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FINANCIAL SECTOR ASSESSMENT PROGRAM—DETAILED ASSESSMENT OF OBSERVANCE—INSURANCE CORE PRINCIPLES

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FINANCIAL SECTOR ASSESSMENT PROGRAM

February 2018

DETAILED ASSESSMENT OF OBSERVANCE

INSURANCE CORE PRINCIPLES

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This report was prepared in the context of a joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission in Indonesia during September – October 2016, led by Ulric Eriksson von Allmen, IMF and Erik H.B. Feyen, World Bank, and overseen by the Monetary and Capital Markets Department, IMF, and the Finance and Markets Global Practice, World Bank. Further information on the FSAP program can be found at http://www.imf.org/external/np/fsap/fssa.aspx, and www.worldbank.org/fsap.

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CONTENTS

Glossary

ALM	Asset and Liability Management
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BI	Bank Indonesia
CRM	Customer Relationship Management
CMG	Crisis Management Group
CPA	Certified Public Accountant
FSB	Financial Stability Board
FX	Foreign Exchange
GAAP	Generally Accepted Accounting Principles
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principle
IDR	Indonesian Rupiah
IFRS	International Financial Reporting Standards
IGT	Intra-Group Transactions
KSSK	Financial System Stability Committee
MOCE	Margin Over Current Estimate
MoU	Memorandum of Understanding
OJK	Financial Services Authority
ORSA	Own Risk and Solvency Assessment
PAI	Society of Actuaries of Indonesia
P&C	Property and Casualty
POJK	OJK Regulation
PPATK	Central Reporting and Analysis of Financial Transactions Unit
RBC	Risk-Based Capital
ROA	Return on Asset
ROE	Return on Equity
SAP	Statutory Accounting Principles
SAK	General Purpose Accounting Principles
STR	Suspicious Transaction Reporting

EXECUTIVE SUMMARY[1]

The insurance sector is rapidly growing through conglomeration, bancassurance and increased sales of investment products. While the insurance sector is still smaller than the banking sector, it has grown rapidly at an average of 20 percent per year over the last 5 years. About the half of insurers belong to conglomerates, typically led by banks but with a number of other financial and non-financial entities within the group. Because of regulations on intra-group transactions from insurance entities, some insurance entities could have material exposures to the affiliates. Bancassurance is playing a very important role in the insurance distribution, mainly in relation to investment products, such as unit-linked products.

Insurance regulation and supervision have been remarkably improved since the establishment of OJK and the enactment of the new Insurance Law. OJK was established in 2011 as an independent and integrated regulator. Since the new Insurance Law became effective in October 2014, OJK has made significant regulatory reforms, by issuing number of new regulations, introducing risk based supervision through the active usage of its supervisory powers including revocation of licenses, and by enhanced regulations for corporate governance and risk management.

However, the assessment has identified a significant number of shortfalls in observance with the Insurance Core Principles. Some deficiencies are due to the lack of effective group regulation and supervision of insurance groups. While OJK has implemented regulations related with risk management and group capital, intra-group transactions are not well taken into account and thus double gearing within the insurance entities and investment arbitrage between insurance entities and non-financial entities may be possible. Including a capital calculation for catastrophic risk and a framework for the imposition of capital add-ons can tighten the capital regime.

The Indonesian insurance sector is still vulnerable to a number of material risks. A number of insurers have failed in the last 10 years. After its establishment, OJK has taken prompt action in order to reduce the loss to policyholders by taking strong actions againt four insurers with material deficits. OJK has monitored the capital adequacy of insurers through its risk based supervision scheme. During the recent market turmoil in 2015, the solvency requirement was relaxed for nine months while introducing the temporary suspension of mark to market valuation rules. The Indonesian insurance industry is exposed to significant catastrophic risk with domestic concentrations through mandatory reinsurance programs. The low interest rate environment in advanced economies is also affecting the life insurance sector, as insurers have some underwriting denominated in USD.

The mission identified that the laws need to be amended to enhance the clarity of legal protection and the primary objective of the supervisor. ICP requires that primary objective of supervisors should be the protection of policyholders. However, OJK has other objectives and

[1] It was conducted by Nobuyasu Sugimoto (IMF) and Antony Randle (WB) from September 21 to October 5, 2016.

particularly the objective of market development seems to have caused conflict with the objective of policyholder protection. Setting the protection of policyholders as the primary objective of OJK will enhance the operational independence of OJK. The law also needs to provide clear and robust legal protection of OJK and its staff acting in good faith**.** Improvement of legal protection of OJK with clearer internal guidance for applying sanctions will help it to take more prompt and effective regulatory actions to problem insurers.

The mission recommends that OJK improve the effectiveness of supervision. Thematic reviews of reserving practices will encourage more conservative reserving. Close dialogue with the industry and clearer guidance on adequacy, independence and reporting lines of key control functions will improve the effectiveness of corporate governance and risk management of insurance groups significantly. OJK is encouraged to increase the expertise of its human resources, in particular actuaries, and facilitate communication with the industry participants which will assist the industry and OJK itself to transition smoothly from a compliance based culture to more risk based supervision. OJK also needs to revise the "three strikes" approach to ensure timely supervisory actions. Given the possible high interconnectedness and contagion risks through conglomerates and domestic reinsurance programs, the authorities are encouraged to enhance macroprudential surveillance by integrating conglomerate analysis to identify possible contagion among conglomerates and sectors.

There is a need for more focus on the regulation of insurance intermediaries and market conduct. OJK has made tremendous efforts to ensure efficiency and fairness in claims payment and complaints handling, which will continue to be important especially in the non-life sector. However, the rapidly increasing life insurance sector and complex unit-linked products make conduct regulations even more important. Enhanced disclosure requirements for intermediaries and close coordination with the insurance associations will improve the quality of intermediaries.

ASSESSMENT OF INSURANCE CORE PRINCIPLES

A. Introduction and Scope

1. **This assessment of insurance regulation in Indonesia was carried out as part of the 2016-17 Financial Sector Assessment Program (FSAP).** It was conducted by Nobuyasu Sugimoto (IMF Expert) and Antony Randle (World Bank Expert) from September 21 to October 4, 2016.

2. **The current assessment was made against the Insurance Core Principles (ICPs) issued by the International Association of Insurance Supervisors (IAIS) in October 2011, as revised in November 2015.** The ICPs apply to all insurers, whether private or government-controlled. Specific principles apply to the supervision of intermediaries. The institutional arrangements for financial sector regulation and supervision are outlined in Section C.

B. Information and Methodology Used for Assessment

3. **The level of observance for each ICP reflects the assessment of its standards**. Each ICP is rated in terms of the level of observance as follows:

a) ***Observed***: where all the standards are observed except for those that are considered not applicable. For a standard to be considered observed, the supervisor must have the legal authority to perform its tasks and must exercise this authority to a satisfactory level.

b) ***Largely observed***: where only minor shortcomings exist, which do not raise any concerns about the authority's ability to achieve full observance.

c) ***Partly observed***: where, despite progress, the shortcomings are sufficient to raise doubts about the authority's ability to achieve observance.

d) ***Not observed***: where no substantive progress toward observance has been achieved.

4. **The assessment is based solely on the laws, regulations, and other supervisory requirements and practices that were in place at the time of the assessment in September 2016.** While this assessment does not reflect new and on-going regulatory initiatives, key proposals for reforms are summarized by way of additional comments in this report. The authorities provided a full and comprehensive self-assessment, supported by examples of actual supervisory practices and assessments relating to unidentified insurance entities, which enhanced the robustness of the ICP assessment.

5. **The assessors are grateful to the authorities and private sector participants for their cooperation**. The assessors benefitted greatly from the valuable inputs and insightful views from meetings with OJK, insurance companies and industry and professional organizations.

C. Overview—Institutional and Macroprudential Setting

Institutional Framework and Arrangements

6. The Financial Services Authority (OJK) is responsible for the regulation and supervision of the entire financial sector, including banking, capital markets, insurance, and pension funds. OJK was established in 2011 to take over the role of Bapepam-LK (Supervisory Agency of Capital Market and Financial Institutions under the Ministry of Finance (MoF)) in regulating and supervising the capital markets and non-bank entities, as well as that of Bank Indonesia in regulating and supervising banks. OJK has three missions, 1) to ensure activities in the financial sector are fair, transparent, and accountable, 2) to promote growth in a sustainable and stable manner and 3) to protect the interests of consumers and the public.

7. The new insurance law became effective in October 2014, and since then OJK has made significant improvements to its insurance regulation and supervision. OJK has improved insurance regulation and supervision by adopting a number of new regulations. In the last three years, OJK has issued more than 100 new regulations, including those relating to risk based supervision, enhanced fit and proper requirements, governance and risk management requirements.

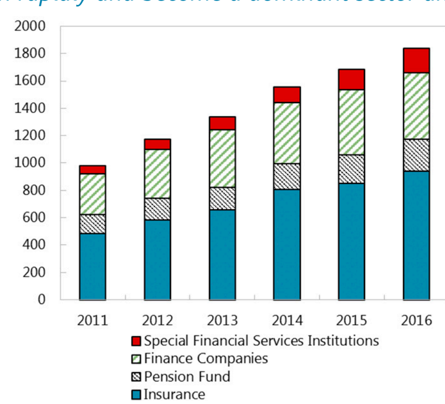
Market Structure and Industry Performance

Industry Structure and Recent Trends

8. The insurance sector dominates the other non-bank financial institutions, and the sector is growing very rapidly. The banking sector controls 76 percent of the total assets in the financial sector. The insurance industry accounts for 12 percent. The insurance sector has grown rapidly at an average rate of 20 percent per year over the last five years (refer to Figure 1). During 2010-2014, gross premium of the insurance sector almost doubled from IDR 125 trillion in 2010 to IDR 247 trillion in 2014. In 2015, gross premium of the insurance sector reached IDR 295 trillion. As of August 2016, the amount of gross premium reached IDR 223 trillion for the year to August.

Figure 1. Growth of Insurance Sector

The insurance sector has grown rapidly and become a dominant sector among nonbank financial institutions

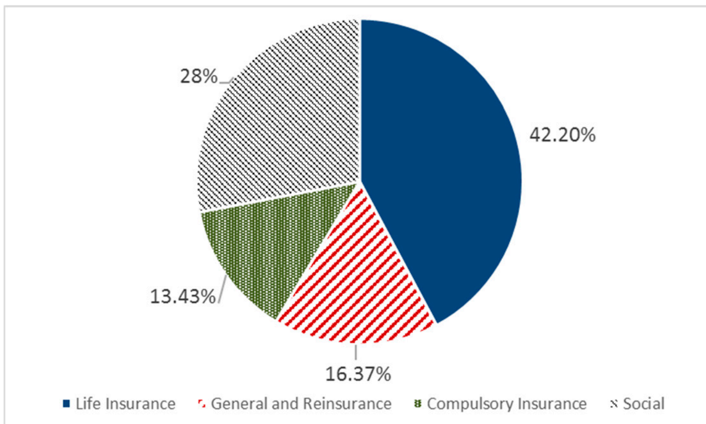


Source: OJK, Unit; Million IDR.

9. The insurance industry consists of 138 insurance and reinsurance companies, and the life industry accounts for bigger share in terms of assets. The insurance industry comprises 50 life insurers with a share of 42 percent of the total insurance sector assets, two social insurers with 28 percent, 88 general and reinsurers with 16 percent, and three compulsory insurers with 14 percent (refer to Figure 2). Most of the premium of life insurers comes from unit-linked products (46 percent share), followed by endowment (34 percent) and term (9 percent). In general insurance, property insurance accounts for 30 percent, followed by motor (28 percent) and personal accident and health (10 percent).

Figure 2. Industry Asset Shares

Life insurance has largest share of total assets owned by the industry.

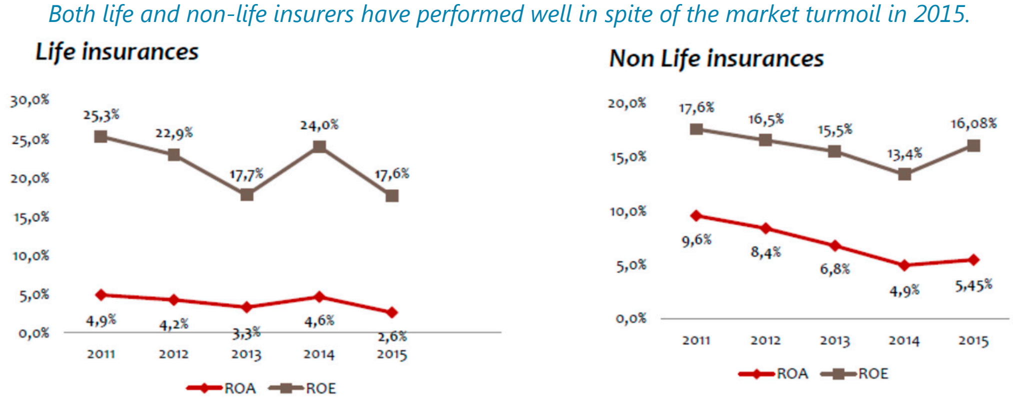


Source: OJK.

10. The profitability of the insurance sector has been high and stable, but liability valuation has influenced the results. Both ROE and ROA have been stable over the past five years and were positive even in 2015, when market stress hit the balance sheet of the insurance sector through lower equity prices and FX volatility (refer to Figure 3). However, it should be noted that insurance liabilities may not be valued as conservatively as the insurance core principles require. Therefore, careful consideration is needed to judge the profitability of the industry.

Figure 3. Industry Performance

Both life and non-life insurers have performed well in spite of the market turmoil in 2015.



Source: OJK.

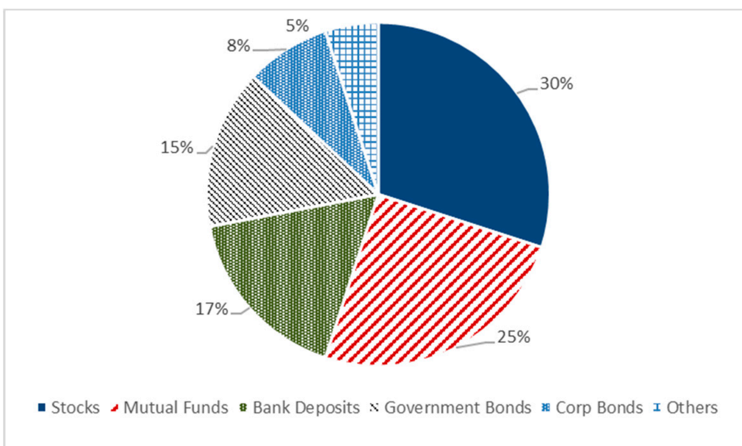
11. The mode of distribution of insurance products has changed over time. While agent distribution still has the highest share (26 percent), the share has declined very rapidly in the last three years. Bancassurance is permitted and now accounts for 25 percent as banks do distribute insurance products very actively. Direct marketing through the Internet and telemarketing are also getting more popular. Brokers are also contributing to the distribution but the share is limited (12 percent).

