

# *Indonesia Insurance Survey 2016*



## Foreword

Welcome to our first Indonesia Insurance Survey 2016. While many market publications focus on market data and the penetration statistics supporting growth opportunity, our survey presents the views of actual executives of top insurance companies in the market on a range of issues relevant to the industry.

As you will see, the views on growth are still bullish, despite some recent slowdown in the economy and a tough investment market in 2015. However, the survey also highlights that many companies continue to have a need to develop and strengthen their risk management function and their strategy for addressing a very dynamic change underway with digitalisation and the impact of technology.

Regulation is a hot topic and is seen by respondents to be a major risk to the industry for the coming two to three years.

Lastly, there is a war for talent, noted as the #3 risk by both life and non-life insurers. With the expectation for continued growth, the need for strong talent recruitment, training and management will only increase.

We extend our sincere thanks to all the respondents for sharing their valuable insights in contributing to this survey. We hope that you find this Indonesian Insurance Survey 2016 useful and thought-provoking.



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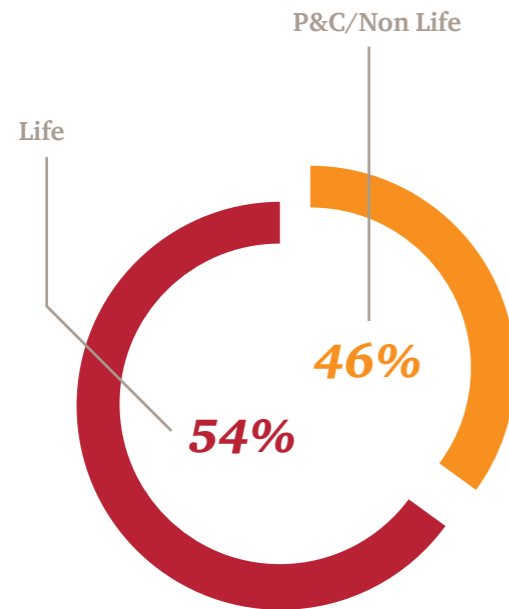
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## About this survey

Our 2016 Indonesia Insurance survey included 32 questions to executives centered around

- The growth agenda and outlook for growth
- Risk and regulation in the industry
- Technology as an opportunity and a risk

Replies were confidential and only aggregate data is presented in this report.



### Breakdown of responses by type of respondent

Total respondents of this survey represents 60% of net written premium of the top 20 insurance companies in Indonesia (based on Info Bank Survey on mid 2015).

This is our first such survey, with an aim to update the data at least annually in order to present trends and new developments in the thinking of Insurance executives in Indonesia.

## Key takeaway points

### Life insurance

- Focus on growth
- Optimistic on market opportunity
- Innovation and branding is important
- Challenge in attracting and retaining talent
- Risk management and IT Strategy still developing
- High confidence in IT infrastructure to support the business operation
- Technology transformation

### Non-life insurance

- Focus on profitability
- Moderately optimistic on market opportunity
- Innovation and branding is important
- Challenge in attracting and retaining talent
- Risk management and IT Strategy still developing
- Moderate confidence in IT infrastructure to support the business operation
- Technology transformation

# Outlook for growth

Indonesia continues to be seen as the most attractive market in Southeast Asia. Almost all respondents felt the market was either the most attractive or somewhat more attractive, driven by the low market penetration and sheer size of the country. Raising market awareness and regulation were seen to be the key issues for the market as a whole.

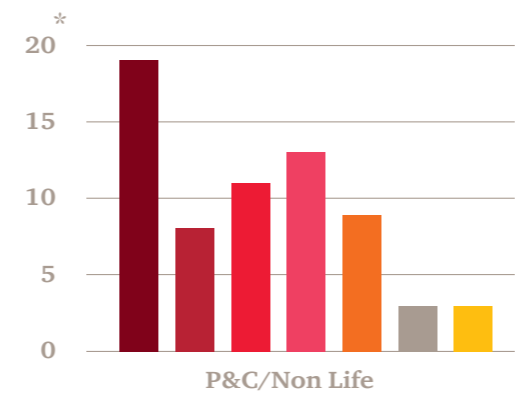
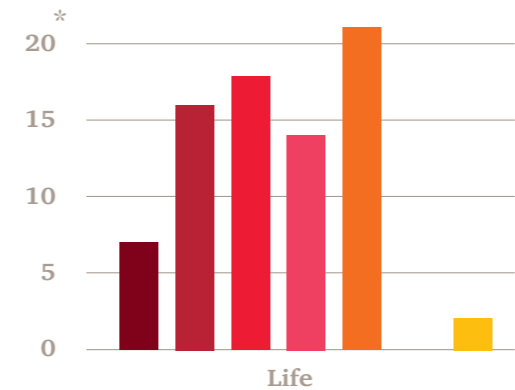
The main focus on financial performance was growth, and this was clear in the expectations that respondents had for 2016: 50% expect growth to exceed 20%, and only 16% expected the growth to fall below 10%. The expectation was even higher in the Life segment alone, with 88% of respondents expecting growth to be 15% or greater (note: it is unclear how respondents define growth; i.e., new or existing premiums, a point we will clarify in future surveys).

The top challenges to reaching 2016 growth targets varied between segments. In the Life sector, the distribution network was seen to be the biggest issue, followed by macroeconomic conditions. There is a large variance between life respondents in terms of their strength of networks, agency vs bank assurance, but to achieve growth the network is clearly seen to be the determining factor. In the non-life sector, price competition is the main challenge.

