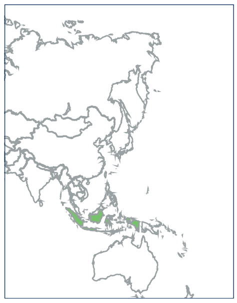

Market access and trade barriers faced by European insurers and reinsurers in foreign jurisdictions (March 2019)

INDONESIA

Insurance Europe has strong concerns over the mandatory cession requirements in Indonesia, in particular in light of the establishment of Indonesia Re, and a worrying life insurance tax issue. Given Indonesia's ambition in the area of services in the ongoing negotiations of a free-trade agreement with the EU (launched in July 2016), Insurance Europe believes that this would represent an appropriate platform for the EU authorities to raise the industry's concerns, with the aim of eliminating the current barriers and supporting the business potential of European (re)insurers in Indonesia.

(Re)insurance retention limits

Local compulsory cessions diminish the possibility to diversify risk, creating high local exposure in the event of, for example, a natural disaster.

- As of 1 January 2016, Indonesian insurers are required to place all reinsurance of motor, health, personal accident, credit, life and surety business ("simple risks") with domestic Indonesian reinsurers. The Indonesian regulator (Otoritas Jasa Keuangan, OJK) specifies only a few limited exceptions to this restriction.
- For other insurance business ("non-simple risks"), a minimum of 25% of the (re)insurance must be placed with domestic (re)insurers.
- "Non-simple risks" and exempted "simple risks" must run through a tiered declinature procedure before they can be placed with foreign (re)insurers.

Current and possible measure: tax treatment of paid claims for life insurance companies

There are increasing and significant concerns regarding recent developments in the taxation area, which deny recognition of claims as expenses. This is contrary to commonly accepted practice and has a significant negative impact on European insurers in Indonesia.

Specifically, in 2018, the Indonesian tax authority reinterpreted the 2009 Ministry of Finance regulation[1] with the intention of denying the tax deduction of paid claims for all (domestic and foreign) life insurers. In addition, under the new interpretation of the regulations, those insurers not accepting the Indonesian tax assessment are allowed to file an objection and, if rejected, can appeal to the Tax Court. Nevertheless, insurers would be subject to potentially 50% penalties at the objection level and 100% penalties in the event of losing at the Tax Court. Recently, a group of life insurance companies have been subjected to higher taxes for 2018 and this remains a risk for all market players.

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1 Art. 14 (3) No. 81/PMK.03/2009