Assets and Liabilities

12. The life insurance sector has significant asset allocation to stocks and mutual funds, partially through unit-linked products. Stocks have the highest asset allocation (30 percent), followed by mutual funds (25 percent) and bank deposits (17 percent) (refer to Figure 4). Government and corporate bonds have very limited shares (15 percent and 8 percent respectively). The majority of the shares are attributable to unit-linked products. While policyholders of unit-linked products will cover the loss, there seems a wide spread industry practices of insurers providing some guarantees for the products. Therefore, it is difficult to describe the riskiness of the life sector. The P&C insurance sector has material allocations to bank deposits (51 percent), mutual funds (14 percent) and corporate bonds (12 percent).

Figure 4. Asset Allocation of Life Insurers

Life insurance companies have significant exposure to shares and mutual funds.

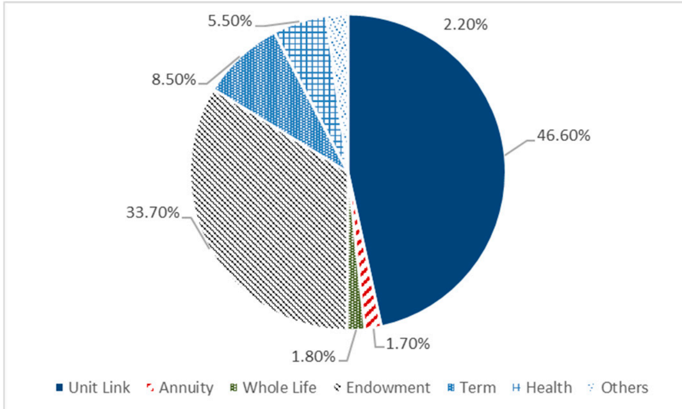


Source: OJK.

13. Technical provisions account for the majority of liabilities. Technical provisions account for about 60 percent of the total liabilities. Other liabilities arise from miscellaneous items, such as deferred tax liabilities. In the life sector, unit-linked products are responsible for the largest share of products, followed by traditional products, such as endowment, term and health. In P&C sector, Property and Motor have the largest shares (refer to Figure 5).

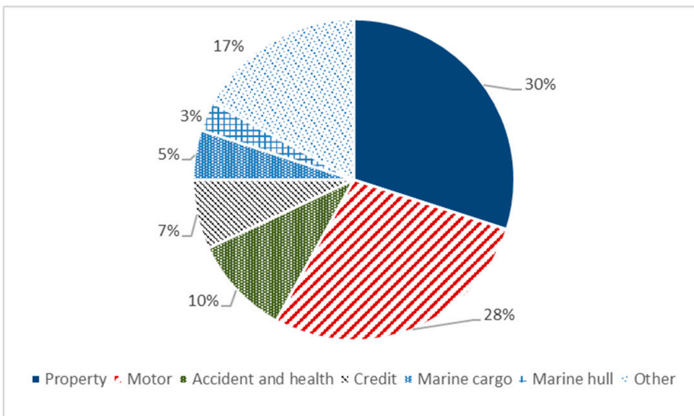
Figure 5. Breakdown of Life and P&C Products

Unit-linked products dominate the life products.



Source: AXCO, Indonesia Life Insurance Association.

Property and motor products have the largest shares



Source: General Insurance Association of Indonesia.

Interconnectedness Between the Insurance and Banking Sectors

14. The majority of insurers belong to conglomerates with high degrees of interconnectedness between banks and insurers. OJK has identified 49 conglomerates in Indonesia and 77 insurers out of 138 insurers are part of these conglomerates. Many conglomerates have both banks and insurers within the group. Insurers have allocated more than 25 percent of their assets to bank deposits and are also exposed to the banks through equity investments. Insurers are not able to invest more than 20 percent of the total investments into affiliated companies, which could exceed the loss absorption capacity of the insurance entities. In 2016, OJK imposed a minimum investment requirement (20 percent of the investment) into government bonds and this will be increased to 30 percent by December 2017. This will reduce interconnectedness between banks and insurers by reducing the high allocation to bank deposits.

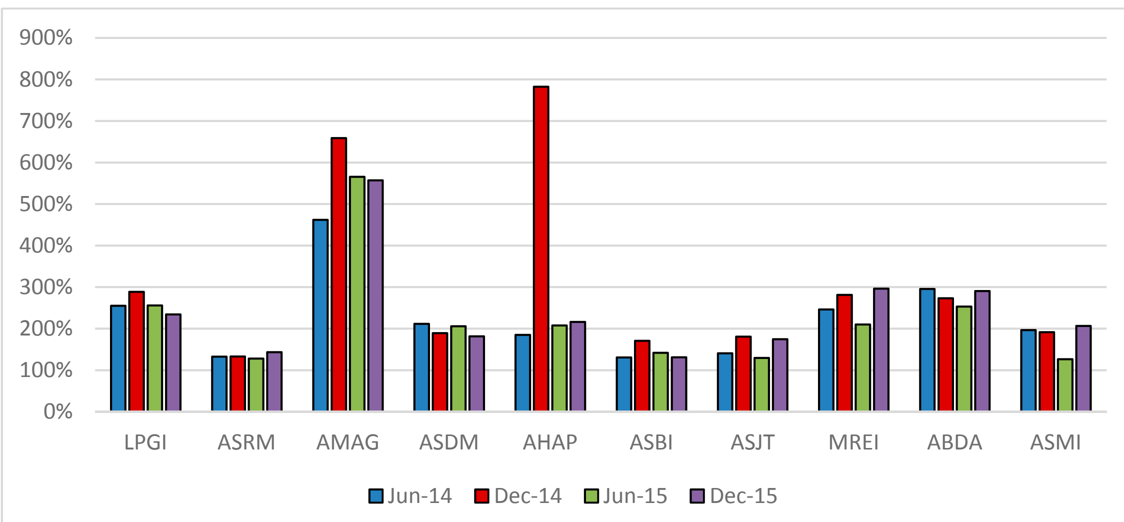
15. While group capital is required, capital requirements may not be sufficient due to the lack of recognition of intra group transactions. A conglomerate is required to calculate group capital by adding the capital requirements of each sector. However, in the capital calculation of insurance entities, there is no adjustment for intragroup transactions up to the investment limit. The investment limit is based on the total investment of the insurance entities; thus it could be much higher than the available capital of insurance entities. Therefore, there is a possibility that capital is inflated through double gearing and capital requirements could be reduced through other intra group transactions, for example by shifting risky assets to non-financial entities within the group.

Key Risks and Vulnerabilities

16. **A number of insurers have failed in the last 10 years and solvency ratios of even large insurers are still volatile.** Over the last 10 years, the licenses of 24 insurance companies have been revoked due to management failures. Since the establishment of OJK, OJK has actively used its powers, including revocation of licenses and 4 insurance companies have failed with an estimated total deficit of about IDR 906 billion. While the industry is well capitalized (the average solvency ratio of the industry is over 500 percent for life and over 250 percent for non-life, which is much higher than the minimum), some insurers, including large insurance groups, are exhibiting declining solvency ratios (refer to Figure 6). A new resolution regime has been introduced which allows OJK to declare bankruptcy for the insurers and to appoint statutory managers.

Figure 6. Solvency Ratios of Publicly Listed Insurance Companies

Some insurers are facing declines in the ratio in 2015.



Source: OJK.

17. **The Indonesian insurance industry is exposed to significant catastrophic risks with domestic concentrations through mandatory domestic reinsurance programs.** Indonesia is prone to landslides, floods, storms, earthquakes, tsunamis, and volcanic eruptions. Insurers are required to set aside a catastrophe reserve and also have mandatory reinsurance arrangements with domestic reinsurers. One reinsurer is owned by all of general insurance companies, thus creating potential contagion in case of significant catastrophe events. According to the OJK, risk in excess of domestic reinsurer capacity is retroceded to international reinsurers.

18. The economic slowdown in 2015 and the current low interest rate environment also affected the insurance sector. The economic slowdown has affected the growth of the insurance sector through lower growth in premiums. As the life sector has a significant exposure to equity and mutual funds, the performance has been affected negatively. In addition, the low interest rate environment has reduced the insurance investment return. In 2015, OJK allowed insurers to abandon mark to market valuation for solvency purpose (RBC calculation)temporarily. OJK followed up with the firms that needed to use this temporary suspension to ensure that their treatment was, in fact, temporary. OJK has subsequently removed this suspension to avoid moral hazard in the industry and the expectation that it would accommodate further concessions in the future. There were a few insurers that utilized the policy and OJK stringently monitored these insurers.

Box 1. Failure of Medium Size Life Insurance Company (BAJ)

PT Assuransi Jiwa Bumi Asih Jaya (BAJ) was a life insurance company with a long history. BAJ was one of the oldest insurance companies in Indonesia, having been established in 1988. In 2013, its total assets were IDR 517 billion and it had over 13,000 policyholders. It belonged to a financial conglomerate group that consists of 33 rural banks. Starting in 2007, it faced difficulties in meeting the minimum capital requirement, and the Ministry of Finance (the insurance supervisor at that time) imposed several sanctions. However, BAJ could not improve its solvency position. OJK, which took over supervision of Bapepam-LK, revoked the license and requested the court to declare bankruptcy and liquidate the company in October 2013. At that time, the solvency ratio was 12 percent, which is well below the minimum level (120 percent).

Limitations to OJK's legal power on resolution prevented prompt liquidation of the company. The insurance company appealed to the court, insisting that OJK could submit a bankruptcy request only when the creditors of BAJ had suffered losses. At that time, policyholders and other creditors were still being paid when claims fell due. It also argued that insurance claims could not be recognized as debts under the definition set out in the Bankruptcy Law. The Commercial Court ruled in favor of BAJ and rejected OJK's bankruptcy petition against BAJ. OJK filed an appeal in June 2015. Finally, in September 2015, the Supreme Court ruled in favor of OJK and approved the bankruptcy petition against BAJ.

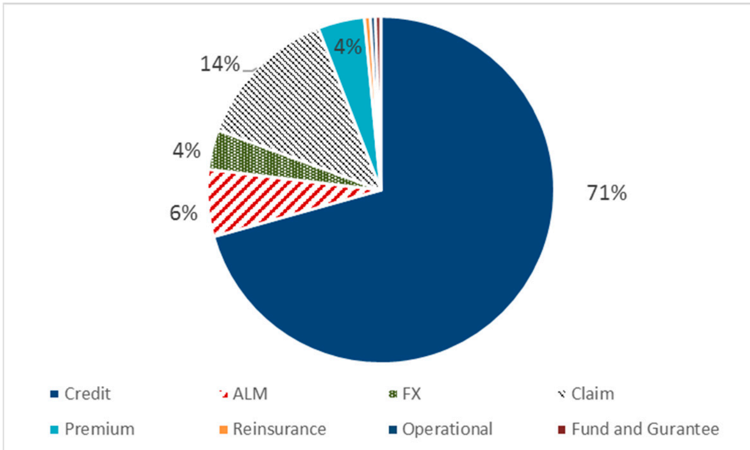
After the Supreme Court decision, a liquidator was appointed and the company entered into liquidation. Creditors including policyholders are still waiting for payment without any partial payouts having been made. Currently, the trustees are verifying BAJ's rights and obligations. The loss incurred by policyholders is unknown. While the bankruptcy has had some negative impact on the rural banks (BPR) and other financial entities within the group, the capital ratio of the bank is still above the requirement and it continues to operate. BAJ appealed the Supreme Court decision. However, based on the outcome in September 2016, BAJ's appeal was dismissed.

The government amended the law and gave OJK the power to appoint liquidators without a court process. Based on the lesson of BAJ, the Government amended the OJK law to improve the clarity of the bankruptcy procedures and gave OJK the power to appoint official receivers without a court process. The Government also submitted a new bill to establish policyholder protection funds.

19. While OJK has introduced a risk-based capital and reserving framework, the framework still need some improvements. The capital framework covers a number of risks, such as default risk of investments, asset and liability mismatch (ALM), FX mismatch, premium and claim risk, operational risk and mutual fund related risk (refer to Figure 7 and 8). OJK has introduced guarantee risk associated with unit-linked products. However, some material risks (such as catastrophe risk addressed through reinsurance, and contagion risk from related parties) need further improvements. OJK has not conducted thematic reviews for each risk in RBC calculation.

Figure 7. Breakdown of Solvency Requirements—Top 5 Life Insurers

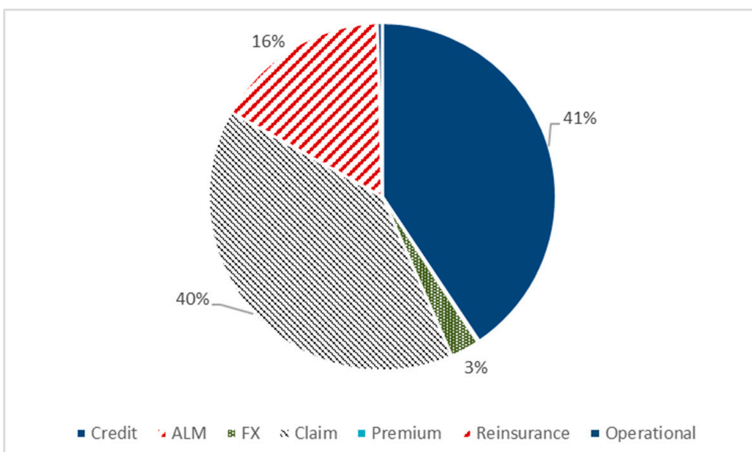
Credit risks account for the biggest share of the total capital requirements imposed on life insurers.



Source: OJK.

Figure 8. Breakdown of Solvency Requirements—Top 5 Non-life Insurers

Credit, claim and reinsurance risk account for the biggest shares of the total capital requirements imposed on non-life insurers.



Source: OJK.

D. Preconditions for Effective Insurance Supervision

Sound and Sustainable Macroeconomic and Financial Sector Policies

20. Indonesia has an established framework of fiscal, monetary, and macroeconomic policies. Indonesia has a fiscal rule that limits the deficit of the general government to 3 percent of GDP and the public debt to 60 percent of GDP. In 2015, the central government deficit was estimated to have reached 2.8 percent of GDP, leaving the deficit of the general government close to the limit. Despite the sharp fall in international oil prices, episodes of capital outflows, and turbulent global financial markets, the Indonesian economy performed well in 2015. Bank Indonesia has implemented and enhanced monetary policy measures within the inflation-targeting framework and introduced macroprudential measures in an attempt to achieve the stability needed to support sustainable economic growth and improve social welfare.