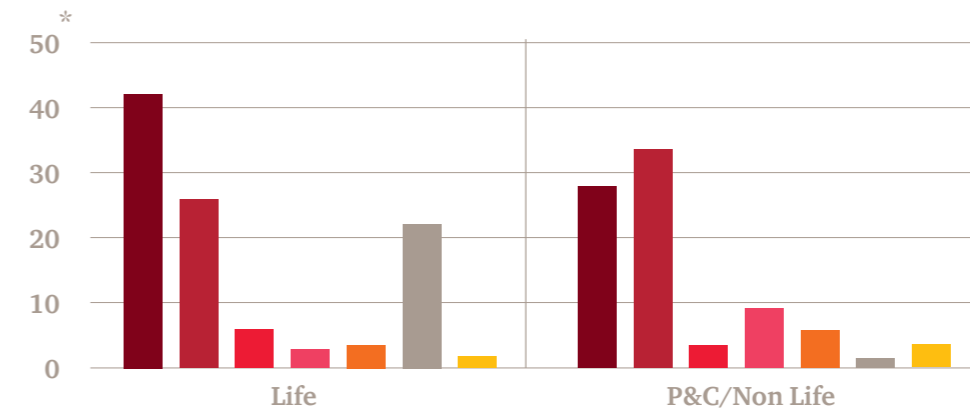
GDP growth for Q1 2016 was 4.9%, ahead of the prior year but below the original target of 5.3%. Based on our discussions with Insurance executives across Indonesia, there is a cautious optimism about the economy and in particular about an increasingly open posture of the government towards new investment. Nonetheless, macroeconomic conditions remained a top-3 concern of respondents to our survey in terms of achieving growth.

Interestingly, there is little to no concern about capital levels needed to fuel growth. This perhaps highlights the need for insurers to build robust models on how variations in growth, claims and operating costs can impact expected capital levels and solvency.

## Challenges to achieve 2016 growth

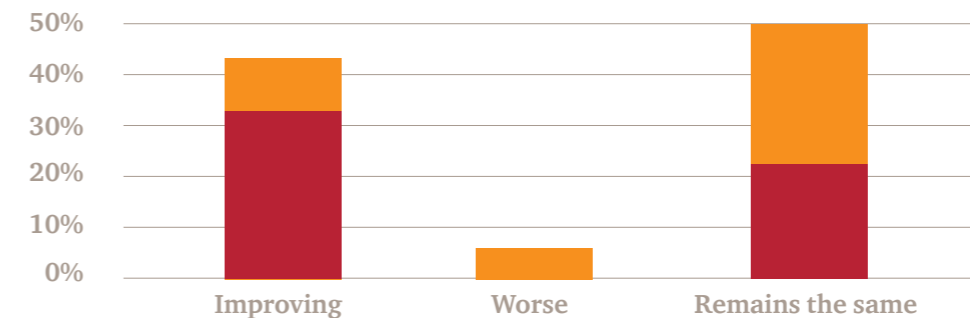


- Price competition
- Regulatory and legal aspects
- Macroeconomics conditions
- Resources and talents
- Distribution network
- Lack of capital/solvency
- Others



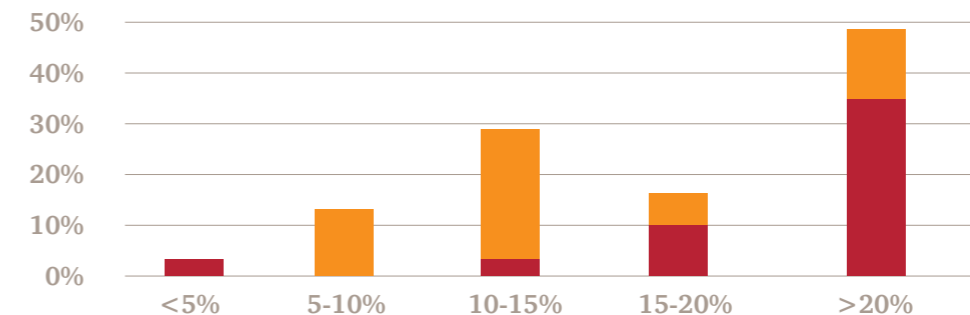
## Main focus financial performance

- Growth
- Profitability
- Investment performance
- Loss ratio
- Solvency
- Market Share
- Other



## Indonesia economic condition

- Life
- P&C/Non-Life



## Target of premium growth

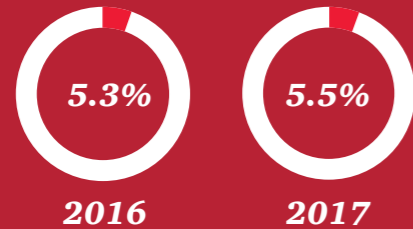
- Life
- P&C/Non-Life

\*Weighted average response

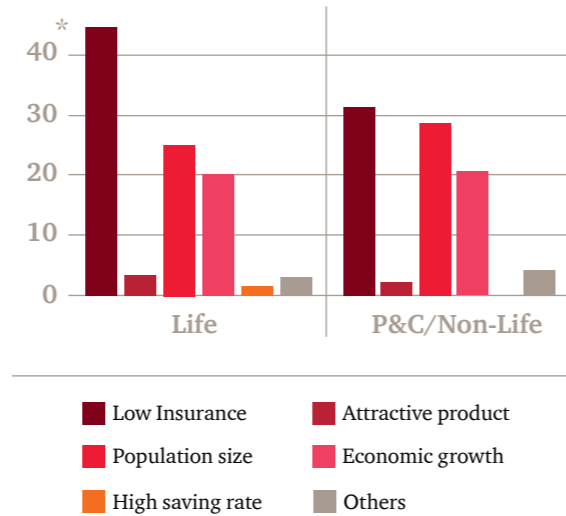
## Indonesia is the place to be

Low penetration rates and a growing, large population make Indonesia the market with the most potential in Southeast Asia.

