Market access challenges: Indonesia

November 2019

There are currently prohibitions to placing certain reinsurance business offshore and Indonesian insurers have restrictions on how they place their risks. Those limitations mean the market is more prone to financial stability issues due to less diversification. The RAB continues to advocate the full removal of all market access barriers.

Existing legislation and recent developments

Cross-border business

Currently, foreign reinsurers are allowed to conduct business on a cross-border basis. There are, however, prohibitions on placing certain reinsurance business offshore.

Foreign ownership

On 17 April 2018, the Indonesian government issued Regulation GR14/2018 on Foreign Ownership of Insurance Companies. This confirms that there are no changes to the caps on foreign ownership of 80%, including for reinsurance companies. Entities that had already exceeded the 80% foreign ownership cap at the time the Regulation came into force will not be required to meet the 80% cap. However, they will be prohibited from further increasing the percentage of foreign ownership. In the most recent development, in July 2019, the Ministry of Finance proposed that there will be no restriction on foreign ownership of insurance companies that are granted "grandfathering" benefits or are excluded from last year's Regulation capping foreign ownership in local insurance companies at 80%. It would, however, appear to keep the cap at 80% for new market entrants.

Placement of risks

As of 1 January 2016, Indonesian insurers are required to place all "simple risks" with domestic reinsurers, particularly Indonesia Re, which was established by the Indonesian government to increase domestic reinsurance capacity, to the detriment of both primary companies in Indonesia and global reinsurers. "Simple risks" include all reinsurance of life, health, personal accident, motor, credit and suretyship business[1]. For other insurance business ("non-simple risks"), a minimum of 25% or the specified limit (whichever is higher) of the reinsurance must be placed with domestic reinsurers and up to 75% or the excess of the specified limit may be placed with offshore reinsurers.

Impact on foreign reinsurers

The limitations on using foreign reinsurance have had the following impact:

- Primary insurers can only place a limited share of business in the overseas reinsurance market (and the health, motor, life, personal accident, credit and suretyship business lines are excluded), which means that risks are less diversified in the market, which becomes more prone to financial stability issues.
- The market share of foreign reinsurance has shrunk, while local reinsurance has grown by ~40% in the past three years.

Recommendations and preferred outcomes

The RAB continues to advocate the full removal of all market access barriers for foreign reinsurers and caps on foreign ownership in Indonesia, within a reasonable timeframe:

- Remove the equity cap for new foreign investors.
- Allow domestic insurers to mitigate their risks by placing them with globally diversified reinsurers.

1 There are three exceptions: (i) products with worldwide coverage; (ii) products specifically designed for multinational companies; and (iii) products whose development is supported by a foreign reinsurer, which can get support from that foreign reinsurer for up to four years from when the product is registered with the regulator.