21. The financial sector regulatory framework is in transition. Bank supervision and regulation were moved from Bank Indonesia to the new financial supervisory agency (OJK) in 2014, while Bank Indonesia retained regulatory responsibility for macroprudential policy. There is a need to align the legislation pertaining to the financial sector agencies to the new institutional arrangement. In addition, there are some gaps in areas such as the bank liquidity assistance and resolution frameworks, and legal protection for supervisors for actions arising out of acts done in good faith. The authorities have submitted to Parliament a bill to remedy these matters. OJK is developing a framework for consolidated supervision of banks and non-banks (including insurance) and upgrading risk-based supervision.

22. The new Financial System Crisis Prevention and Resolution Law (PPKSK Law) 2016, established a Financial System Stability Committee (KSSK). This Committee is tasked with the prevention and resolution of financial system crises. The membership of the Committee comprises the Minister of Finance as chair, the Governor Bank of Indonesia, the Chairman of the Board of Commissioners of OJK, all with voting rights, and the Chairman of the Board of Commissioners of the Deposit Insurance Corporation (LPS), without voting rights. The Committee, among other things, has the authority to recommend to the President to declare a (systemic) crisis status in the financial system and on resolution measures.

Mechanisms for Consumer Protection

23. The authorities are making efforts to improve the capacity of complaints handling. OJK requires financial institutions (including insurers) to establish an effective complaints handling unit or Internal Dispute Resolution system to handle complaints properly. In addition, OJK developed an Alternative Dispute Resolution process in December 2015 for the whole financial sector. However, Alternative Dispute Resolution for the insurance sector has been in place since 2006. This conducts mediation, adjudication, and arbitration for insurance policyholders. OJK itself also analyzes and responds to complaints, taking up issues with companies or intermediaries and requiring them to address the issues when appropriate.

24. While there is some protection for policyholders, an industry wide guaranty fund, which supports the policyholders of failed insurers, has not yet been established. Insurers must comply with minimum capital requirements, and if the ratio drops below 40 percent, OJK has the authority to require the firm to increase its fund to protect policyholders. The rights of policyholders to the assets of insurers are ranked higher than other parties in case of liquidation. However, a guaranty fund has not been established and thus policyholders seem to be suffering from material loss in the case of failures. For example, in the case of PT Asuransi Jiwa Bumi Asih Jaya (BAJ) failure, policyholders have not received any payments since the revocation of license three years ago and final loss of policyholder could be significant (refer to Box 1). For more detail regarding policyholder protection programs, refer to the Box 2.

Box 2. Policyholder Protection Funds

Currently, policyholder protection relies on a guarantee fund maintained at individual company level. Each insurer is required to maintain a guarantee fund. The fund comprises a minimum of 20 percent of the insurer's capital and must be held in the form of bank deposits and government bonds. Withdrawal of the deposits needs prior approval of OJK and funds are supposed to be used solely for the payment to the policyholders.

The amount of the guarantee fund must correspond with business volume development:

1. A life insurer must establish a guarantee fund with 20 percent of its capital, or 2 percent from premium reserve of investment linked insurance product plus 5 percent from premium reserve of non-investment linked insurance product and unearned premium reserve, which ever is higher.

2. A general insurer and reinsurer must establish a guarantee fund with 20 percent of its capital, or 1 percent from net premiums plus 0.25 percent from reinsurance premium, which ever is higher.

A new bill is being drafted to develop industry wide policyholder protection funds in accordance with Article 53 of the Insurance Law. The MoF is currently developing a draft Bill to improve policyholders' protection by establishing policyholder protection funds. It will also widen the ambit of resolution powers that can be applied to insurers and establish new institutional responsibility for insurer resolution. The Bill is due to be enacted by October 2017.

The key structure and design features of the protection funds are still under discussions. At this stage, the thinking is at an early stage. It appears likely that the scheme will be limited to eligible policyholders who are natural persons and it may be capped at 80 to 90 percent of the value of a valid claim. In discussions with the authorities, it was noted that, in designing the scheme, consideration will need to be given to several factors, such as objectives and coverage of the scheme, flexibility of the scheme (interim continuation of policy coverage), transfer of long-term policies, treatment of investment-linked products, comparable treatment with other similar products, funding arrangement, levy structure, and supervisory oversight.

It is recommended that the authorities develop funds with sufficient contributions and flexible operations, while avoiding any moral hazard to the insurance industry. While the ICPs do not establish requirements related to policyholder protection funds, there are a number of different international practices in policyholder protection funds. In addition, the situation that the Indonesian insurance sector is facing is quite different from some other jurisdictions and could present challenges due to a significant presence of conglomeration and interconnectedness with banks. This may require larger size and more flexible design (for example, the industry wide protection funds can provide policyholders with interim continuation of policy coverage on the life side or a temporary liquidity facility to pay claims on the non-life side) than is the case in typical policyholder protection funds in other countries, with appropriate design to avoid creation of moral hazard in the insurance sector.

A Well-developed Public Infrastructure

25. Indonesian accounting and auditing standards have been developed in line with international best practices. The Accounting Standards Board of the Indonesian Accountants Association makes accounting standards. There is a clear commitment to full convergence to IFRS by Indonesia. In application of regulations in the insurance sector, Statutory Accounting Practice (SAP) is adopted in the Ministry of Finance regulation for prudential requirements of insurers and reinsurers. The Indonesia Institute of Certified Public Accountants (IAPI) was established in 1994.

The court system and other legal infrastructure are developed and the independence of the judiciary is respected. There is a comprehensive body of business laws, including on insolvency and on contractual and property rights. The constitution recognizes a strict separation among the judiciary, parliament, and government. The principle of judicial independence, i.e., freedom from legislative or political interference, is secured in practice through provisions in the law, providing for security of tenure, financial security, and administrative independence. Insurance professionals are readily available, for example from consulting firms with a global presence.

Financial Markets

26. Indonesian financial markets are growing but money markets are not very liquid and financial access is limited. The authorities are making efforts to deepen the monetary and capital markets with a number of initiatives, including the introduction of reserve requirement averaging and OJK's launch of the Global Master Repurchases Agreement. However, as the small share of government and corporate bonds in the insurers' investment allocation suggests, the financial markets, in particular fixed income markets, still need further development.

Actuaries

27. The Indonesian industry is facing a lack of domestic actuaries. The number of fellows of the Society of Actuaries of Indonesia is around 200. OJK in coordination with relevant associations has committed to accelerate the increase in the number of actuaries in five years starting from 2013. OJK is coordinating with several universities and international organizations to promote the actuarial profession by providing scholarships to candidate students and industry experts. In practice, internationally active insurers are using actuaries from home countries and third party actuarial services seem to be readily available.

28. A framework of actuarial standards is being established. The Society of Actuaries of Indonesia (PAI), as the organization of the actuarial profession in Indonesia, is committed to maintaining the profession's integrity, high standards of practices through its discipline procedures and its constant review. Its Standards of Practice Committee has the responsibility for setting actuarial technical standards and is coordinating with OJK to develop the Manual of Actuarial Standards of Practice.

Table 1. Indonesia: Summary of Observance with the ICPs		
Insurance Core Principle	**Level**	**Overall Comments**
1 - Objectives, Powers and Responsibilities of the Supervisor	LO	The fact that the Law does not recognize the protection of policyholders as the **primary function** of the supervisor needs to be addressed. This ensures that if there is a conflict between the supervisor's role as the protector of policyholders and its other roles such as promoting the development of the insurance market, the protection of policyholders is the most important,
2 - Supervisor	PO	OJK, its Commissioners and its staff do not have adequate protection from any actions brought by third parties against them for acts performed in the proper performance of their duties. The Law needs to provide that OJK, its Commissioners and staff are not liable for actions done within the scope of their power and done in good faith. Where any action is brought against Commissioners and staff for actions done in good faith, the Commissioners and staff should be indemnified for the cost of defending such actions.
3 - Information Exchange and Confidentiality Requirements	LO	In practice, the arrangements in OJK for the exchange of information and the protection of the confidentiality of any information exchanged are ad hoc. The Law should reflect that arrangements for the exchange of information should not be subject to reciprocity. OJK should develop processes and policies for the proper exchange of information.
4 - Licensing	O	The construction of the main Insurance Law poses some doubts as to which entities are subject to licensing. OJK does not appear to have adequate powers in law to impose conditions and limitations and restrictions on licenses, although in fact OJK does so. The Law could more properly define those entities that require a license, give OJK the explicit power to endorse licenses with the scope and to place conditions, restrictions, and limitations on licenses.
5 - Suitability of Persons	LO	The suitability requirements are detailed and appear to be effective. However, the number of parties who are subject to the requirements is less than required by the ICP. The Law should extend the requirements to be fit and proper (suitable) to Senior Management. The Law should define the concept of "Key Persons in Control Functions" and extend the suitability requirements to these persons.
6 - Changes in Control and Portfolio Transfers	LO	At present, the Law requires OJK approval to changes in ownership and deems persons with 25 percent or more of the shareholding of an insurer to be a "controller". The Law should reflect that the 25 percent can be held by the shareholder on his or her own or in conjunction with associates or related parties as to be defined in Law no 40 of 2014.
7- Corporate Governance	PO	Some reorganization and expansion of the regulation is needed to achieve greater compliance with the ICP. It would be helpful if the regulation set out in greater detail: the duties, functions, roles, obligations, and reporting lines for each party involved in setting the direction of the entity and in establishing and maintaining an appropriate risk management framework. In particular, the guide should look at:

		• The obligations of directors and commissioners to act in the interests of policyholders, to act in good faith and with due skill and care; • The functions of the directors and commissioners in setting the objectives, the corporate culture, risk appetite, and risk management framework; • The role of Senior Management, its function and its relationship with the Board; • The identification of Key Persons in Control Functions, their roles, duties, functions, and obligations; • The reporting lines of Key Persons in Control Functions to the Board of Directors or Commissioners; • The relationship of the Board and the external auditor; • Further details about the framework in place for reporting to the supervisor.
8 - Risk Management and Internal Controls	PO	OJK recently introduced requirements designed to force insurers to adopt good corporate governance practices. It would be helpful if the regulation set out in greater detail, the duties, functions, roles, obligations and reporting lines for each party involved in setting the direction of the entity and in establishing and maintaining an appropriate risk management framework.
9 - Supervisory Review and Reporting	LO	OJK has made significant progress in implementing an effective risk based supervision system. OJK collects information from insurers for supervisory purposes but needs to supplement the collection to ensure compliance. A more formal framework for risk rating will improve consistency and accuracy and therefore the usefulness of the ratings.
10 - Preventive and Corrective Measures	O	
11- Enforcement	LO	Discussions with the supervisory staff revealed that OJK has, in some circumstances, a "three strikes and out" process where the supervisor will issue three sanctions before it takes final action to resolve dire issues. This practice should be reviewed to ensure that it does not hinder OJK in taking timely action to resolve issues. The timeliness of action is a requirement of the ICP.
12 - Winding-up and Exit from the Market	PO	While OJK has sufficient powers to revoke a license and form a liquidation team, there is no clear timeline after an insurer breaches the minimum capital level (which is 40 percent). Policyholders of a recently failed company have experienced significant delays in having claims and other amounts owed to it settled.
13 - Reinsurance and Other Forms of Risk Transfer	O	
14 - Valuation	PO	The methodology of the discount rates does not necessarily reflect the current economic conditions. For example, the average of 3 years is meant to smooth short-term market fluctuations, but if it is applied to the current situation where the discount rate has continued to drop, the 3-year average deviates from the current condition materially. It also does not capture the characteristics of cash flows as one discount rate

		of the average duration of liabilities is applied. While other assumptions are generally principles based, there seems no active monitoring and challenges by OJK. MOCE is required only for the premium reserve and not for the claims reserves. Assets are generally valued by referring to market value, however mark to market was suspended for several months in 2015 while the market events in 2015 are not generally recognized as extreme. Therefore, it may have created a moral hazard if the industry expects another suspension of mark to market valuation in another instance of market turmoil.
15 - Investment	PO	The investment limit is based on total investments and is so high that it does not prevent excessive concentration risk being taken above the insurer's capacity to absorb the risk. In particular, the limit for intragroup transactions is set at 20 percent of the portfolio and some insurance groups could have excessive concentration to the intra group affiliates.
16 - Enterprise Risk Management for Solvency Purposes	LO	ORSA and part of ERM requirements have been recently implemented, thus actual implementation in practice is yet to be seen. Both some domestic and foreign owned insurers seem to have established the framework and thus the assessors don't have material concerns with the implementation.
17 - Capital Adequacy	PO	An important risk component (catastrophe risk) is not yet included, while OJK is working to include it into the capital requirements. Capital add-on could be imposed without a transparent framework (add-on has been set only once in exceptional circumstances). Asset and liability component and the component related with guaranteed benefits associated with unit-linked products and premium risk need sophisticated calculation and judgment. However, the mission does not see any evidence of validations conducted by OJK.
18 -Intermediaries	LO	While intermediaries are required to provide certain information to policyholders, there is no disclosure requirement about terms and condition, relationship with the insurers, or information related to remuneration.
19 - Conduct of Business	LO	OJK requires protection of private information about customers, focusing on prevention of the misuse or inappropriate communication of personal information to parties with no legitimate interest in the information. However, given the increasing share of internet and mobile sales, it is important for OJK to work closely with the industry to mitigate other type of operational risks, such as cyber risk.
20 - Public Disclosure	LO	While OJK requires significant detailed disclosures of investments, those relating to technical provisions and ALM are not sufficient. There is no requirement about risk management practices and corporate governance. While assessors believe that those shortfalls are rather material, such shortfalls are considered in other related ICPs (such as ICP 14 and 17).
21 - Countering Fraud in Insurance	O	

22 - Anti-Money Laundering and Combating the Financing of Terrorism	O	
23 - Group-wide Supervision	LO	OJK has coordinated with home supervisors mainly through participation in supervisory colleges. However, the information exchange with home supervisors is not yet active enough to contribute effectively to defining the scope of group supervision through close cooperation with home and other involved supervisors.
24 -Macroprudential Surveillance and Insurance Supervision	LO	While OJK has conducted vulnerability analyses, most of them are still focusing at individual entity or group level, and there is no exercise to capture the interconnectedness among sectors and among conglomerates. Given the interconnectedness between banks and insurers and through reinsurers in Indonesia, possible concentration and contagion could have systemic implication for the entire financial sector or the real economy.
25 - Supervisory Cooperation and Coordination	O	
26 - Cross-border Cooperation and Coordination on Crisis Management	LO	MoUs with relevant regulators are still missing, which may prevent OJK coordinating cross-border supervision and crisis management effectively.