GDP growth targets



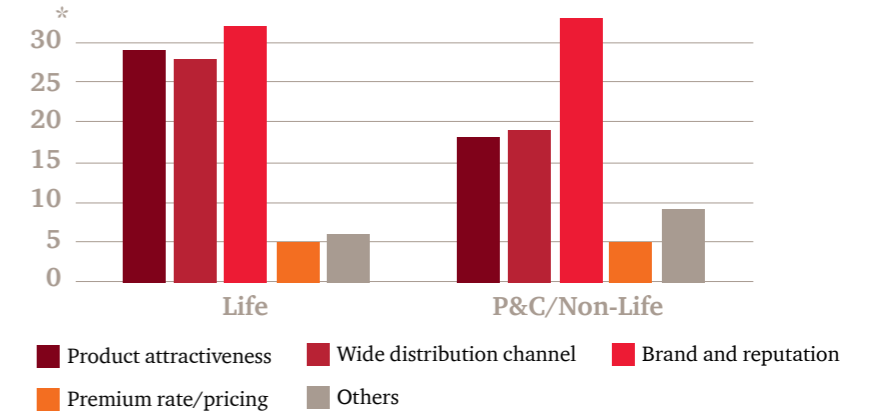
### Attracting Factors of Indonesia



## Competitive factor within Insurance Industry in Indonesia

Most respondents believe their competitive factors are brand and reputation, product awareness, and wide distribution channel.

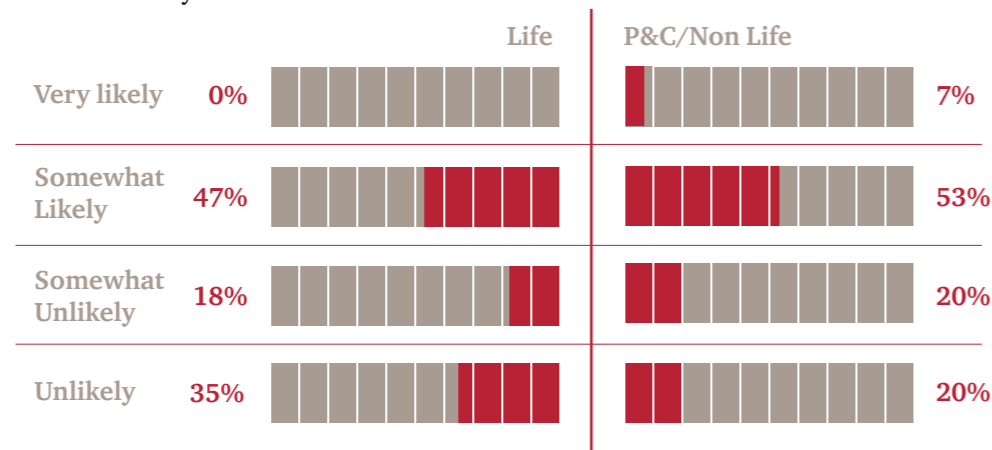
Most respondents also believe that product innovation is important for stability and sustainable growth. Recent innovations include cyber risk products, micro insurance products, micro takaful products, etc.



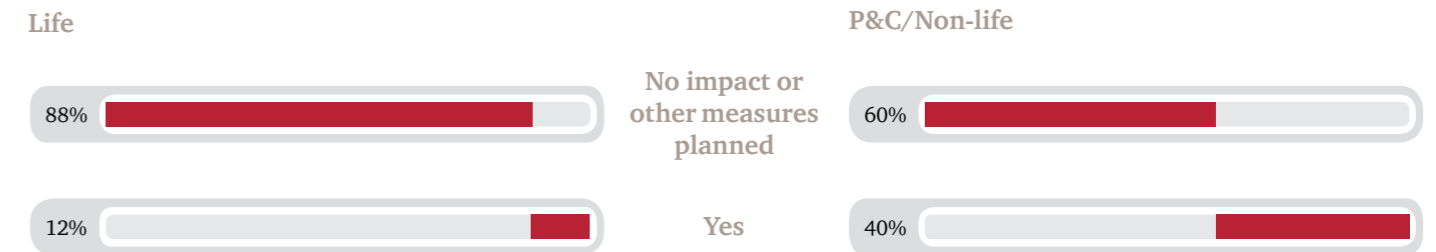
## M&A important but unplanned

Slightly more than half of respondents see M&A as a key factor in their growth strategy. Of those, half said that regulatory requirements were an expected driver for M&A. Thus far, most of the M&A discussion is focused around top-line growth, as compared to operational efficiency or leveraging synergies. However, when asked if they actually plan to have M&A activities in the next 1-2 years, only one-fourth said yes.

