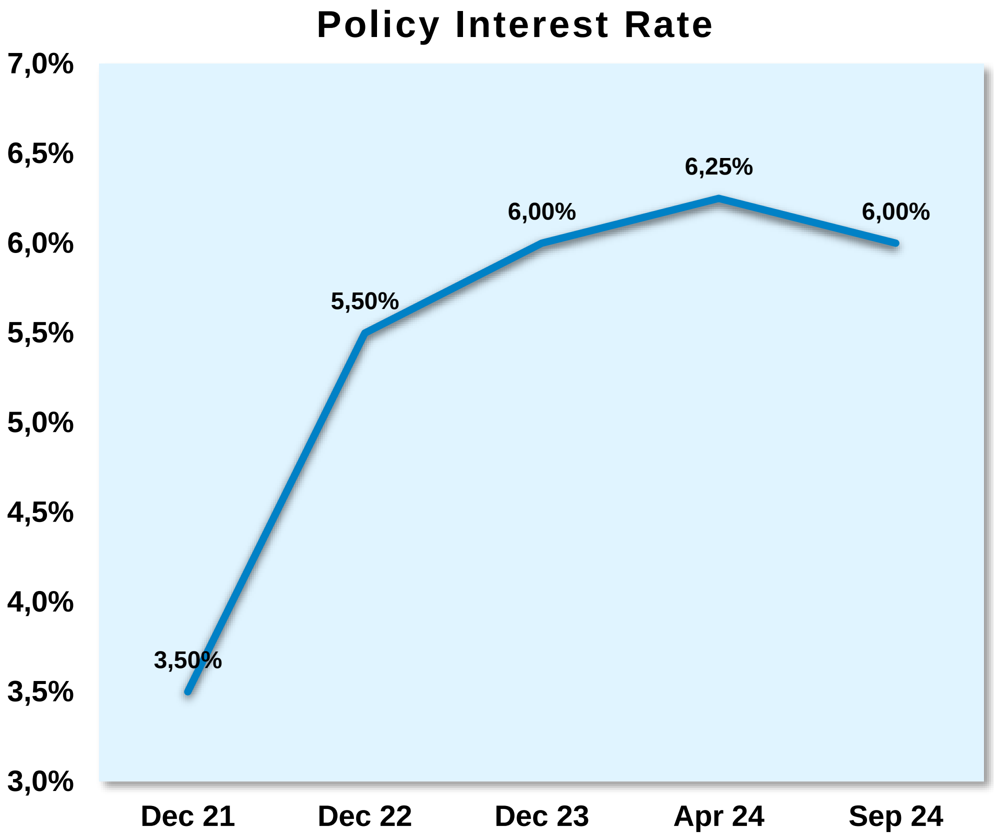
- Following the issuance of Regulation Number 23 of 2023, the planned increase in insurers' capital base is expected to bolster the industry's financial resilience

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

POJK 20/2023 – Credit insurance	
What?	Credit Insurance Restructuring
How?	Risk-Sharing Mechanism Better pricing More informed underwriting
Now what?	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

Moderating Factors

Underwriting Conditions in Key Business Lines Remain Under Pressure

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

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

Source: Association of Indonesian Automotive Manufacturers (Gaikindo)

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.

Financial characteristics of insurers domiciled in the countries

- Reported capital and surplus
- Ratio of cash & fixed income investments to total investments
- Reported gross premiums written
- Gross leverage ratio
- Return on equity
- Return on assets
- Retention ratio
- Combined ratio
- Reported assets

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

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