E. Recommendations and Authorities' Response

Table 2. Indonesia: Summary of Observance Level

Observed (O)	6
Largely observed (LO)	13
Partly observed (PO)	7
Not observed (NO)	0
Total	26

Table 3. Indonesia: Recommendations to Improve Observance with the ICPs

Insurance Core Principle	Recommendations
1 - Objectives, Powers and Responsibilities of the Supervisor	It is recommended that the principal Insurance Law specify that the principal objective of OJK is to promote the maintenance of a fair, safe, and stable insurance sector for the benefit and protection of policyholders.
2 - Supervisor	It is recommended that OJK: • work with MoF to amend Law no 21 of 2011 to ensure that OJK, its commissioners and staff are protected from legal actions for any acts done in good faith;

	• work with MoF to amend Law no 21 of 2011 to ensure that OJK has the power to meet the legal expenses of any commissioner or staff member who is defending an action where the commissioner or staff member has performed his or her duties in good faith; and • review the adequacy of its expert resources, in particular actuaries.
3 - Information Exchange and Confidentiality Requirements	It is recommended that: • the requirements for balanced reciprocity be removed from Law no 21 of 2011 or clarified to ensure appropriate and smooth exchange of information; • OJK develop policies and processes for the proper and safe exchange of information; and • OJK expand the scope of MoU, for example by joining in the IAIS MMoU, and offering its analysis (such as key results of inspection results) to the home supervisors to enhance the cooperation with home supervisors.
4 -Licensing	It is recommended that OJK: • work with MoF to review the Insurance Law in order to provide transparent licensing requirements; and • work with MoF to review Insurance Law no 40 of 2014 in order to provide power to OJK to impose conditions, restrictions and limitations on licenses.
5 - Suitability of Persons	It is recommended that: • the suitability requirements be extended to Senior Management; and • "Key Persons in Control Functions" be defined and the suitability requirements be extended to these persons.
6 - Changes in Control and Portfolio Transfers	It is recommended that OJK regulation be amended to include definitions of "associate" or "related party".
7 -Corporate Governance	It is recommended that: • OJK revise and amend regulation no 02/POJK.05/2014 to reflect better the requirements of ICP 7.
8 - Risk Management and Internal Controls	It is recommended that: • OJK establish a dedicated risk management and internal control regulation that creates an obligation that an insurer must have adequately resourced, independent, risk management, compliance, internal audit, and actuarial functions.
9 -Supervisory Review and Reporting	It is recommended that: • OJK review the information required for quarterly reporting against the requirements of ICP 9.5 and require the lodgment of the information identified in this report as missing; and • OJK develop written policies and processes for the updating of risk ratings.
10 - Preventive and Corrective Measures	
11- Enforcement	It is recommended that OJK: • revise the "three strikes" approach to the imposition of sanctions to ensure that supervisory actions can be effected in a timely fashion.
12 -Winding-up and Exit from the Market	It is recommended that OJK: • develop and publish guidance to ensure timely revocation of a license. OJK should also clarify the roles of the two financial restructuring plans that are imposed when an insurer breaches the target capital level (120 percent) and the other which is imposed on an insurer the solvency level of which is below

	40 percent; • establish policyholder protection (industry wide) funds with sufficient funds and flexibility, while avoiding moral hazard for insurers; • ensure that the procedures for the winding up and exit of an insurer from the market are clearly outlined in the law; and • identify and document a point at which it is no longer permissible for an insurer to continue operating in the law.
13 -Reinsurance and Other Forms of Risk Transfer	
14 - Valuation	It is recommended that OJK: • work closely with the actuarial association to establish more guidance around key assumptions; • impose enhanced prudential standards (such as stress testing and business continuity planning) on the firms which had to rely on the temporary suspension of the mark to market requirement in 2015 to eliminate the moral hazard which might have arisen among the industry; • apply more market consistent discount rates by applying the entire yield curve of the most relevant securities; and • apply MOCE consistently over all insurance reserves;
15 -Investment	It is recommended that OJK: • enhance investment requirements to mitigate excessive concentration and contagion risk from affiliates or closely related entities outside the group; • conduct thematic reviews on investment practices and effectively challenge the investment strategy of firms and groups which have a more aggressive investment strategy; and • monitor the concentration of single counterparties (including those within the group) by aggregating all exposures of one single counterparty through various investments, including equity, bond, mutual funds, loan, deposits, derivatives, receivables, etc.
16 -Enterprise Risk Management for Solvency Purposes	It is recommended that OJK: • enhance communication with the industry about objectives of the new regulations; • compare industry practices by conducting thematic reviews; and • formulate clear expectations of key requirements, such as stress tests, and risk tolerance statements.
17 -Capital Adequacy	It is recommended that OJK: • adjust capital adequacy ratios at the solo level if an insurance entity provides capital to financial entities within the group to mitigate the incentive to improve the capital positions of the solo entities; and • conduct thematic reviews of some schedules in the risk based capital requirement, such as B (ALM), E (premium) and H (minimum guarantee of unit link), to make sure that insurers calculate the capital charges appropriately.

18 -Intermediaries	It is recommended that OJK: • continue and enhance coordination with the insurance association to improve training and examination to meet the increasing sophistication of insurance products; and • require intermediaries to make disclosures to customers concerning their status, and how they are remunerated.
19 -Conduct of Business	It is recommended that OJK conduct informal exercises, such as horizontal self-assessment, and enhance dialogue with the industry and associations to encourage insurers to improve their resilience to cyber risk.
20 - Public Disclosure	It is recommended that OJK: • implement the recommendations related with ICPs (such as ICP 14 and 16) first before amending disclosure requirements; and • encourage insurers to improve disclosure of risk management and corporate governance voluntarily and find best practices with a good balance between cost and benefits;
22 -Anti-Money Laundering and Combating the Financing of Terrorism	
23 -Group-wide Supervision	It is recommended that OJK: • establish a relationship with home and other relevant supervisors through more active participation to supervisory colleges and IAIS activities (including IAIS MMoU); • analyze intergroup transactions in detail so as to cooperate effectively with the home and other relevant supervisors to determine the scope of group wide supervision;
24 -Macroprudential Surveillance and Insurance Supervision	It is recommended that OJK: • integrate the conglomerate analysis conducted by each group level together to identify possible contagion among conglomerates and among sectors; • conduct contagion analysis caused by domestic concentration of reinsurance coverage, for example through stress testing with an assumption of catastrophe events and a failure of a large domestic reinsurance company; and • consider the suppression of mandatory reinsurance programs if that could cause contagion among domestic insurers and reinsurers.
25 - Supervisory Cooperation and Coordination	
26 - Cross-border Cooperation and Coordination on Crisis Management	It is recommended that: • OJK expand the scope of MoU, for example by joining in the IAIS MMoU, and offering its analysis (such as key results of inspection results) to the home supervisors to enhance the cooperation with home supervisors.

F. Authorities' Responses to the Assessment

29. We thank the assessors for taking time to understand the non-bank financial sector in Indonesia and for the detailed assessment report.

30. While we are in agreement with many of the ICP comments, we feel that some of the comments do not fully reflect the proportionality principle given the nature and scale of the insurance sector which is still developing in Indonesia. At OJK, we have progressed significantly in adopting the risk-based supervisory regime, advancing good corporate governance requirements and internal control mechanisms. Furthermore, with OJK's integrated and strengthened regime for the financial conglomerates, we are well positioned to contribute to the continuing confidence of the financial sector in Indonesia.

31. We look forward to implementing most of the recommendations in due course.

DETAILED ASSESSMENT

Table 4. Indonesia: Detailed Assessment of Observance of the ICPs

ICP 1	**Objectives, Powers and Responsibilities of the Supervisor** The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined.
Description	The Insurance Law 40/2014 is considered to be the primary insurance legislation. Article 57 states that "the arrangement and supervision of Insurance Business activities are carried out by OJK". "Insurance Business" is defined in Article 1 (4) as "any business related to the services of insurance or risk management, risk reinsurance, marketing, distribution of insurance products or sharia insurance products, consultation and intermediary of insurance, sharia insurance, reinsurance or sharia reinsurance or valuation of insurance or sharia insurance loss." The objectives of the OJK are found in Article 4 of Law No 21 of 2011. The Article states "OJK is formed with the aim that the overall activities within the financial services sector are: a. implemented in an organized, fair, transparent and accountable manner; b. able to realize the financial system that grows in a sustainable and stable manner; and c. capable of protecting the interests of consumers and the society." Article 8 of the same Law outlines the authority of OJK with regard to supervised entities, stating: "In order to perform its regulatory duties referred to under Article 6, the supervisor has the authority to: a. Establish implementing regulations for this Law; b. Establish rules and regulations in the financial services sector; c. Establish OJK rules and decisions; d. Establish rules regarding supervision of the financial services sector;

	e. Establish policies regarding the implementation of OJK duties; f. Establish rules concerning procedures for issuing a written order to financial services institutions and certain other parties; g. Establish rules concerning procedures for appointing statutory managers in financial services entities; h. Establish organizational structure and infrastructure as well as to manage, maintain and administer assets and liabilities; and i. Establish rules regarding procedures for imposing sanctions in accordance with the provisions of legislation in the financial services sector." Article 9 expands this, and provides: "In order to perform its supervisory duties referred to, OJK has the authority to: a. Establish operational oversight policies for financial services activities; b. Oversee the implementation of supervisory duties performed by the Chief Executive; c. Conduct supervision, inspection, investigation, consumer protection and other actions directed at financial services entities, players and entities performing supporting activities as defined under the laws and regulations concerning the financial services sector; d. Provide written orders to the financial services entities and/or certain parties; e. Appoint statutory managers; f. Establish the use of statutory managers; g. Impose administrative sanctions on any party that violates the laws and regulations in the financial services sector; and h. Issue and/or revoke: 1. Business licenses; 2. Individual licenses; 3. Effective registration statements; 4. Registered license letter; 5. Approval of business in activities; 6. Ratification; 7. Approval or determination of liquidation; and 8. Other confirmations. In general, the objective of supervision in OJK law is implemented equally with consideration of linkages between one objective and another. As an example, if insurance industry is not stable, it will have an impact on policyholders protection. OJK does not have a specific mandate under either of the laws to identify and resolve conflicts between the legislation and supervisory objectives (it is not required to have a formal legal mandate). However, OJK has resources dedicated to reviews of the laws and regulations and a process for recommending changes to the laws and regulations.
Assessment	Largely Observed
Comments	The elements required by the Standard are largely present, however, the objective has not been given the priority required by the Standard. This gives rise to the possibility of an unresolved conflict between the objectives e.g., if the supervisor is looking at an initiative that would assist in the development of the insurance sector but would

	decrease the protection of policyholders, the law needs to ensure that the protection would have priority over the development objective. It is recommended to specify that the principal objective of OJK is to promote the maintenance of a fair, safe, and stable insurance sector for the benefit and protection of policyholders.
ICP 2	**Supervisor** The supervisor, in the exercise of its functions and powers: • is operationally independent, accountable and transparent; • protects confidential information; • has appropriate legal protection; • has adequate resources; and • meets high professional standards.
Description	There are no provisions in either Act that suggest that OJK has to take notice of any party in discharging its responsibilities, including the Minister of Finance or the Parliament. The process for nomination and appointment of the Chairman and Commissioners appears to be sufficiently independent. Article 38 of Law 21/2011 requires OJK to report to the House of Representatives by way of an annual report that must include audited financial accounts. The annual report and financial accounts must be made available on the OJK website. There is nothing in the Law that provides legal protection to the Agency or its staff; the self-assessment notes provisions in the internal rules of the Agency. OJK is funded by levies from all supervised entities. Discussions with the supervisors revealed that there is no outside influence over the use of its resources but the resources are insufficient to be able to provide comprehensive training and fund the appointment of sufficient actuarial assistance. OJK regulation no 01/17/PDK/XII/2012 establishes a Code of Ethics that applies to both Commissioners and staff and an Ethics Committee to deal with departures from the Code. In addition, the OJK Act no 20 of 2012 prohibits certain conduct of Commissioners such as those that would involve conflicts of interest. The Code is publicly available on the website. Under the Code, an independent Ethics Committee has been appointed to hear instances of non-compliance with the Code. The Code of Ethics imposes obligations to protect the confidentiality of information as required by ICP 2.9. The organization structure of OJK is detailed in regulation no. 12 /PDK.02/2015; the internal structure of the Insurance Supervision Unit in OJK consists of supervisors, deputy directors, directors, head of supervision and deputy Commissioners. The rationale for the hierarchical structure is amongst other reasons to ensure consistency and timeliness of actions.

	There are currently 44 supervisory staff involved in both onsite inspections and offsite reviews of approximately 140 insurance and reinsurance entities and 200 brokers. There is an involved accreditation process in OJK where new entrants work across the agency in short term assignments before being placed in their final position. There are internal training programs that are mandatory for staff. The level of remuneration of staff is more aligned to the industry than public service, meaning that the leakage of supervisors to the industry in pursuit of greater benefits is smaller than in most supervisors. OJK can use the services of outside persons by virtue of articles 59 & 61 of Law no 40 of 2014. Any persons so employed are subject to the extent relevant to the Code of Ethics applying to OJK Commissioners and staff. OJK is active in its regulation-making role. Law no 40/2014 is effectively framework law and most of the prudential requirements are contained in regulations. OJK has direct power to make binding regulations and circulars and does so frequently. It has a formal process for public and industry consultation through its website and direct communication with insurers and reinsurers. The Insurance Associations are of the view that this process is effective and their concerns are generally given a good hearing and taken into account, where relevant. OJK discloses the regulations publicly on its website. It also uses the website to provide industry data and information. While the regulations are publicly available, the supervision methodology is not so. According to OJK, its decisions can and are appealed to the Courts. There is however, no specific provision in the Laws that contemplates appeals, however the appeal process to the Court does not affect the regulatory actions. OJK decisions are executory and not stayed by an appeal.
Assessment	Partly Observed
Comments	The arrangements for the legal protection of the agency and the staff are not effective. The ICP requires that supervisor and its staff acting in good faith be protected both from any action and the cost of defending any action. The mission was informed that OJK relies on internal rules so that it would use its own resources to fund any defence on behalf of staff or a Commissioner. The Law stipulates the purposes to which the funds of OJK can be put not including the above purpose. It would be preferable to provide in the Law that OJK can fund any defence rather than rely on an internal rule that may be inconsistent with the Law. The on-going adequacy of resources, in particular those with expertise, needs to be reviewed. It is recommended that OJK: • work with MoF to amend Law no 21 of 2011 to ensure that OJK, its directors and staff are protected from legal actions for any acts done in good faith; and • work with MoF to amend Law no 21 of 2011 to ensure that OJK has the power to meet the legal expenses of any director or staff member who is defending an action where the director or staff member has performed his or her duties in good faith; and • Review the adequacy of its expert resources, in particular actuaries.