M&A as a way to grow non-organically

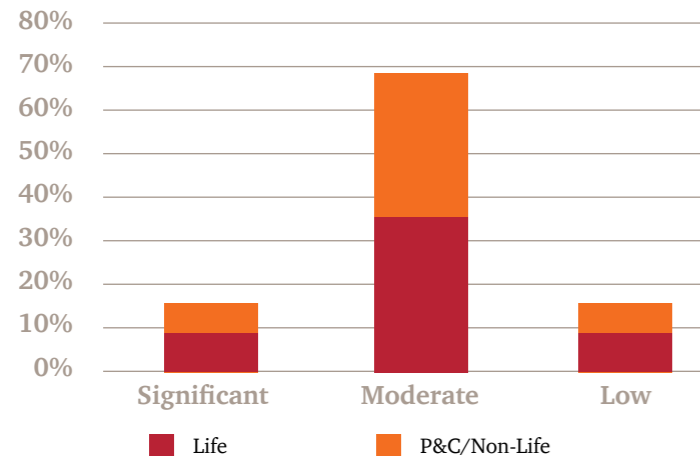


### Plan to have M&A activities

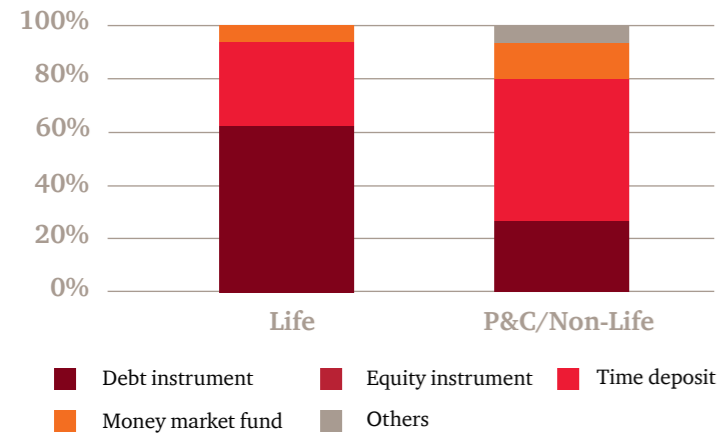


\*Weighted average response

## Impact of poor investment performance in 2016



## Most used investment product



## Investment strategies

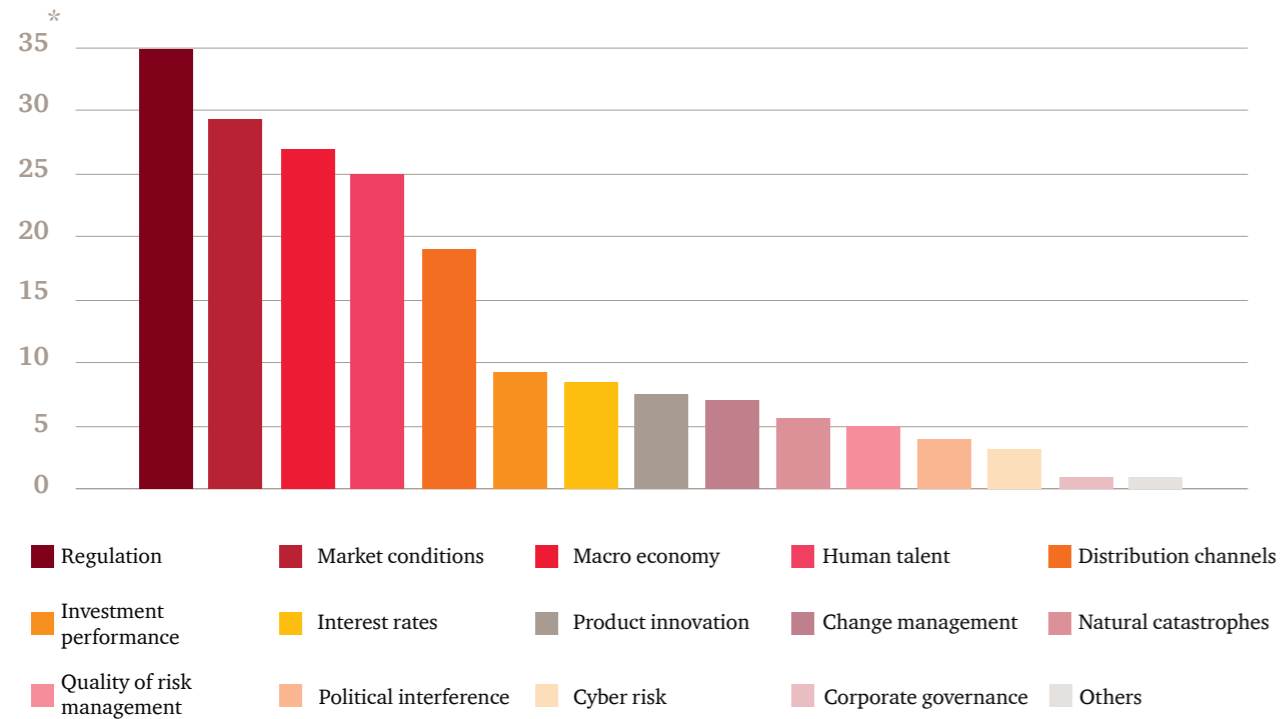
Most respondents see only a moderate risk from the movement of interest rates, with 77% saying it was either medium or low risk. With OJK and the government seeking to drive down rates in the market to make financial products more affordable to the masses, we may see a much greater sensitivity to rates in the future than was previously the case.

Investment strategies are limited in Indonesia, with most options being limited to plain-vanilla time deposits or treasuries. Financial derivatives are also in very limited use, with only 13% of respondents saying they expect to utilize them in the next 2 to 3 years.

