

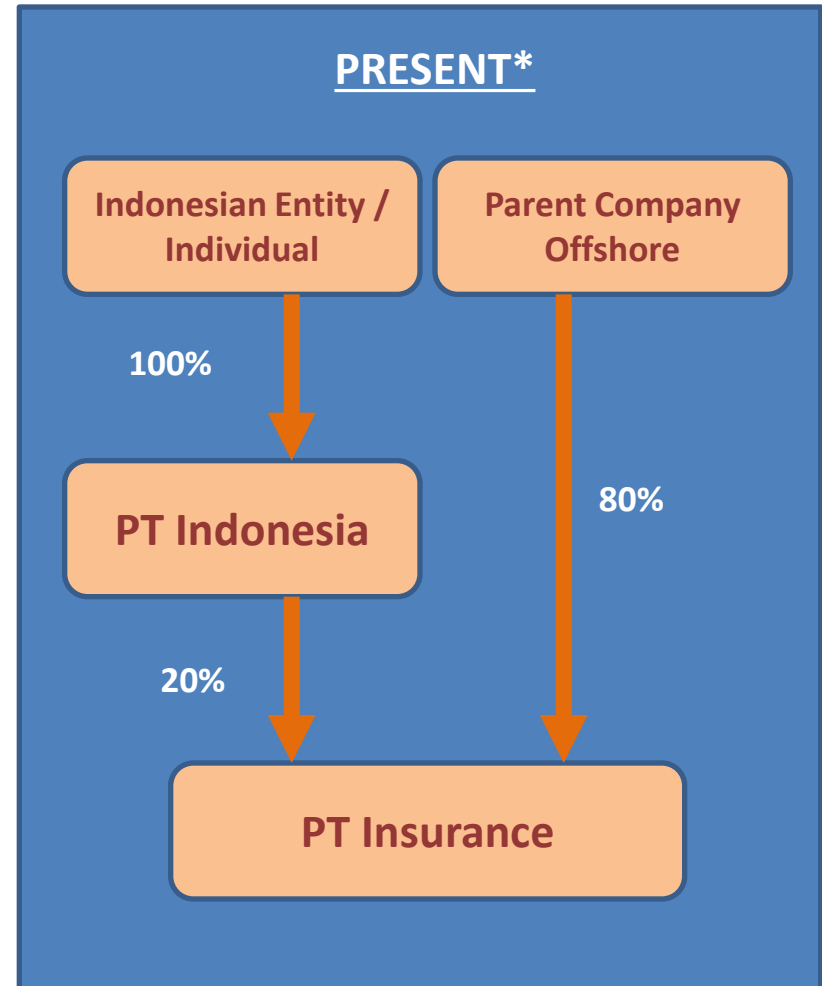
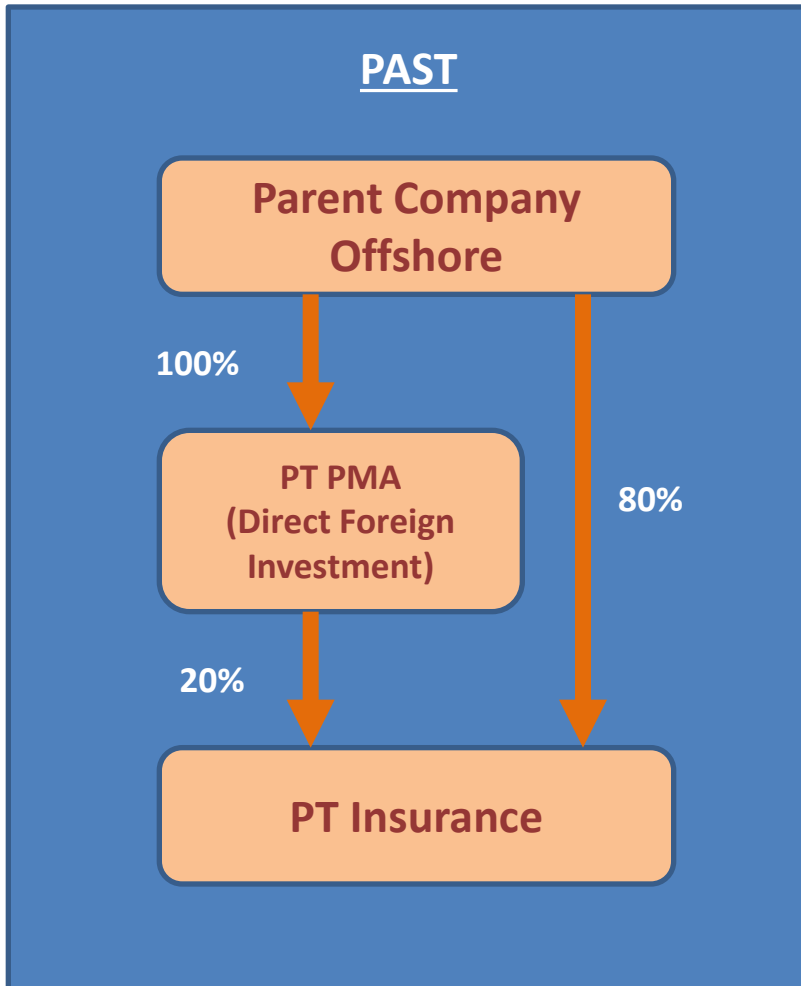
Bancassurance in Indonesia