<table>
<tr><th>ICP 3</th><th>Information Exchange and Confidentiality Requirements

The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose, and use requirements.</th></tr>
<tr><td>Description</td><td>The general power of OJK to demand information is contained in Article 22 of Law no 40/2014. The Article states “An insurance company [which by definition includes reinsurance and brokerage companies] shall deliver reports, information, data and/or documents to the OJK”. Administrative sanctions can be applied to insurers that do not comply by virtue of Article 71 of Law no. 40 of 2014.

It is not clear whether OJK has the power to require reports and other information from non-insurance entities within a group in which a licensee operates. OJK maintained practically that it could and is exercised in practice but this is not clear in the Law.

Article 23 of the same Law limits the external uses to which the information obtained in Article 22 may be made, stating: “Certain reports and analysis as referred to in Article 22(1) cannot be disclosed by OJK to another party, except to:

1. The police and prosecutors for the purpose of investigation;
2. Judges in the interest of justice;
3. Tax officials for taxation purposes;
4. The Bank of Indonesia for the implementation of its duties; or
5. Other parties based on legal requirements.”

This is further illustration of compliance with ICP 2.9 that protects the confidentiality of information.

From an international perspective, Article 47 of Law no 21 of 2011 is relevant, stating: “OJK may cooperate with Financial Service Institutions Authorities in other countries and international organizations and other international agencies, among others, in the field and/or activities as follows:

• Institutional capacity building including training of human resources in the field of regulation and supervision of financial services institutions;
• Information exchange;
• Cooperation in the framework of the examination and investigation such as prevention of crime in the financial sectors.”

Sub-articles (4) and (5) provide: “OJK may cooperate and provide assistance in the framework of the examination and investigation conducted by the supervisory authority of the financial services institution of other countries based on written requests; the cooperation and assistance in the framework of the examination and investigation as referred to in paragraph 4 could be performed in the financial service supervisory authority of the other countries have reciprocal agreements of cooperation with OJK.”

ICP 3 specifically states that regulators should not insist on reciprocity as a condition for sharing information.

Article 48 of the same law provides “all forms of international cooperation, including in the areas of regulation, supervision and investigation, shall be based on the principle of balanced reciprocity”.</td></tr>
</table>

	OJK has a number of Memoranda of Understanding in place with both domestic agencies and overseas regulators. The Law does not require such a Memorandum before information can be exchanged and OJK confirmed that its practice is not to insist on one for one off information exchanges. While individual Memoranda were not reviewed, OJK noted that there were confidentiality requirements within them. OJK referred to a response letter sent to the agency seeking the information reminding it of the need to keep the information confidential. Where OJK receives information from another supervisor or source, the staff and directors are bound by the Code of Ethics and Law no 20 of 2012 not to misuse the information. The process for receiving and making information requests is not clear. In particular, it was unclear as to the level at which decisions to release information could be made, how the supervisors establish the purpose of the information request, how it would deal with a situation where the recipient agency intended to share the information with another agency that had not received it in the first instance.
Assessment	Largely Observed
Comments	The requirements for reciprocal arrangements need to be removed to comply with ICP 3. It is recommended that OJK develop internal policies and processes for information requests particularly for those regulators with which OJK does not have a Memorandum of Understanding. The policies and processes should cover who receives and approves requests, how the recipient organization is bound by confidentiality, bound not to share the information with a third party without OJK consent, how it ensures that the information provided is to be used for proper purposes. It is recommended that: • the requirements for balanced reciprocity be removed from Law no 21 of 2011 or clarified to ensure appropriate and smooth exchange of information; • OJK develop policies and processes for the proper and safe exchange of information; and • OJK expand the scope of MoU, for example by joining in the IAIS MMoU, and offering its analysis (such as key results of inspection results) to the home supervisors to enhance the cooperation with home supervisors.
ICP 4	**Licensing** A legal entity that intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective, and public, and be consistently applied.
Description	Article 8 (1) of Law no 40 of 2014 states that “every party conducting insurance business shall firstly acquire a business permit (license) from the OJK.” Article 1(14) states “insurance business is any business related to the services of insurance or risk management, risk reinsurance, marketing and distribution of insurance products or sharia insurance products, consultation and intermediary of insurance, sharia insurance, reinsurance, or sharia reinsurance or valuation of insurance or sharia insurance loss”. The definition of “insurance business” is so wide as to capture most activities attached to the insurance industry. OJK has read this narrowly and considers

	that it is insurance and reinsurance companies, brokers and loss adjustors to which the licensing requirements apply. Insurance agents are under a separate registration regime. Article 9 of Law no 40 of 2014 makes it clear that it is OJK that is solely responsible for the licensing function. Article 6 of the same Law limits the legal form of entities that can obtain a license to limited liability companies and cooperatives. A third form being a collective business that was an insurer before the promulgation of Act no 20 of 2014 is entitled to maintain its license. In making application for a license, an applicant must provide a comprehensive suite of documents outlined in Article 8(2) of Law 20 of 2014. These include: • Articles of association; • Organization structure; • Paid up capital; • Guarantee fund; • Ownership details; • Appropriateness of shareholders include significant owners; • Fit and proper information relating to Board, actuary and internal auditor; • Expert resources; • Business plan; • Risk Management framework; • Products; • Affiliations and group structure; • Framework for reporting to OJK; • Confirmations from home supervisors that there are no reasons that the license should not be granted; and • Other information at the discretion of OJK. Article 9 allows OJK 30 days to approve or decline an application. Where an application is declined it must be done so in writing with relevant reasons supplied to the applicant. Licenses remain in force until surrendered by the entity or revoked by OJK. OJK does not have explicit legal powers to impose conditions, limitations or restrictions on licenses. Similarly, it does not appear to have the explicit legal power to impose a scope on the license, although it effectively does so in practice. The scope of a licensee's license is limited by its business plan. As part of an application, an applicant's business plan must detail the products that it intends to offer and its license, when granted is limited to those products. If it wishes to sell additional products, it must apply to have authorisation to do so. Effectively, the scope of the license can be determined in relation to products but not necessarily other parameters such as geographical areas. OJK maintains a register of licenses granted on its website. The provisions relating to foreign insurers operating in Indonesia are restrictive. Only a company registered in Indonesia can obtain a license. Article 7 of Law no 40 of 2014 limits the ownership thus: "An insurance company shall only be owned by: a. an Indonesian citizen and/or Indonesian legal entity that directly or indirectly is fully owned by an Indonesian citizen;

	b. an Indonesian citizen and/or Indonesian legal entity as referred to in letter a. together with a foreign citizen or foreign legal entity that must be an insurance company which owns a business of the same type or a holding company one of whose subsidiaries runs its business in the field of insurance business of the same type. The level of foreign participation is limited to 80 percent meaning that a foreign insurer cannot operate a branch in Indonesia but can operate a subsidiary provided it meets the local ownership criteria. In relation to home supervisors, OJK has the power under Article 47 of Law No 21 of 2011 to exchange information with home supervisors and reports that it does so. Article 73 of Law No 40 of 2014 provides for significant penalties for acting as an insurance company without a license within its wide definition thus: Insurance/reinsurance without a license-IDR 200 billion prison sentence no greater than 15 years; Broker without a license-IDR 3 billion and prison sentence no greater than 10 years; Insurance Loss Adjuster without a license-IDR 1 billion and prison sentence no greater than 3 years.
Assessment	Observed
Comments	It would be helpful for greater transparency if the Law detailed explicitly the requirement to be licensed and to which entities the requirements apply. Putting explicit requirements in Act no 40 of 2014 that gives OJK the power to impose conditions and restrictions on licenses is useful. It is recommended that OJK: • work with MoF to review the Insurance Law in order to provide transparent licensing requirement; and • work with MoF to review Iinsurance Law no 40 of 2014 in order to provide power to OJK to impose conditions, restrictions and limitations on licenses.
ICP 5	**Suitability of Persons** The supervisor requires Board Members, Senior Management, Key Persons in Control Functions[2] and Significant Owners of an insurer to be and remain suitable to fulfil their respective roles.
Description	The principal suitability requirement is at Article 12(1) of Law no 40 of 2014. It states "members of the board of directors, members of the board of commissioners, or the equivalent to members of the board of directors and members of the board of commissioners in a cooperative or collective business legal entity as referred to in Article 6 (1) (c), members of the board of Sharia controllers, the company's actuary, the internal auditor and the Controller* shall at any time fulfill the ability and appropriateness requirements."

[2] Control functions include risk management, compliance, actuarial, and internal audit functions.

	*Controller means significant owner and is a party who on his or her own or in conjunction with related parties owns or controls more than 25 percent of the shares of the insurer or if having less than 25 percent has the power to appoint and dismiss directors or control the affairs of the insurer. The Law is supported by regulation 4/POJK.05/2013. Article 2 of the Regulation applies the fit and proper test to the following persons: • Members of the Board of Directors; • Members of the Board of Commissioners; • Members of the Sharia Supervisory Board; • Members of the members' representative Board; • Controlling shareholders; • Expert staff; and • Foreign staff. "Expert staff" means an individual person having a specified qualification and/or skills and appointed as expert staff at the Insurance Related Company. There is no equivalent in the ICPs. The regulation defines fit and proper as: For parties other than controlling shareholders: • competence • integrity; and • financial reputation. For the Controlling Shareholder includes: • integrity; and • financial reputation. Competence has four limbs: adequate knowledge relative to the position to be undertaken, understanding of the legislation relating to the relevant non-bank financial institution, and experience and expertise in the relevant industry. Strategic management experience is the fourth limb. There are numerous tests relating to propriety (integrity): An applicant must have a "good financial reputation" and: • Not have committed an offence relating to a financial institution or the economy; • Not have been indicted for a criminal offence in the previous five years; • Never have violated a commitment to a financial institution or a supervisor of such an institution; • Never acted in a way that has unfairly created a benefit for shareholders or directors at the expense of policyholders; • Never have violated a prudential standard;

	• Not have been on the disqualified register; • Never have acted beyond one's authority; and • Never have been declared incapable. An applicant has a "good financial reputation" if he or she has never been declared bankrupt, never been involved in an enterprise as a shareholder or director that has been declared bankrupt and never been guilty of money laundering. One of the items of information that OJK seeks in support of a license application concerns the fitness and propriety of the board of directors and the board of commissioners and their equivalent in cooperatives and sharia based entities. In addition, fit and proper requirements are applied on an ongoing basis by virtue of Article 12 of law no 40 of 2014 providing that the parties "shall at any time fulfill the ability and appropriateness requirements". According to Article 38 of Regulation No. 2 of 2013 an insurer must notify OJK if it is of the view that one or more relevant persons appointed to the licensee is or are no longer fit and proper. According to Article 60 of Act no 40 of 2014, OJK has the authority to remove individuals from their respective position within the company if those individuals are considered to be incompetent, do not fulfil the required qualification, are inexperienced or have violated the insurance regulations. Starting from 22nd July 2016, POJK Number 27/POJK.03/2016 (POJK 27/2016) was implemented as the new regulation in regards to fit and proper requirement for key persons in financial service institutions, to replace POJK Number 4/POJK.05/2013. Based on POJK 27/2016, key persons of the companies which operate within the insurance industry that are subjected for fit and proper requirement consist of: • Controller; • Member of the board of directors; • Member of the board of commissioners; • Member of the sharia supervisory board; • Internal auditor; and • Corporate actuary.
Assessment	Largely Observed
Comments	The ICP applies fitness and propriety requirements to Senior Management and Key Persons in Control Functions (includes compliance officers, risk managers, actuaries and internal auditors). In practice, most key persons in the control functions are members of the board of director. It is recommended that: • the suitability requirements be extended to Senior Management; and • "Key Persons in Control Functions" be defined and the suitability requirements be extended to these persons

ICP 6	**Changes in Control and Portfolio Transfers** Supervisory approval is required for proposals to acquire significant ownership or an interest in an insurer that results in that person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurer. The same applies to portfolio transfers or mergers of insurers.
Description	Under Article 13 of Law no 40 of 2014 an insurer or reinsurer must identify at least one "controller". Article 1 (19) of the same law defines a "Controller" as a party that directly or indirectly has the ability to determine the board of directors, board of commissioners or the equivalent to the board of directors or board of commissioners in a cooperative or collective business legal entity and/or that influences the actions of the board of directors or board of commissioners or equivalent." Article 1(9) of Regulation 4/POJK.05/2013 sets the quantitative control level at 25 percent. But persons with less than 25 percent can be considered controllers if they have the power to influence the direction of the insurer or the appointment or dismissal of directors. Article 40 of Law no 40/2014 requires an insurer to obtain prior approval from OJK for any changes of ownership except for changes facilitated through the stock exchange that do not constitute a change of control. Prior approval is required for any changes in ownership not just changes in control. In cases involving foreign owners or shareholders, OJK advised that it seeks the input of home supervisors. "Controllers" (i.e., those persons exercising control either indirectly or through shareholdings greater than 25 percent must be fit and proper). OJK applies the same test of integrity and financial reputation as it does for directors. OJK has the power to remove and replace any person deemed by it not to be fit and proper. The ICP refers to control being exercised by a person (legal or natural) either alone or with an associate. Law no 40 of 2014 does not appear to contemplate ownership limits for associated parties. Article 45 of MoF regulation No. 426/KMK.06/2003 states that mergers or consolidation between companies are subject to prior approval from OJK. As part of the approval process, the contracts outlining the rights and obligations of policyholders are submitted, presumably to ensure that these rights are protected. The same regulation requires that the merged or host entity arising out of the merger must submit a plan acceptable to OJK before any approval is granted. The relevant prerequisites for approval are as stated in article 46: 1. An insurance or reinsurance company may make an acquisition by taking over the entire or majority shares of another insurance or reinsurance company, thereby transferring control over the aforementioned company; 2. To implement such acquisition as stated in paragraph 1 hereof, the insurance or reinsurance company must obtain the Minister's approval; 3. In line with the acquisition of the insurance or reinsurance company as stated in paragraph 1, the acquisition process of the insurance or reinsurance company must fulfill the following conditions: a. the company which is implementing the acquisition process has similar scope of business; b. the acquisition does not reduce the rights of the insured; and

	c. the acquisition implementation must consider the restrictions of admitted assets in the form of investment, so that the acquisition will not affect the financial condition of the company which performs the acquisition operation. 4. To obtain approval for such acquisition, the insurance and reinsurance company shall fulfill the provision in paragraph 3 hereof and file an application in writing to the OJK, completed with the following documentation: a. Transfer of rights and obligation agreement (written in bahasa) between the parties involved in the acquisition process, which do not reduce the rights of the policyholder; b. Audited financial reports from each party involved in the acquisition process; c. Proforma financial reports after the acquisition process, which fulfill the solvability requirement; and d. Draft of changes of the articles of association from the acquired company. Additional information required by OJK relates to the fitness and propriety of directors of the new entity, the source of funds used for the merger and the business plan for the merged entity. In cases involving foreign persons or entities, OJK advised that it seeks the opinion of the home supervisor relating to the probity of the applicant and his or her financial standing. Article 40 points (5) and (6) of Law No 40 of 2014, ownership changes will only be approved if: 1. the change of ownership does not affect the rights of policy holder, the insured or participant; and 2. the change of ownership does not reduce the rights of the insurer, reinsurer, or administrator. Prior approval is required for the transfer of an insurance portfolio, Article 23 of MoF regulation no 422 of 2003 provides: 1. The assignment/transfer of part of or the entire insurance portfolio by an insurance company or reinsurance company may only be performed after obtaining prior approval from the Minister. 2. The insurance portfolio assignment as referred to in paragraph (1) must comply with the requirements that the assignment: a. does not reduce the rights of the policy holder, the insured or heirs; b. is conducted with an insurance company or reinsurance company; and c. does not cause the insurance company or reinsurance company accepting the assignment to violate the prevailing regulations in the insurance business.
Assessment	Largely Observed
Comments	It is recommended that OJK regulation be amended to include definitions of