# Risk and regulation

## Top risks faced by insurance industry

Risks facing the insurance industry for next 2-3 years

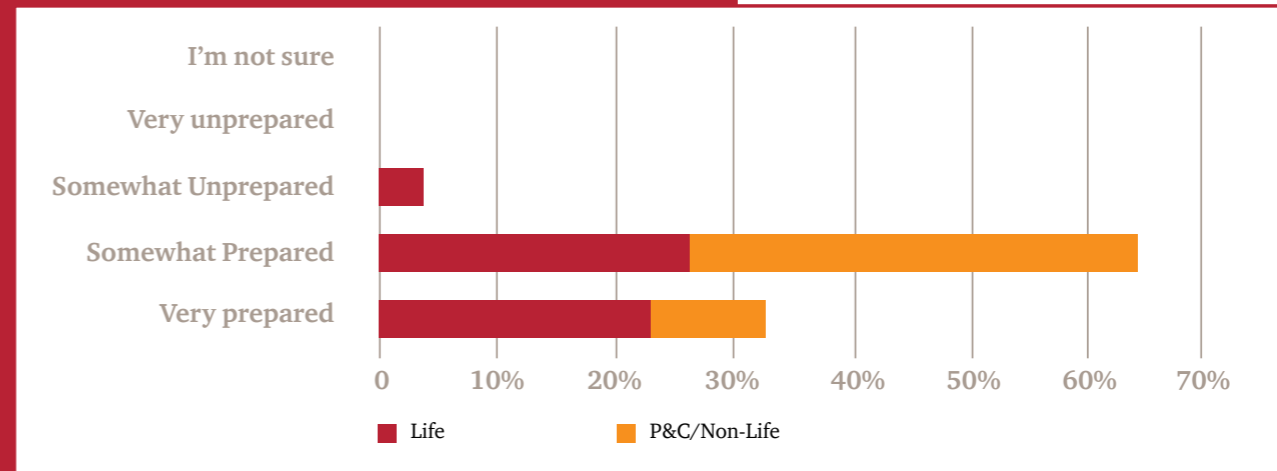


### Who is prepared?

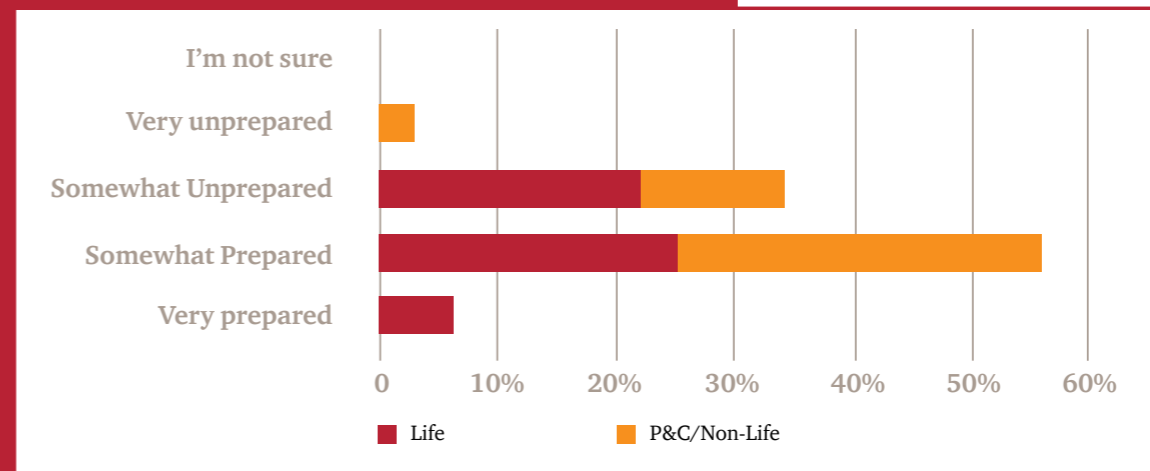
When asked about the level of preparedness at their company, respondents were very confident, with almost all saying they were somewhat or very prepared. However, when asked how prepared the industry as a whole was for these risks, the response was much less confident with 40% feeling that the industry was unprepared.

\*Weighted average response

### How well prepared is the company to address those top risks?



### How well prepared is the industry to address those top risks?

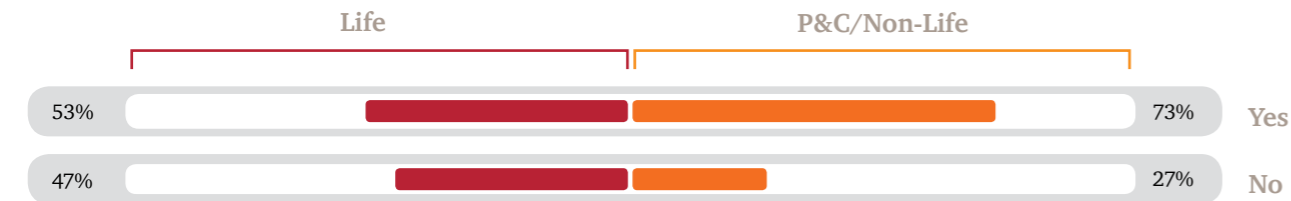


# Regulation

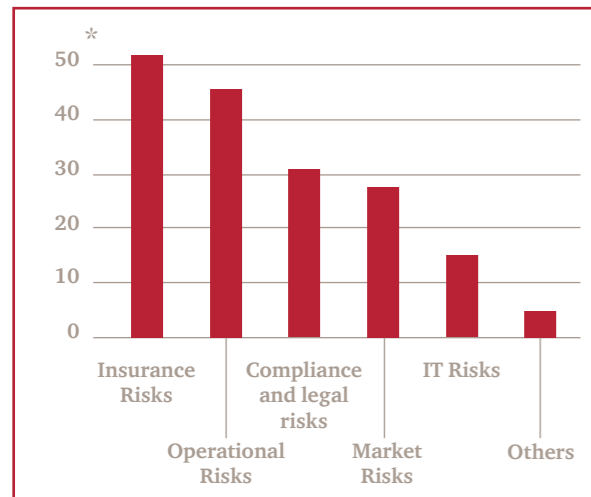
Over the last 2 years, the pace of regulation to the Indonesia Insurance market has increased significantly – the single presence policy, commission limits, domestic re-insurance requirements, tariffs and capital requirements to name a few. Our expectation is that this pace will not slow down in the near future and we will see a continued focus on the sector by OJK as it matures.

Respondents to our survey noted Regulation as the #1 risk to the life sector and the #2 risk to the non-life sector. 58% also expected an increase in legal and compliance risk in 2016, almost entirely related to new regulations.