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Foreign Ownership in Insurance Companies



**Note: this is based on Article 3 of OJK Regulation No. 67/POJK.05/2016*

Foreign Ownership in Insurance Companies

OWNERSHIP-RELATED MATTERS	PAST	PRESENT
Fit-and-proper test for founding and incoming shareholders (25% ownership or more)	NO	YES
Increase foreign ownership to more than 80% subsequent to establishment	YES	YES Note: OJK future prohibition may be in place
Two-tier ownership structure	YES	NO

Foreign Ownership Requirement of Insurance Companies

- Currently still follow the existing requirement (80% foreign and 20% Indonesian) based on GR 73/1992
- Will be further regulated in a Government Regulation (the regulation was expected to be issued in April 2017 but is still not issued yet)
- Based on various news sources, in the future, the 20% Indonesian shareholding must be maintained and cannot be diluted

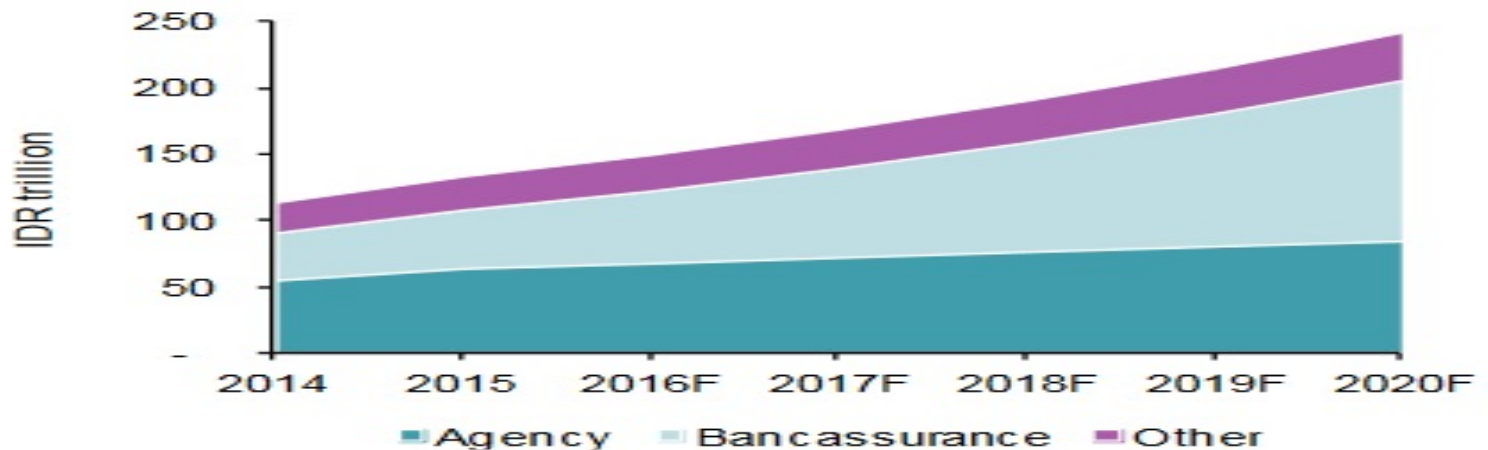
Single Presence Policy in Insurance Company