	"associate" or "related party".
ICP 7	**Corporate Governance** The supervisor requires insurers to establish and implement a corporate governance framework that provides for sound and prudent management and oversight of the insurer's business and adequately recognizes and protects the interests of policyholders.
Description	The governance structure in Indonesian insurance companies consists primarily of two Boards – the Board of Directors and the Board of Commissioners. The role of the Board of Commissioners is effectively a supervisory board responsible to the shareholders. Both sets of Boards are bound by regulation no 02/POJK.05/2014 "Good Corporate Governance for Insurance Companies." The roles of both Boards are defined in very general terms in the regulation but there is no definition of the roles of Senior Management or other parties involved in control functions in the entity. Chapter XII of the regulation concerns the establishment of strategic plans, corporate plans, and business plans. The regulation does not specifically address the role of the Board of Directors in setting the corporate culture, business objectives and strategies for achieving those objectives. Therefore, it is not clear that this is a function of the Board of Directors. Similarly, the regulation does not address the role of the Board in providing oversight in the development of risk management functions. Again the concept of Key Persons in Control Functions on which the ICPs rely heavily is not addressed. The regulation stipulates the number of directors and Commissioners, their obligations to remain fit and proper and to a limited extent their roles in decision-making. The obligations placed on the Directors and Commissioners are mainly directed at avoiding conflicts of interest and ignore what is normally expected of a director i.e., to act in the best interests of the stakeholders, act in good faith, exercise due care and diligence in the discharge of their functions. It is generally not sufficient to rely on Corporations Law obligations that require the directors to act in the interests of shareholders as the directors of insurance entity have a primary obligation to act in the best interests of policyholders. Chapter IX of the regulation requires insurance companies (presumably the Boards) to set and implement remuneration policies and practices designed to curb excessive risk taking and directed at the members of the two Boards and all employees. Chapter XIII of the regulation refers to disclosure to the shareholders, auditor and supervisor. It requires insurance and reinsurance companies to have reliable financial reporting systems that meet the insurer or reinsurer's reporting obligations. The regulation does not provide any specific requirements as to how these obligations are to be met.
Assessment	Partly Observed
Comments	The regulation provides a good starting point in defining expectations about good corporate governance practices. Some reorganization and expansion of the regulation

	is needed to achieve compliance with the ICP. It would be helpful if the regulation set out in greater detail: the duties, functions, roles, obligations, and reporting lines for each party involved in setting the direction of the entity and in establishing and maintaining an appropriate risk management framework. In particular, the guide should look at: • The obligations of directors and commissioners to act in the interests of policyholders, to act in good faith and with due skill and care: • The functions of the directors and commissioners in setting the objectives, the corporate culture, risk appetite, and risk management framework; • The role of Senior Management, its function, and its relationship with the Board; • The identification of Key Persons in Control Functions, their roles, duties, functions, and obligations; • The reporting lines of Key Persons in Control Functions to the Board of Directors or Commissioners; • The relationship of the Board and the external auditor; and • Further details about the framework in place for reporting to the supervisor. It is recommended that: • OJK revise and amend regulation no 02/POJK.05/2014 to reflect better the requirements of ICP 7 as above.
ICP 8	**Risk Management and Internal Controls** The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters, and internal audit.
Description	The legal framework for risk management and internal controls spans a number of Articles in the Law, regulations and circulars. POJk1/POJK.05/2015 refers to non-bank financial institutions, a category in which insurers are included – Article 2 requires them to have a risk management function. POJK 2/POJK.05/2014 is the requirement for "Good Corporate Governance in Insurance." This also requires the implementation of an effective risk management framework at Article 66, which states that "an insurance company is obliged to apply risk management to identify, assess, monitor and manage the business risks effectively." Article 67 of POJK 2/POJK.05/2014 requires insurers to establish an effective and efficient internal control framework. It states that it is the role of the board of directors (the management board). The requirements are further reinforced in Article 4 of POJK 2/POJK.05/2014 that requires insurers to undertake good corporate governance that includes the implementation of a compliance function, internal audit, and external audit (sub-article c), and risk management and internal controls (sub-article d). Article 12 of POJK 2/POJK.05/2014 relates to compliance. The Article requires that insurers have a director who is in charge of the compliance function. It defines the

	function as "to assist the Board of Directors to ensure that the company is in compliance with existing regulations in the field of insurance and other related regulations." Article 17(2) of Law no 40 of 2014 requires insurers to have sufficient numbers of actuaries according to the nature of their operations. MoF regulations which are still in effect require the actuaries to provide annual reports on the insurers covering pricing, profitability, distributions, adequacy of capital, calculation of technical resources. The role of actuaries in the life industry is subject to separate MoF regulations. There are various references in the laws and regulations about internal audit; that is a requirement of the ICP. There does not appear to be a direct requirement to have such a function but it can be inferred from the various references.
Assessment	Partly Observed
Comments	To achieve compliance with the ICP it is recommended that OJK have a dedicated regulation that concerns risk management. The regulation should define risk management. It should identify the main players in the risk management function being the risk manager, internal auditor, compliance officer and actuary. The regulation should create an obligation to have each of these functionaries. It should define their roles and their reporting lines, their independence and how the insurer can ensure that the functions are adequately resourced. It is recommended that: • OJK establish a dedicated risk management and internal control regulation that creates an obligation that an insurer must have adequately resourced, independent risk management, compliance, internal audit and actuarial functions.
ICP 9	**Supervisory Review and Reporting** The supervisor takes a risk-based approach to supervision that uses both off-site monitoring and on-site inspections to examine the business of each insurer, evaluate its condition, risk profile and conduct, the quality and effectiveness of its corporate governance, and its compliance with relevant legislation and supervisory requirements. The supervisor obtains the necessary information to conduct effective supervision of insurers and evaluate the insurance market.
Description	The general requirements relating to onsite reviews are contained in regulation No 10/POJK.05/2014. The regulation lays out in general terms the rights of OJK in relation to reviews, the processes and the outcomes in a formal written framework. This is publicly available and therefore satisfies the requirements for transparency. OJK has made considerable progress towards being a risk-based supervisor. It has received significant assistance from the Australian Prudential Regulation Authority both in terms of installing a risk-based system and in capacity building. The power of OJK in relation to using a risk-based approach is found in regulation no 11/POJK.05/2014. The central point of the system is the measurement of the inherent risk in four major categories – asset and liability risk (which concerns itself principally with all the quantitative requirements), governance risk, strategic risk and operational risk. The

	inherent risk is reduced by the strength of the insurer's governance and risk management in relation to the risks, its capital and the insurer's access to additional capital if the need arises. This is based on APRA's Probability and Impact Ratings System. The risk rating leads to a matrix of supervisory stances that take into account the net risk calculated under the above model and the impact (based on the asset size being a proxy for the impact a failure would have on the market). The matrix has four supervisory stances – routine supervision involves onsite reviews no less than once every two years – this stance is broadly for low impact entities with low to medium risk ratings. The second supervisory stance is effectively monitoring – OJK increases the frequency of the reporting and the onsite reviews of the entities – this is for low to medium risk institutions that are high impact and medium risk institutions that are either medium or high impact. Two other supervisory stances exist for higher risk, higher impact entities. The first of these involves more frequent onsite reviews, more frequent reporting and an obligation on the insurer to take a particular course of action. The final stance involves the withdrawal of an insurer's license and applies to insurers that are either high or medium impact and high net risk. The supervisory stance model is based on APRA's SOARS model. Insurers are required to self evaluate at least once a year. OJK sends each entity a risk identification and scoring model that the insurer must complete and return. Insurers are provided with relatively detailed explanations of the risk terms i.e., OJK provides the profile of low, low medium, medium and high-risk activities in each risk group. For example, an insurer with strong management and controls and hence a good score on the mitigation would exhibit a high level of understanding by directors, superior process for designing products, setting premium, valuing liabilities. The system for underwriting, distributing products, and settling claims would be excellent. These parameters are contained in circular letter no. 3/SEOJK.05/2015. Circulars are binding on the insurers. Risk ratings are checked by the responsible supervisor based on his or her knowledge of the institution and when the supervisor is satisfied with the outcome, the ratings are input into the system. The risk rating is reviewed at least annually. Supervisors also perform risk assessments after each onsite review and may review the risk ratings if the offsite analysis they perform points to the need to revise them. The major tool that the supervisors use is a volume of characteristics of the different risk buckets. This is much more granular than the explanations provided to the insurers under the circular noted above. OJK has access to sufficient information from the insurers to be an effective supervisor. Routinely, insurers report monthly, quarterly, and annually to the supervisor. OJK has the power to require more frequent and different data from insurers if the need arises. For example, if an insurer's capital ratio falls below 120 percent OJK asks for a plan to improve the position of the insurer and specific data to allow it to monitor the performance against the plan. Supervision is effected through the Insurance Supervision Directorate. According to discussions with OJK, each insurance entity has a supervisory stance based on the assessment of its net risk and its potential impact. The Directorate prepares an annual supervision work plan that details the supervision activities for the upcoming year. In the last year, OJK performed 40 onsite reviews and at this rate it will not be able to

	meet its objective of reviewing each entity at least once every two years with the present staff complement. Offsite analysis is performed every quarter on receipt of the quarterly data. OJK requires financial information, operational aspect, governance, implementation of risks management, assessment of company risks level, insurance risks data, etc. OJK currently does not require details of off balance sheet exposures, material outsourced functions and activities and any significant changes in corporate governance. OJK also does not require insurers to report promptly any material changes or incidents that could affect the condition of the insurer or its customers. These additional disclosures are requirements of ICP 9.5. All data is centralized and checked for obvious errors before being given to the supervisors for analysis. Where either the centralized function or the supervisors detect errors, insurers are required to resubmit so as to maintain the integrity of the database. Annual financial statements are audited; OJK reviews the audit report for any adverse findings. According to OJK, supervisors reconcile the disclosures in the annual audited accounts with the relevant quarterly return and highlight and investigate any inconsistencies. It appears that whether the analysis triggers a review of the risk rating is at the discretion of the supervisor. Effective risk-based supervision would require the offsite analysis to be factored into the risk rating. Onsite reviews are frequently limited scope and the Director in conjunction with the supervision team determines the scope. At the conclusion of an onsite review, supervisors will discuss the findings with the insurer (generally at Board level) to deal with any misunderstandings. OJK's practice is also to send a preliminary draft report to the entity for comment. There is a unit within OJK that monitors the market and the overall economic conditions. Its findings are available to supervisors to enable them in theory to adjust the risk ratings of entities if there is something in the report that is likely to affect the ratings such as a projected decrease in interest rates. It appears that supervisors do not use this information routinely to review and, if necessary, revise risk ratings.
Assessment	Largely Observed
Comments	It is recommended that OJK review the suite of information that it receives routinely from insurers against standard 9.5 and require submission of the missing pieces of information. It is also recommended that OJK put in place a formal policy about the review of risk ratings to ensure that supervisors review ratings after each offsite review and on receipt of any market information that is likely to affect the risk profile of the insurer.
ICP 10	**Preventive and Corrective Measures** The supervisor takes preventive and corrective measures that are timely, suitable, and necessary to achieve the objectives of insurance supervision.
Description	Article 60 of the Law details the supervisory functions of OJK as:

	• Licensing; • Revocation of licenses; • Registration of service providers; • Revocation of registration; • Obtaining reports and other information from insurers; • Conducting onsite reviews; • Determining a person or persons to be a controller for the purposes of ownership; • Revoking the approval to be a controller; • Requiring an audit or specific report at the expense of the insurer; • Determining the fitness and propriety of members of the Boards, the company actuary and internal auditor; • Decommissioning the Board of directors or the Board of Commissioners; • Appointing a statutory manager; • Issuing a written order for the insurer to perform a function or desist from performing a functions or to adjust its capital or improve an internal control or refrain from selling a product or replace a person or person who is not considered or who is no longer considered fit and proper; • Imposing sanctions on directors and employees. Separately under Article 44, OJK can arrange for the liquidation of the insurer. Effectively, OJK has a ladder of possible preventive and corrective powers from warnings through to removal of licenses and ultimate liquidation. OJK uses financial plans extensively. Under the regulations where an insurer’s capital falls below 40 percent, the insurer must put in a formal remediation plan. However, although not included in the legal framework, OJK requires a financial plan for any insurer the capital of which falls below 120 percent of the risk weighted capital calculation (see solvency). According to OJK, there is open dialogue between the Agency and individual companies in the industry designed to discuss problems and emerging issues. In addition, OJK has installed an early warning system that is intended to identify potential problems before they become major issues. If the system identifies such a problem, according to OJK it will use its power to issue written orders to address the problem.
Assessment	Observed
Comments	The supervisory powers of OJK cover all the requirements of the ICP.
ICP 11	**Enforcement** The supervisor enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.
Description	As noted in the assessment of ICP 10, OJK has a ladder of possible supervisory interventions to enforce corrective action. In practice, OJK uses directions (which are in the form of “recommendations” in reports to the insurer but are enforceable). If an insurer does not comply with the direction of OJK, OJK can and will arrange for the removal of persons guilty of doing so on the basis of their no longer being fit and