## Increasing legal and compliance risk in 2016

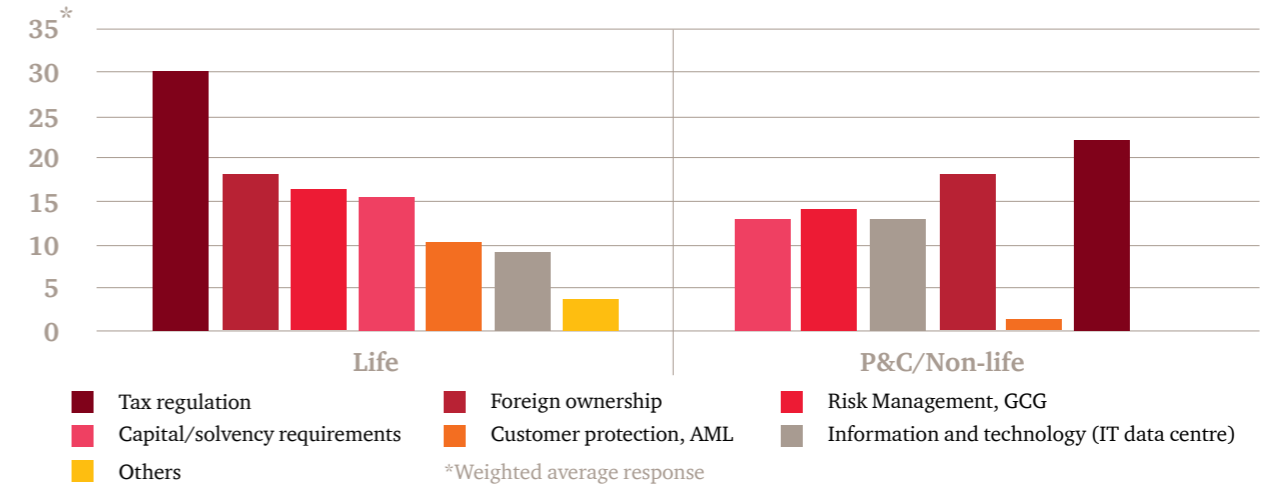


Even though Regulation is one of the top challenges to growth and operating business in Indonesia, almost 70% of respondents felt the current wave of new regulation is good for the sector.



The primary Risk Management focus areas in 2016 – insurance risk and operational risk – are not surprising. However, respondents gave a fairly low level of priority to IT risk. As we expect a very dynamic market with rapid change in digitalization, new customer channels, new products and new regulations, the response towards IT may be underestimating the risks that lie ahead.

## Regulation needing more clarity

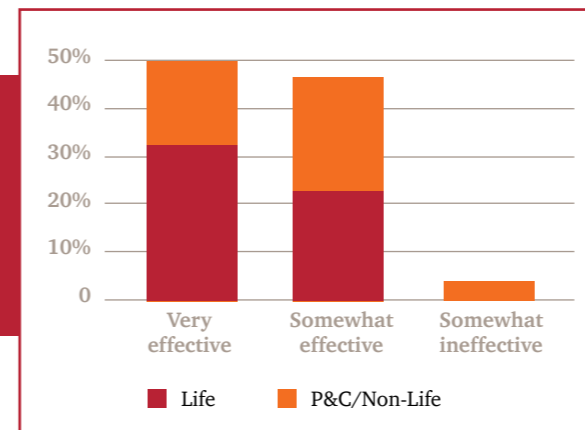


Respondents are looking for a much greater level of clarity in respect of tax, with one-third rating this the #1 area where progress is needed. This was followed by the need for comfort around foreign ownership limits and whether those regulations will change in the future.

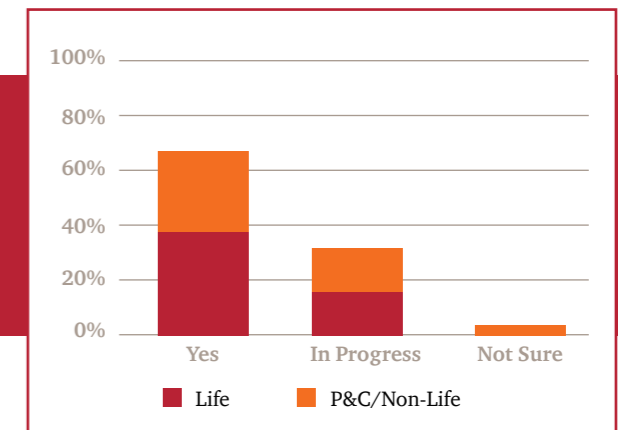
## Opportunity for Risk and Governance improvements

One-third of respondents do not yet fully have a clear risk management strategy in place. However, almost all felt that their governance function is effective at assessing and mitigating risk. Given the lack of risk strategy, and perhaps lack of a wholistic approach to risk across the organization, there may be a disconnect between perception and reality when it comes to risk function effectiveness.