- A Party can only become a Controlling Shareholder in 1 life insurance, 1 general insurance, 1 reinsurance, 1 sharia life insurance, 1 sharia general insurance and 1 sharia reinsurance company
- Controlling shareholder: (i) directly own 25% or more shares with voting rights or (ii) directly own less than 25% of shares with voting rights but nonetheless can control the company, either directly or indirectly
- Options to comply with the Single Presence Policy: Merger, consolidation, transfer of shares or other corporate action as approved by the Indonesian Financial Services (OJK)
- Deadline: 17 October 2017
- The company must prepare Action Plan to comply with the above requirement. The Action Plan shall be approved by the GMS and submitted to OJK before June 2017

Bancassurance Overview

- Bancassurance in Indonesia is anticipated to grow at an above-market 23% compound annual growth rate
- Insurance companies have spent large sums obtaining bank ties
- Banks have large customer bases and strong reputations with customers

Projected GWP by distribution channel



Source: BMI, AAJI, KPMG analysis

Bancassurance Overview

- In 2015, bancassurance channels delivered 36.6% of premium income, while agency channels remained the largest contributor with 45.3% (AAJI press release, Q3 2015)
- Through the third quarter of 2016, bancassurance channels were the largest contributor with 42% of premium income; agency channels were 39% of premium income (The Jakarta Post, “Life insurers enjoy stellar growth in Q3,” November 18, 2016, <http://www.thejakartapost.com/news/2016/11/18/life-insurers-enjoy-stellar-growth-in-q3.html>)

Regulatory Framework

- Law No. 40 of 2014 on Insurance
- Indonesian Financial Services Authority (*Otoritas Jasa Keuangan* or “OJK”) Regulation No. 23/POJK.05/2015 on Insurance Products and Marketing of Insurance Products (“POJK 23”)
- OJK Regulation No. 6/POJK.03/2016 on Business Activities and Office Network Based on the Bank’s Core Capital (“POJK 6”)
- OJK Circular Letter No. 32/SEOJK.05/2016 on Distribution Channel for Insurance Products in Cooperation with Banks (Bancassurance) (“SEOJK 32”)
- OJK Circular Letter No. 33/SEOJK.03/2016 on the Application of Risk Management at Banks Engaging in Marketing Cooperation Activities with Insurance Companies (Bancassurance) (“SEOJK 33”)
- OJK Circular Letter No. 27/SEOJK.08/2016 on Business Activities of Commercial Bank Based on Their Core Capital Levels (“SEOJK 27”)

Insurers and Banks – Rules for Cooperation

- Financially solvent
- Not under any administrative sanction
- Bancassurance is already part of their approved business plan for the implementing year of the bancassurance
- Insurance products to be distributed have been approved by OJK

Insurers and Banks – Rules for Cooperation

Banks engaged in bancassurance for the first time:

- Must report new bancassurance activity to the OJK
- Must report Realization Plan of the new activity
- Must include bancassurance as a new activity in Annual Business Plan

When a bank has met the above requirements or for banks that have previously engaged in bancassurance activities, the following reports must be submitted to the OJK for every new bancassurance activity:

- Bancassurance activity report
- Realization report for new activity

Categories of Bank

Categories of bank based on Core Capital, according to POJK 6:

- BUKU 1: Core Capital of less than Rp. 1 trillion
- BUKU 2: Core Capital of Rp. 1 trillion – Rp. 5 trillion
- BUKU 3: Core Capital of Rp. 5 trillion – Rp. 30 trillion
- BUKU 4: Core Capital of at least 30 trillion

Banks Permitted to Engage in Bancassurance

Bancassurance Models	BUKU 1	BUKU 2	BUKU 3	BUKU 4
Reference	With approval	With approval	With approval	With approval
Distribution	Prohibited	With approval	With approval	With approval
Integrated	Prohibited	Prohibited	With approval	With approval

Bancassurance Activity Report for Banks

Report form found in attachment of SEOJK 33. Submitted forms to at least include the following:

- Information such as objectives, potential clients, opportunities, threats, insurance products to be distributed, business models
- Insurance partner solvency analysis and licensing
- Cost-benefit analysis
- Risk-benefit analysis for customers
- Risk management covering identification, measurement, monitoring and steps to manage probable risks
- Standard operating procedure, organization and authority of the bancassurance implementation in regard to risk management
- Readiness of the bancassurance working unit and/or officers and readiness of staff to market the bancassurance product
- Legal aspects of compliance
- Readiness of bank's information system
- Steps to prevent money laundering and terrorism funding