	proper. There are some questions about the timeliness of OJK's supervisory corrective actions. Discussions with the staff of OJK stated that when OJK detects a matter of concern, it issues a sanction letter that requires the insurer to address the issue. If the insurer does not address the issue, OJK issues a second and third letter and if the third letter is not acted upon, OJK will revoke the license. Where OJK issues a sanction and expects some action from an insurer, a time limit is given to the insurer. The supervisor with the insurer in his or her portfolio is required to follow up to establish whether the required actions have been taken and to escalate the matter if the actions have not been adequately concluded. Where necessary and in extreme cases, OJK imposes conservatorship over an insurer that is failing to meet prudential or other requirements. OJK has the power to take control of the insurer, or to appoint other specified officials or receivers for the task, and to make other arrangements for the benefit of the policyholders. There is limited use of financial penalties in the Act. The penalties are generally limited to instances of late reporting to OJK and failure to pay supervision levies on time. Although it is possible for insurers to appeal the decision of OJK to impose sanctions or take some other supervisory actions, OJK decisions are executory and are not stayed by any appeal. All sanctions and other supervisory actions are taken and approved at a senior level by one person. This ensures, to some extent, consistency and proportionality.
Assessment	Largely Observed
Comments	It is recommended that OJK revise the "three strikes" approach to the imposition of sanctions to ensure that supervisory actions can be effected in a timely fashion.
ICP 12	**Winding-up and Exit from the Market** The legislation defines a range of options for the exit of insurance legal entities from the market. It defines insolvency and establishes the criteria and procedure for dealing with the insolvency of insurance legal entities. In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders and aims at minimizing disruption to provision of benefits to policyholders.
Description	OJK can revoke the license if the directions (such as capital increase, change of directors, transfer of the business portfolio) made by OJK cannot or will not be met. In addition, OJK can do without the sequence of administrative sanctions in advance, in case that situation of the company is endangering the interest of policyholders according to OJK examination. If the solvency ratio of an insurance company drops below 40 percent, OJK can revoke the license after requiring the company to develop the financial restructuring plan and issuing sanction letters twice. However, even when the insurance company cannot improve the capital position over 40 percent, there is a discretion given to OJK when

	to revoke the license and under what circumstances. When OJK revokes the license of an insurance company, the company has to hold the shareholders meeting within 30 days from the revocation to decide the dissolution of the company and form a liquidation team. If the company fails to form the liquidation team, then OJK will implement the following actions. • Dissolve the company and form a liquidation team; • Register the dissolution with the relevant authorities and make an announcement to the public; • Order the liquidation team to carry out the liquidation process; **Policyholder Priority** The rights of policyholders, insured, and participants to the assets are higher than the rights of other parties. While there is no custodianship requirement on unit-linked related investments, the funds can only be used to pay liabilities to the policyholders concerned. **Guaranty Funds** Currently there is no industry wide guaranty fund in place. Each insurer is required to set aside a fund up to 20 percent of its initial paid up capital or its own equity, plus certain percent (2 percent for unit-linked product, 5 percent for other life products, 1 percent for non-life, and 0.25 percent for reinsurance) of premium reserves into bank deposits or Indonesian government securities. The funds cannot be transferred or encumbered without the approval of OJK. OJK is coordinating with MoF to develop policyholder protection funds. Once policyholder protection funds have been established, the current fund requirement will be replaced by the new policyholder guarantee funds.
Assessment	Partly Observed
Comments	While OJK has sufficient powers to revoke the license and form a liquidation team, there is no clear timeline after an insurer breaches the minimum capital level (which is 40 percent). In some cases, insurers continue their business for some time even after they have breached the minimum capital level and are not able to recover the positions promptly. Policyholders of a recently failed company are likely to have suffered material losses and have already experienced significant delays in having claims and other amounts owed to them settled. It is recommended that OJK: • develop and publish guidance to ensure timely revocation of a license. OJK should also clarify the purposes of the two different financial restructuring plans which are required- once an insurer breaches the target capital level (120 percent) and that imposed on an insurer the solvency level of which is below 40 percent; and • establish policyholder protection (industry wide) funds with sufficient funds and flexibility while avoiding moral hazard for insurers; • ensure that the procedures for the winding up and exit of an insurer from the market are clearly outlined in the law; and • identify and document a point at which it is no longer permissible for an insurer to

	continue operating in the law.
ICP 13	**Reinsurance and Other Forms of Risk Transfer** The supervisor sets standards for the use of reinsurance and other forms of risk transfer, ensuring that insurers adequately control and transparently report their risk transfer programmes. The supervisor takes into account the nature of reinsurance business when supervising reinsurers based in its jurisdiction.
Description	The starting point for the review of reinsurance is regulation no 02/POJK.05/2014. Article 68 requires the insurers to have a company strategic plan and item (3) (i) requires the directors to include a reinsurance plan. The strategic plan and the reinsurance plan must be submitted to OJK. Article 6 of regulation POJK 14/POJK.05/2015 provides for the matters that must be considered in the reinsurance plan. They include: a. profile of borne risks; b. capital adequacy and access to capital increases; c. volatility of past claims and/or estimated claims; d. profitability level of each business line; e. retention scale suitable for Insurance Companies and Sharia Insurance Companies; f. utilization of proportional and non-proportional reinsurance programs; g. environmental conditions, particularly of disaster-prone areas; h. automatic reinsurance capacity; i. optimization of reinsurance quality, use and costs; j. impacts if domestic reinsurers with automatic reinsurance portion become insolvent; k. domestic reinsurer ratings; and l. reinsurance market condition. Article 5 of the same regulation mandate some matters that must be addressed in the strategy: a. a comprehensive reinsurance policy by considering diversification benefits and reinsurance counterparty eligibility; b. a sound system in electing and monitoring reinsurance programs; c. summarized process of own retention establishment and monitoring; and d. persons in charge of implementing reinsurance programs and their control. Insurers must submit their reinsurance plans to OJK by 15 January each year if the program starts in January otherwise they must submit within 15 days of the commencement of the program. Insurers must report any subsequent revisions within 10 business days. Domestic reinsurers are given priority in reinsuring domestic risks. If the reinsurers do not have capacity to do so, insurers may use the international markets subject to the reinsurer having a rating of BBB or greater from a reputable agency.

	OJK supervises the performance of the reinsurance plan as part of its routine offsite annual that is performed quarterly. In its initial review, OJK considers the impact of the proposed reinsurance arrangements on the liquidity position of the insurers. There are no specific requirements in the law or regulations about the documentation of reinsurance treaties. OJK has the power to force insurers to provide it with any documentation. During the inspection, supervisors ask cedants to send documentations relating to its reinsurance program and make sure that the program is properly documented. OJK advised that there were no current Alternative Risk Transfer arrangements in place. One had been grandfathered from before the establishment of OJK. No such arrangements will be allowed in the future. Given that an existing arrangement is "grandfathered" i.e., allowed to continue, it is safe to assume that new Alternative Risk Transfer arrangements will not be permitted.
Assessment	Observed
Comments	
ICP 14	**Valuation** The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.
Description	Indonesia has two accounting systems, Indonesia GAAP (so called SAK) and Statutory Accounting Practice (so called SAP). SAK is relevant for solvency as it decides insolvency and the distributable dividends. However, SAP determines the solvency ratio and triggers most of the regulatory actions. Therefore, this assessment is conducted by referring solely to SAK. **Assets** Investment assets (shares and bonds) are valued at market value, not at historic cost. Mutual funds are valued at the net asset value. Non-investment assets are also valued at economic value. Premium receivable, reinsurance receivable and coinsurance receivable are recognized only when the remaining balance is due within 2 months. Real estate is valued by referring to either appraisal valuation or tax valuation. However, it should be noted that OJK suspended the mark to market valuation in 2015 for several months to avoid excessive fluctuations of the solvency ratio of insurance companies. At the time of this assessment, the temporary suspension had been already lifted. **Liabilities** Technical provisions are based on gross premium method. OJK prescribes the discount rate but does not provide guidance concerning other parameters and relies on expert judgments of the companies and actuaries. The regulation provides the following general principles for methods and assumptions; • in accordance with the relevant product characteristics and risk profiles; • consistent across various products within the same product group;

	• consistent across products at the same reporting date; • guarantees reasonable and equitable recognition of liability for all policyholders; • in accordance with the promised or guaranteed benefits in the policies; • in accordance with the applicable standards of actuarial practice in Indonesia; (however, at the time of this assessment, the society of actuarial association was still in the process of developing of such practices). **Discount Rate** The maximum discount rates are specified as the 3-year average of Indonesian government bond yields. In addition, if a company has a better investment performance than 3-year average yields of the government bonds, it is allowed to increase the discount rate by a maximum of 0.5 percent. Currently, OJK plans to change the 3-year average calculation to other options including referring to the current or 6-month average. Insurers calculate the average duration of their technical provisions. The interest rate is determined by referring to the yield on government bonds with the same duration, rather than by applying the entire yield curve to the corresponding cash flows. For policies denominated in FX, the discount rate is set to the yield of Indonesian government bond denominated in USD. **MOCE** The technical provisions are generally valued based on the central estimate plus margins for adverse deviation with at least 75 percent confidence level on the company level over the entire policy period. If the total premium reserves are less than the total cash value, the company must increase the premium reserve to be at least equal to the cash value. In addition, non-life and reinsurers need to set aside reserves for catastrophic events. If there is a change in the methods and assumptions of technical provisions, the appointed actuary must explain the reason for and effect of such changes on the reported technical provisions and solvency margin.
Assessment	Partly Observed
Comments	The methodology of the discount rates does not necessarily reflect the current economic condition. For example, the average of 3 years is meant to smooth short-term market fluctuations, but if it is applied to the current situation where the discount rate has continued to drop, the 3-year average deviates from the current condition materially. Restriction to the reference to the Indonesian government bonds may prevent insurers from applying better discount rates in particular those for FX denominated policies, for example yield curves observed in more liquid bond markets. It also does not capture the characteristics of cash flows as one discount rate of the average duration of liabilities rather than the entire yield curve is applied. While other assumptions are generally principle based, there seems no active monitoring and challenges by OJK. Assets are generally valued by referring to market value, however mark to market requirements were suspended for several months in 2015 although the market events in 2015 are not generally recognized as extreme. Therefore, it might have created a

	moral hazard that the industry expects another suspension of market valuation in case of another incident of market turmoil. It is recommended that: • work closely with the actuarial association to establish more guidance around key assumptions; • impose enhanced prudential standards (such as stress testing and business continuity planning) to the firms which had to rely on the temporary suspension of the mark to market requirement in 2015 to eliminate moral hazards which might have arisen among the industry; • apply more market consistent discount rates by applying the entire yield curve of the most relevant securities; and • apply MOCE consistently over all insurance reserves.
ICP 15	**Investment** The supervisor establishes requirements for solvency purposes on the investment activities of insurers in order to address the risks faced by insurers.
Description	**Investment Risk Management Framework** In general, Law No. 40/2014 provides that the management of assets shall be conducted based on the prudent person principle, and asset-liability matching requirement. Insurers are required to have admitted assets plus bank deposits at least equal to their liabilities to policyholders. Matching assets against liabilities are reported periodically, and mismatch of asset and liability is subject to additional capital requirement (the detail is covered in ICP 17). The framework of the investment regulations are as follows; • Insurers have to establish written investment policies and have an investment committee; • Types of admitted assets (the detail is covered in ICP 17); • Qualitative and quantitative limitation of admitted assets (key limits are described below); and • Higher risk investment such as derivatives are prohibited unless for hedging purposes. Insurers which have 50 percent or more investment into capital markets, are required the followings; • Hire an investment expert; • Establish a unit or office staffed with experienced persons of integrity to a) perform analysis, implement, monitor and report on investment management; and b) implement internal control systems to ensure investments are in accordance with the investment policy.

	Derivatives Derivatives are allowed only for hedging purposes. The transactions have to be [pre]-approved by the director of insurers and reported to OJK within 7 days. The counterparty of derivatives must have at least BBB rating from a reputable rating agency. There is no specific procedure whether and how quickly insurers need to unwind the positions in case of a downgrade of the counterparty below BBB. There is no requirement regarding the derivatives used within mutual funds. **Investment limits** MoF Decree No 53/2012 specifies the investment limits in detail, which includes 15 percent of total investment to deposits of one bank, 10 percent to one share issue, 40 percent to the entire share portfolio, 15 percent for one issuer of corporate bonds and 50 percent for the corporate bonds portfolio. Bonds, asset back securities and real estate investment trust need minimum BBB ratings. The limits are for admitted assets calculation; therefore, while insurers have strong incentives to meet the limit specified above, insurers are still able to invest above the limit. There is no requirement applicable to an insurance group. There is no concentration limit over different types of investments in the same entity, thus, if an insurer has maximum investment through equity, it can still have exposures through other type of investment. In addition, mutual funds are not looked through for investment limit calculations. OJK has a minimum investment requirement for government bonds (currently 20 percent) of their assets; this will be increased to 30 percent by December 2017. **Intragroup Transactions** Intragroup transactions and investments in subsidiaries and affiliates (which are outside of the insurance group) are limited to a maximum of 10 and 20 percent of total investment, respectively. Any transactions with affiliated parties must be conducted at arm's length. However, in addition, insurers can invest another 10 percent via private placement. In practice, according to the OJK staff, some insurance groups have intragroup transactions amounting to about 8 percent of the total investment.
Assessment	Partly Observed
Comments	The investment limit is based on total investment and so high that it does not prevent excessive concentration risk taking above the insurer's capacity to absorb risk. In particular, the limitation on the intragroup transactions is rather generous and some insurance groups seem to have excessive concentration to intra group affiliates. It is recommended that OJK: • enhance investment requirements to mitigate excessive concentration and contagion risk from affiliates within the group or closely related entities outside the group; • conduct thematic reviews on investment practices and effectively challenge the investment strategy of firms and groups which have more aggressive investment strategies. and