### Governance function to mitigate risk



### Company has risk management strategy in place



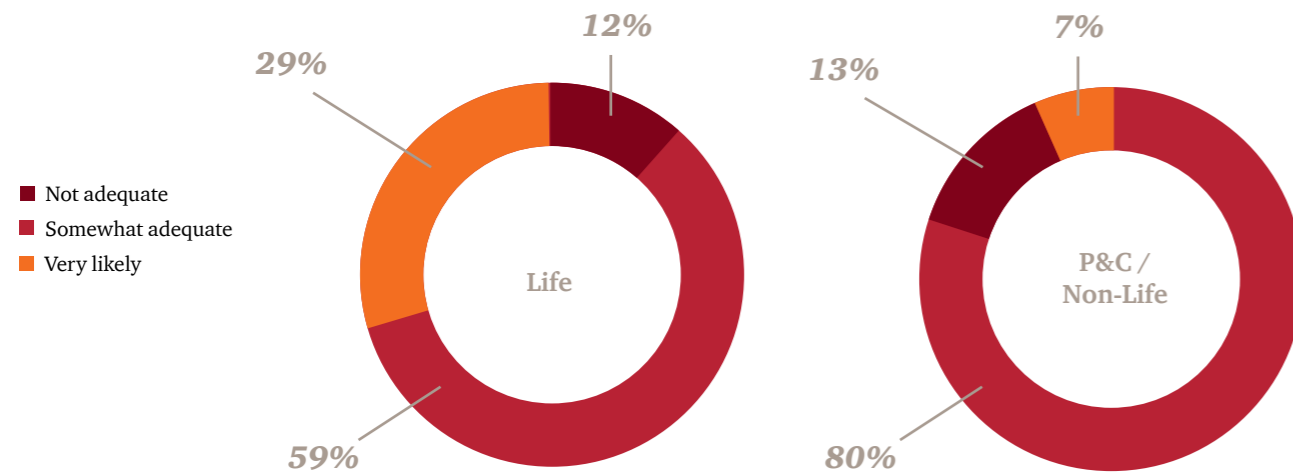


## Talent

Even though most respondents felt that their level of resources was somewhat or very adequate (88%), one-third felt Human Talent was the #1 or #2 main risk to their achievement of growth targets for 2016. Likewise, in terms of risks facing the industry over the next 2 to 3 years, Human talent was the third most popular response.

In our 2015 Insurance Banana Skins survey, Human Talent was seen to be the fourth biggest risk to the industry amongst respondents in the Far East region. Particularly in the technology area, companies are finding it increasingly difficult to attract and retain the right talent.

### *Adequacy of resource to support growth*



## Moving towards a digital era

The pace of change in the insurance industry is accelerating more quickly than could have been envisaged. Almost all respondents to our survey plan to invest in technological transformation in the next 18 months.

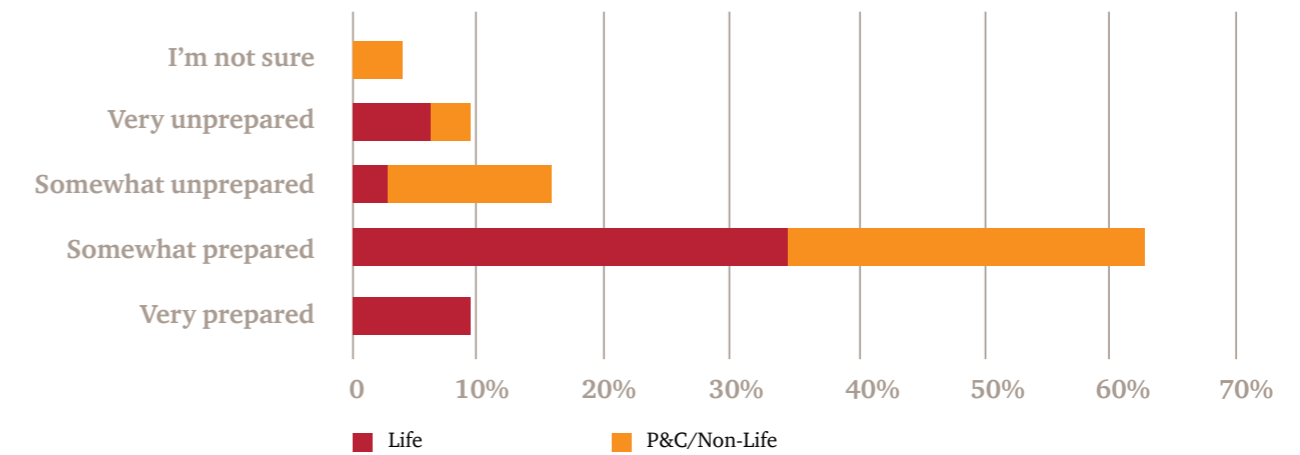
Although a high level of disruption by FinTech is already reshaping the nature of lending and payment practices, a second wave of disruption is making inroads in the asset management and insurance sectors. In our recent Global FinTech survey, when asked which part of the Financial Services sector is the most likely to be disrupted by FinTech over the next 5 years, 74% of insurance companies identified their own industry. Venture capitalists are looking very closely at start-ups dedicated to reinventing the way we invest money and buy insurance. Annual investments in InsurTech start-ups has increased fivefold over the past three years.

As clients are becoming accustomed to the digital experience offered by companies such as Google, Amazon, Facebook and Apple, they expect the same level of customer experience from their financial services providers. Insurers are leveraging data and analytics to bring personalized value propositions while proactively managing risk. There will be an increase in self-directed services for insurance clients, usage-based insurance is becoming more relevant, and remote access and data capture is providing deep risk insights.