Bancassurance Activity Report for Banks

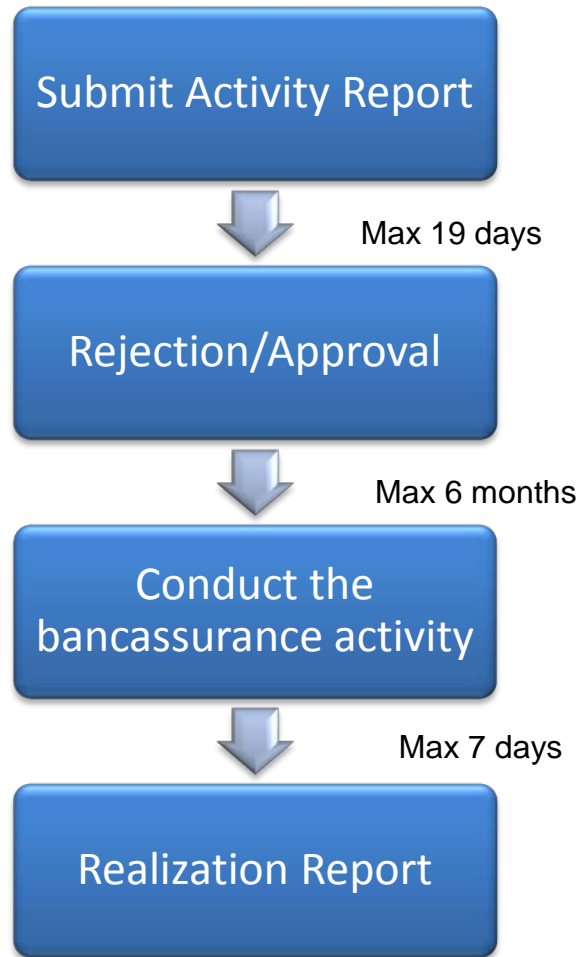
- Documents related to the activity such as cooperation agreement with the bank's insurance partner
- Documents on the clarity of insurance product information for customers including leaflets, application form
- Compliance checklist along with a statement letter from the bank director stating that the provided data and information has fulfilled the bank's obligations and is correct and true. It should also state that if in the future the data or information is proven to be incorrect or not true the director is ready to accept sanctions in the form of a fine or any other administrative sanction imposed by the OJK

Bancassurance Realization Report for Banks

The realization report should contain the following:

- Name and type of distributed product and the business model
- Starting date for the distribution of insurance product
- Conformity with the initial plan

Procedure and Timeline



Business Models

SEOJK 32 stipulates 3 business models for bancassurance activities, namely:

1. Product Referral (for bank products and non-bank products)
2. Distribution
3. Bundled Products

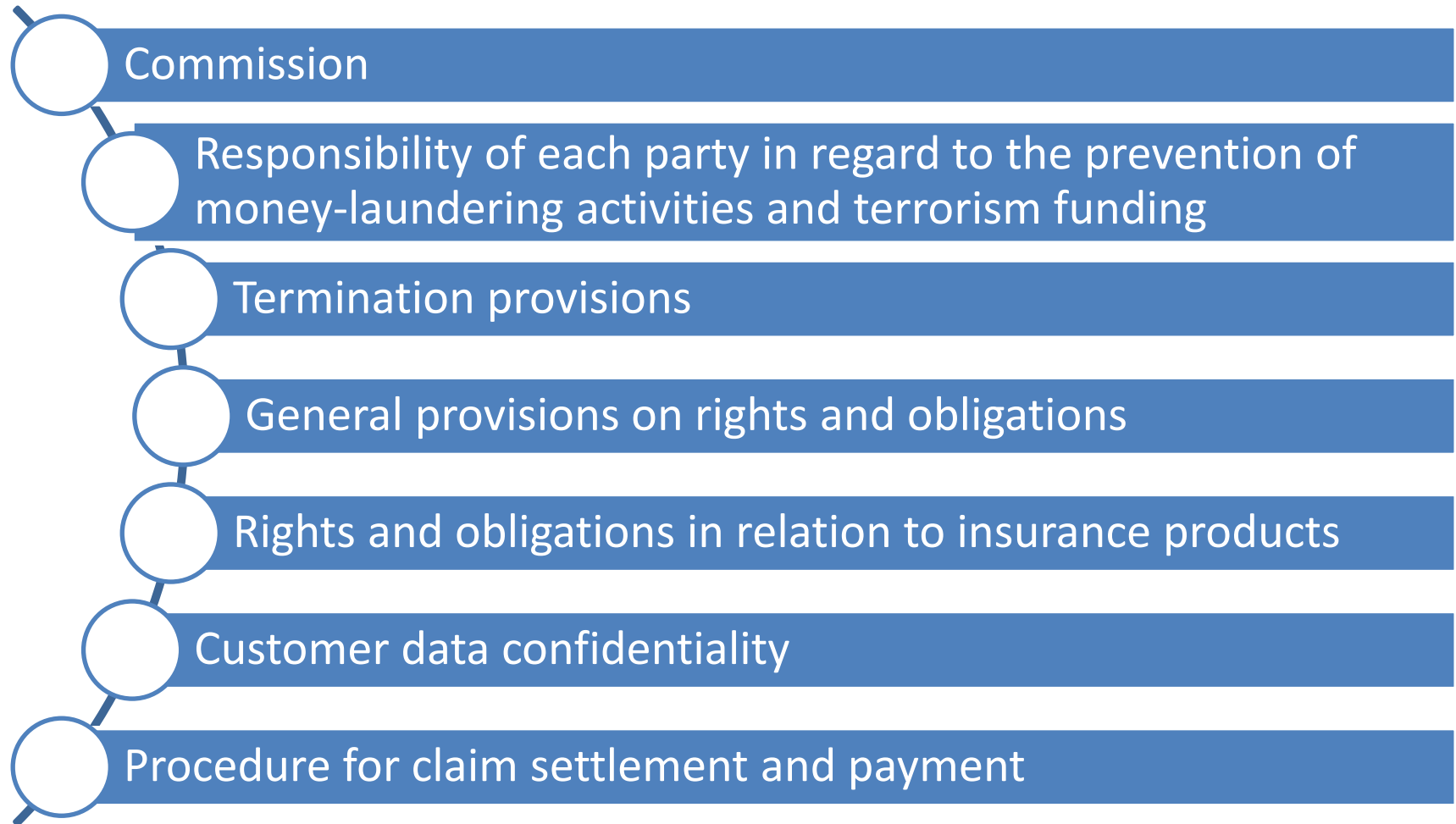
This Circular Letter also says a cooperation between a bank and an insurance company will not be considered bancassurance if:

1. The bank is the insured party or the participant
2. The insured object is the bank's assets or employees

Minimum Provisions in Bancassurance Agreement

- Specific rights and obligations of both parties
- Obligation to record and maintain assets and liabilities in insurance companies
- Type of business model
- Term
- Insurance company's authority to determine underwriting and claims
- Procedure for closing insurance policies and determining premium payments or contributions
- Procedure for claim settlement and payment

Minimum Provisions in Bancassurance Agreement



Bancassurance Agreement

- An insurance company and a bank may enter into multiple Bancassurance Agreements
- Each Bancassurance Agreement must contain only 1 business model for 1 insurance product or 1 bundled product
- In practice, an insurance company and a bank usually enter into one cooperation agreement and implementing agreements will follow for submission to the OJK

Non-Exclusivity

- Under Bank Indonesia Circular Letter No. 12/35/DPNP on Risk Management Implementation for Banks Conducting Bancassurance Activities (“BI Regulation 12”), when using a referral model for a bank’s products, the bank must provide customers with a choice of at least 3 insurance companies
- SEOJK 32 reaffirms that exclusivity is prohibited to avoid monopoly. Although BI Regulation 12 has been revoked, the current practice is to enforce non-exclusivity

Language

- Prevailing language of a Bancassurance Agreement must be Indonesian
- If a Bancassurance Agreement is executed in bilingual version it must include a clause that in any dispute or disagreement over the interpretation of the agreement, the Indonesian-language version will prevail

Termination

A Bancassurance Agreement must be terminated if:

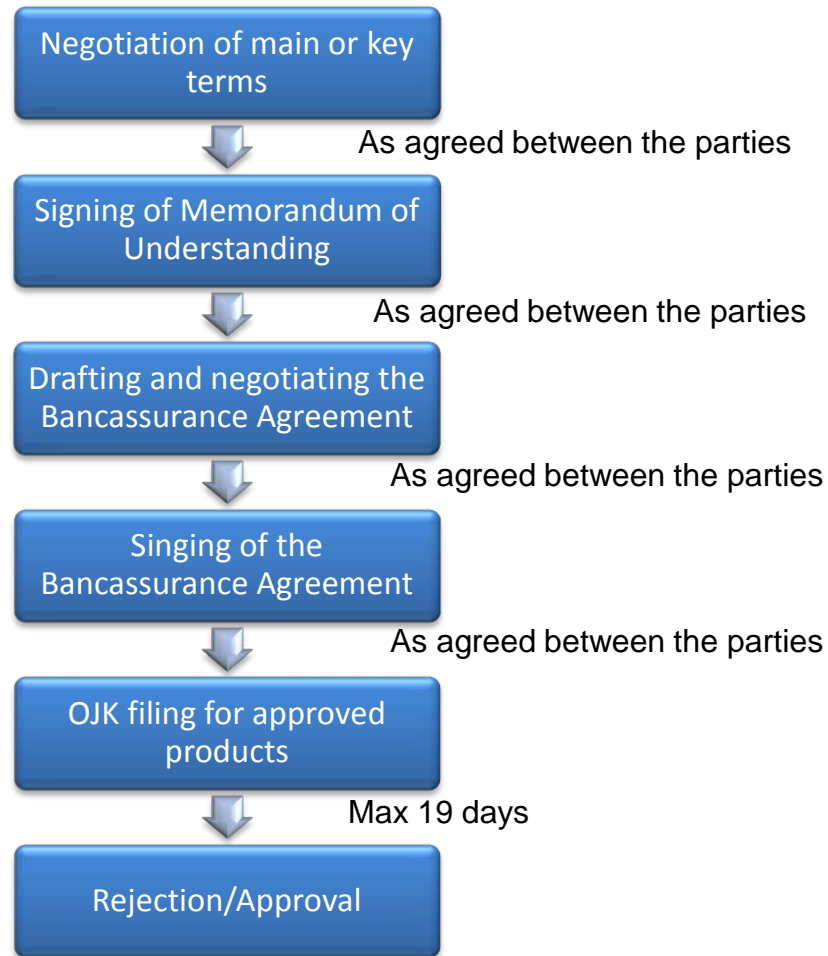
- OJK orders the termination of the Bancassurance Agreement based on the result of an annual audit or because it considers the bancassurance activities:
 - Are not in line with the provisions of the Bancassurance Agreement;
 - Are in violation of any laws or regulations; or
 - Have a negative impact on the insurance company's financial condition.
- Any party does not fulfil its obligations under the Bancassurance Agreement
- The insurance company's reputation has declined significantly and could impact the bank's risk profile

Documents Required for OJK Filing

- Application form attached in SEOJK 32
- Bancassurance Agreement with the parties' initials
- Insurance product approval
- Information on the insurance product
- Leaflets, marketing materials or insurance statement letter that provides information on the commission given to the bank
- For distribution or product integration channel: insurance agent certificate and training in insurance product

- All documents will be submitted online and simultaneously (or within two days) by the bank and insurance company

Timeline



*Note: In a normal negotiation the bank should be able to start distributing the insurance products within 3 to 6 months

Issues and Solutions

Customer Data Ownership

- Customer data is usually shared by the bank and the insurance company, with a restriction on cross-selling data obtained from the other party

Confidentiality

- Customer data must be kept by both parties and cannot be given to other parties or used for purposes other than those permitted under the Bancassurance Agreement

Commercial Timeline

- The commercial timeline sometimes cannot be synchronized with the compliance timeline. Compliance must come first so, if necessary, the commercial timeline must be adjusted.

Issues and Solutions

Commission

- Although many Bancassurance Agreements provide a commission to the bank, one alternative that has been implemented in Indonesia is a profit-sharing scheme where calculated profit is divided between the bank and the insurance company differently every year depending on sales target achievement

Termination of other Bancassurance Agreement

- Negotiations between the bank and insurance company may involve the termination of existing Bancassurance Agreements

Issues and Solutions

Preferred Partner

- This is a method to avoid exclusivity that is prohibited under the law

Establishment of Committees

- The nature of a Bancassurance Agreement is usually long-term, to make the relationship amicable. Committees may be established from the bottom up. For example, starting with a working group to discuss day-to-day activities or to resolve any disagreements, then a steering committee to resolve decisions that cannot be decided in the working group, and at the top an executive group to resolve any deadlocked matters.



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