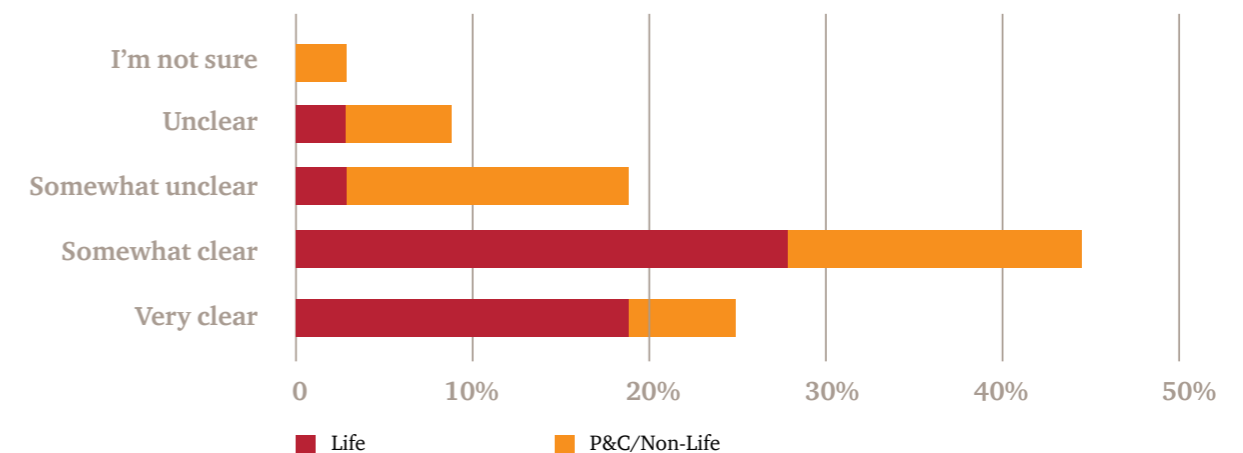
### Are insurers in Indonesia prepared?

As was the case for the Risk Management function, respondents overwhelmingly felt their IT system was prepared to meet the needs of the current business. Even two-thirds felt that the same systems were prepared to meet the future needs. However, one-third of respondents do not have a clear digital strategy. Without a clear strategy, it is difficult to assess both the investment need as well as the potential value creation. Furthermore, to invest significantly without a strategy can create a significant operational risk.

### IT System preparation for future business

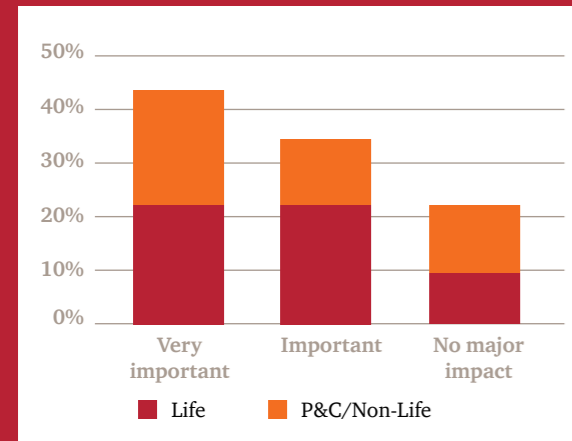


### Existence of clear digital strategy

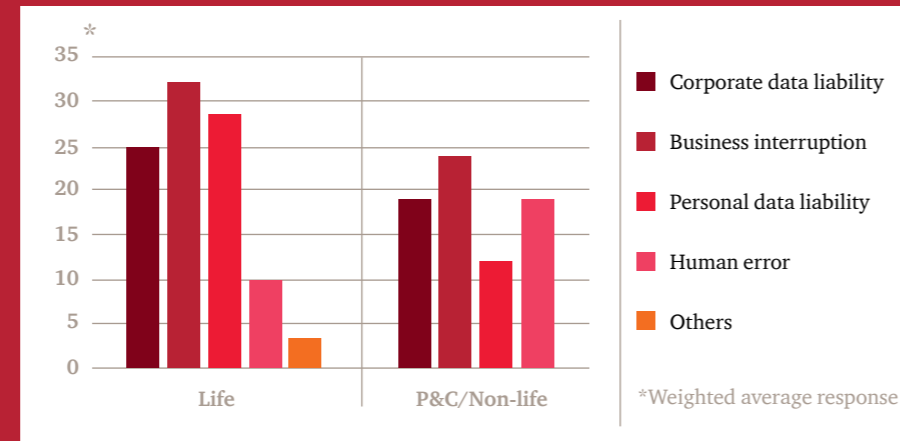


Product innovation is on the rise. 80% of respondents see innovation as important or very important. Innovation will intersect with digitalization as insurers seek more cost effective ways to acquire, reach and interact with customers, which in Indonesia are rapidly becoming more mobile and smart-phone savvy. The distribution channels of today may not be the distribution channels of tomorrow, with face-to-face interaction giving way to more direct customer acquisition and servicing. This highlights the need for a robust IT strategy, and an agile response to cyber risk.

### Product Innovation



### Most concern type of cyber risk



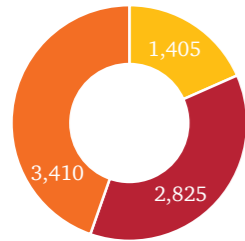
## Cybercrime on the rise

In the past, insurance companies were not targeted as frequently as large enterprises and financial institutions. This is rapidly changing as cybercriminals realize that the insurance industry is vulnerable to attacks, and possesses critical data, such as Social Security numbers, credit card information and other personally identifiable information, that criminals can use for identity theft.

This isn't unique to the insurance industry, it just happens to be highly visible and possess a lot of sensitive information. This leaves a significant number of applications vulnerable, all because securing all the software a modern business needs in today's digital economy can be expensive and time consuming especially if the enterprise is relying on on-premises tools that cannot scale with the business.

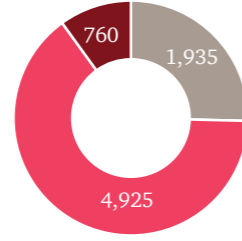
# A truly global network

## Insurance: PwC professionals at a glance



By region:

- Asia Pac
- EMEA
- Americas



By lines of service:

- Advisory
- Assurance
- Tax



**Blurred Lines:**  
How FinTech is shaping Financial Services



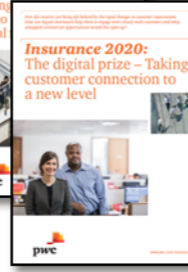
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