	• monitor concentrations of single counterparties (including those within the group) by aggregating all exposures of the party through various investments, including equity, bond, mutual funds, loan, deposits, derivatives, receivables, etc.
ICP 16	**Enterprise Risk Management for Solvency Purposes** The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks.
Description	**Solo Requirement** Article 23 POJK requires an insurance company to conduct the process of identification, measurement, monitoring and control of risk against all significant risk factors in an integrated manner. Insurers are required to have a risk limit in line with a risk appetite, risk tolerance and an overall corporate strategy. **ALM and underwriting risk** A circular letter specifies that a risk management policy should include asset and liability management, the relationship among product development, assessment function, investment management, and underwriting risk. **Investment** Article 57 (3) POJK stipulates that investment policies and strategies should consist of comprehensive aspects, including maximum allocation limits, minimum liquidity levels, authority limitation of investment transaction for each management level. **Group Requirement** Article 34 POJK stipulates that in implementing integrated risk management, the Principal Entity shall ensure the following; • capital adequacy of financial conglomerate; • effective liquidity management; • integrated monitoring of intra group transactions; • effective risk management of provisions of funds including large exposures; and • effective implementation of integrated governance. Articles 6 (1) and (3) of POJK stipulate that an insurance company is required to conduct Non-Bank Financial Institution Risk Level assessment, which includes strategic risk, asset and liability risk, management risk, governance risk, fund support risk, and insurance risk. OJK also requires the lead entity to have sufficient authority to collect information and data from financial entities within the group. **Reporting** OJK requires an insurance company to submit a report on the risk assessment level result at least once a year for the end of the year. **Board Involvement** Article 12 (1) POJK stipulates the board responsibility to ensure that the implementation of integrated risk management shall include developing a comprehensive written integrated risk management policy. Article 2 POJK states

	insurers and reinsurers are required to implement risk management effectively. The implementation of risk management shall include at least active supervision by the Board of Directors, adequacy of policies, procedures, risk authority limit, monitoring and control process, risk management information system, and comprehensive internal control system. A circular letter describes the relationship between corporate tolerance limits, regulations on capital requirement, capital and risk monitoring methods. Article 59 POJK requires that Board of Directors analyze investment risks, including market risk, credit risk, liquidity risk and operational risk as well as countermeasures in the event of an increase in investment risk. **ORSA** While the requirement of Own Risk and Solvency Assessment became effective in April 2016, the first report will be submitted in 2017. It will require insurers to conduct stress tests. Actuarial report must include 5-year forecast of the financial soundness and capital adequacy, the assumptions that are used on those projections, and analysis for company's access to capital resources.
Assessment	Largely Observed
Comments	ORSA and part of ERM requirements have been recently introduced, thus actual implementation is yet to be seen. Both some domestic and foreign owned insurers seem to have established the framework and thus the assessors do not have material concerns on the implementation. It is recommended that OJK: • enhance communication with the industry about objectives of the new regulations; • compare industry practices by conducting thematic reviews; and • formulate clear expectations of key requirements, such as stress test, risk tolerance statement.
ICP 17	**Capital Adequacy** The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention.
Description	The regulation stipulates that an insurer must meet a Solvency Level of at least 100 percent at any time, and 120 percent annually of risk-based capital. Insurers with the capital below 120 percent are prohibited from distributing their dividends or providing rewards in any form to their shareholders. If the insurer fails to meet the minimum solvency ratio of 40 percent, it is required to formulate a Financial Recovery Plan. **Capital Requirements** The following risk modules are included to calculate risk-based minimum capital. Factors have been calibrated based on expert judgments and comparison with best practices in other countries (such as Canada, Australia and Singapore). The various schedules used are listed below. Most calculations are simple; however, the

	component of cash-flow mismatch needs to estimate the duration of assets and liabilities. • Schedule A; asset default risk; for example, equity charge is 16 percent, bonds are from 2 to 16 percent, depending on the credit quality; • Schedule B; cash-flow mismatch risk which is 4 percent of difference between asset and liability (only if assets in a certain bucket of a duration are more than corresponding liabilities in the same bucket); • Schedule C; foreign currency mismatch risk; there is 20 percent allowance and beyond that, a 30 percent capital charge will be charged if liabilities in FX are higher than the assets, and 10 percent if assets are higher than the liabilities; • Schedule D; claim risk with 95 percent confidence level; • Schedule E; premium risk; differences between reserves discounted by risk-free rates and accounting reserves; • Schedule F; reinsurance risk; • Schedule G; operational risk; • Schedule H; investment fund's default risk (0.1 percent of investment fund); and risk associated with all unit-linked products (either guaranteed benefit unit link or non-guaranteed benefits unit link); Meanwhile, the insurer should also calculate separately the solvency ratio for funds that are generated from guaranteed unit-linked products. This consists of: • Schedule A; asset default risk; for example, the charge is 16 percent equity, bonds are from 2 to 16 percent, depending on the credit quality; • Schedule B; cash-flow mismatch risk which is 4 percent of the difference between assets and liabilities (in the same duration bucket); • Schedule C; foreign currency mismatch risk; there is 20 percent allowance and beyond that, 30 percent capital charge will be charged if the liabilities are higher than the assets, and 10 percent if the assets are higher than the liabilities. **Group Capital** Article 2 POJK Number 26/2015 states the obligation for financial conglomerates (including pure insurance groups) to provide aggregated capital of a minimum of 100 percent of the combined ratio. The combined ratio is calculated with building block method, where combined capital requirements are simple summation of capital requirements of individual financial entities within the conglomerate. The same is for capital resources. When banks provide the capital to financial subsidiaries, the capital would be deducted from the bank. In addition, if a bank is the parent entity of an insurer which solvency ratio is less than 120 percent, bank capital would be deducted assuming that additional capital would be provided from the bank to the insurer up to the point where the insurance entity meets the 120 percent capital requirement. While adjustment of intragroup transactions would be made at the group level, insurers may invest with other financial institutions within the group up to the investment limit without any capital deduction in the calculation at its solo level. **Capital Add-On** OJK can and has imposed a capital add-on to an insurer, because of its risk

	characteristic. However, there is no internal guidance about when and how much capital add-on should be imposed. **Capital Resources** Capital resources are defined as total admitted assets minus total liabilities (except eligible subordinated loans). Insurers can recognize subordinated loans as capital resources only when the solvency ratio drops below 120 percent and the loans meet the following conditions. • the payment of the principal can only be made if it does not breach the capital requirement; • the term of loan amortization is not limited; and • the interest rate is at maximum one fifth of the interest rate of Bank Indonesia at the time when the agreement was signed. There is no requirement about collateralization, however in practice, OJK has never seen any transactions with collateral. **Admitted Assets** Admitted assets are specified as follows with limits described in the discussion of ICP 15. If an insurer invests more than the limit, the amount beyond is not recognized as an admitted asset and effectively reduces the amount from the capital resources; • cash; • time deposits in banks; • shares both listed on the stock exchange and non-listed; • bonds, ABS and CPs; • mutual funds, real estate investment trust; • real estates, gold, policy loans; • claims of co-insurance, reinsurance and investment; and • direct overage premium claims. **Guaranty Funds** Each insurer is required to set aside a fund of up to 20 percent of its initial paid up capital or its own equity, plus certain percent (2 percent for unit-linked product, 5 percent for other life products, 1 percent for non-life, and 0.25 percent for reinsurance) of premium reserves into bank deposits or Indonesian government securities. For more detail, refer to the description of ICP 12.
Assessment	Partly Observed
Comments	An important risk component (catastrophe risk) is not yet included, while OJK is working to include it in the capital requirements. Capital add-on could be imposed without a transparent framework. Asset and liability component, the component related with guaranteed benefits associated with unit-linked products and premium risk need sophisticated calculation and judgment. However, evidence of validations conducted by OJK was not seen.

	While group capital is required and appropriate adjustment would be made, there is still an incentive for a group to generate internal capital from an insurance company to inflate capital positions at legal entity level due to non-existence of adjustment of intra-group transactions from insurance entities and/or within insurance entities. It is recommended that OJK: • adjust a capital adequacy ratio at solo level if an insurance entity provides capital to financial entities within the group to reduce the incentive to improve the capital positions of the solo entities; and • conduct thematic reviews of some schedules, such as B (ALM), E (premium) and H (minimum guarantee of unit link), to make sure that insurers calculate the capital charges appropriately.
ICP 18	**Intermediaries** The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.
Description	**Licensing** Insurance and reinsurance brokers require a license under Article 8 of the Insurance Law. OJK issued a circular letter (which is legally binding) to insurance and reinsurance companies prohibiting the use of unlicensed brokers. Applicants for a license are asked about prior misdemeanor convictions, felony convictions and involvement in administrative proceedings. Individuals who have been convicted of a crime involving "dishonesty or breach of trust" are prohibited from engaging in the business of insurance unless they request and obtain a waiver from OJK. Agents need to register with the OJK. Before the registration, agents need to pass an examination conducted by the industry associations. The term of registration is 2 years for non-life agents and 1 year for life. To renew the registration, agents are required to take on-going studies specified by the associations. OJK discusses with the associations about the contents of the examinations and on-going education. For marketing unit-linked products, agents are required to have a certification from the Indonesian Life Insurance Association. A bank officer who does marketing of insurance products must have certification from the insurance related associations and needs to obtain training on insurance products that the bank is offering. **Integrity and Corporate Governance** Insurance law requires that insurance brokers and agents must have sufficient knowledge, ability, good reputation and membership of the trade association. Fit and proper tests are required for all directors, commissioners, and shareholders of brokers. On-site examination covers the fitness and propriety of directors, commissioners, controllers, and experts of brokers. OJK has issued a regulation of good corporate governance in 2014, which requires insurance brokers to implement corporate governance consistently. An insurance company is obliged to ensure that any insurance agent working for it has a certification from the insurance company association.

	Disclosure Article 31 of Insurance Law states that insurance agents, brokers, reinsurance brokers and insurance companies must provide information that is true and does not mislead the policyholders regarding the risks, benefits, obligations, and charging of costs. **Client money protection** Article 17 of MoF Decree requires that the amount of premium retained by insurance brokers must never exceed the equity of the broker. Comparison between retained premium and equity is shown in periodic reports and assessed through off-site and on-site supervision. Article 9 (2) requires brokers to have professional indemnity insurance. Insurance Law provides safeguards for premium paid from policyholders by determining that the premium has been paid to insurers if it has been paid to the agent. **Ongoing Supervisory Review** Insurance brokers are subject to on-site inspection. The OJK off-site team analyzes the annual reports and on-site examination is conducted at least once every 3 years. Agents are subject to periodic renewal and associations require agents to take on-going education. **Supervisory Actions** According to Article 70 of Insurance Law, OJK is authorized to impose administrative sanctions on intermediaries (including agents and direct sales persons) who commit violations of the provisions in the law and implementing regulations. The OJK has actively taken actions.
Assessment	Largely Observed
Comments	While intermediaries are required to provide certain information to policyholders, there is no disclosure requirement about terms and conditions, the relationship with the insurers, or information related to remuneration. It is recommended that OJK: • continue and enhance coordination with the insurance associations to improve training and examinations to meet the increasing sophistication of insurance products; and • require intermediaries to make disclosures to customers of the conditions under which they are doing business, and how they are remunerated.
ICP 19	**Conduct of Business** The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.
Description	Article 27 (2) requires that insurance brokers, reinsurance brokers, and insurance agents have sufficient knowledge, ability and a good reputation. Article 20 of Government Regulation requires that premiums should be set at a level that is

	adequate, not excessive and not applied in a discretionary manner. Article 2 of OJK regulation stipulates that consumer protection applies the principle of equal treatment. **Conduct standard** Article 26 (1) of Act Number 40 requires that insurance companies fulfill the standards of business conduct that includes provisions regarding the distribution and marketing of products. Article 16 of the OJK Regulation concerning consumer protection stipulates that financial companies (including insurers) have to take into account matching consumers' needs and capabilities of agents. **Governance** Article 13 (1) and (2) of the OJK regulation requires insurance companies to establish working units or an insurance product development committee that have the task of developing a strategic plan for developing and marketing of insurance products. During the insurance product approval process, OJK requires insurance company to take into account the relationship between consumers' needs and capabilities and the product. **Information** Article 31 (2) Act Number 40/2014 prohibits insurance agents, insurance brokers, reinsurance brokers and insurance companies from providing untrue, false, or misleading information. A person who willfully fails to provide information or provides false information could be punished by imprisonment for five years and a maximum fine of IDR 5 billion. Number IV OJK Circular Letter Number 12/2014 stipulates that in conveying the information contained in advertisements in various media, entities are required to provide information about the products that is accurate, fair, clear and not misleading. Cooling off is allowed to policyholders over a certain period (about 2 weeks). **Claims and Complaint Handling** Article 31 (3) Act Number 40/2014 requires insurance companies and brokers to handle claims and complaints through a fast, simple, accessible, and fair process. Article 27 of MoF Decree Number 422/2003 stipulates that the insurance company must pay the claim within 30 days of the agreement between the insured and insurer. OJK reviews the policies and processes in place to handle claims during the on-site examination. Article 35 of OJK regulation number 1/2013 provides that an insurance company is obliged to follow up and resolve a complaint no later than 20 working days after the date of receipt of the complaint. OJK uses a system called Customer Relationship Management (CRM) to monitor the settlement of complaints that have been submitted to OJK. In addition, OJK also receives complaints about settlement arrangements. Policyholders can use this facility with certain conditions (such as the damage is not more than IDR 500 million, etc.). The number of complaints has decreased significantly since 2014 (2014; 445, 2015; 162 and 2016; 20). **Use of Personal Information**

	Article 31 of OJK Regulation Number 1/2013 prohibits financial services businesses from providing data or information to third parties. Financial service providers are required to have written policies and procedures in regard to the use of personal data and information. **Disclosure by Regulator** OJK has launched education and consumer protection pages that cover products, financial management, planning, and financial services institutions. Workshops, training, and seminars have been organized to improve the financial literacy of consumers. Customer Relationship Management (CRM) can be used by consumers
Assessment	Largely Observed
Comments	OJK requires protection of private information on customers, focusing on prevention of the misuse or inappropriate communication of personal information. However, given the increasing share of internet and mobile sales, it is important for OJK to work closely with the industries to mitigate cyber risk. It is recommended that OJK conduct informal exercises, such as horizontal self-assessment, and enhance dialogue with industries to encourage insurers to improve their resilience to cyber risk.
ICP 20	**Public Disclosure** The supervisor requires insurers to disclose relevant, comprehensive, and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance, and financial position. This is expected to enhance market discipline and understanding of the risks to which an insurer is exposed and the manner in which those risks are managed.
Description	Based on Articles 43 to 45 of the Insurance Law, insurers are required to publish audited annual financial statements and unaudited quarterly financial statements on their official websites. The contents and publication format are standardized and regulated by OJK circular letter, and consist of balance sheet, P&L, cash flow, RBC ratio calculation, ultimate reinsurers backup. Insurers and reinsurers have to comply with the format, so that the reports are comparable among different insurers and reinsurers. The supervisor also provides and publishes statistical reports from the data collected in monthly, quarterly and annually collections for market participants and policyholders. For example, the supervisor creates the Annual Insurance Statistics Book that is sent to related government institutions, insurance companies, insurance associations, and universities. The book includes details of individual company data and is publicly available. **Technical Provisions** There is no disclosure requirement about key assumptions used for the valuation of technical provisions. **Capital Adequacy**

	Insurers are required to disclose RBC ratio calculations on their websites. The format is specified by OJK and has details of the decomposition of capital requirements by schedule. **Investment and ALM** The annexes to SE-02 year 2013 require disclosure of investments by category. A large amount of detailed information (including the names of issuers) is published. However, there is no ALM related disclosure. **Risk management** There is no requirement about material risk exposures and risk management.
Assessment	Largely Observed
Comments	While OJK requires significant detail of disclosures in the investment, those of technical provisions and ALM are not sufficient. There is no requirement about risk management practices and corporate governance. While assessors believe that those shortfalls are rather material, such shortfalls are considered in the relevant ICPs (such as ICP 14 and 17). It is recommended that OJK: • implement the recommendations related to the relevant ICPs (such as ICP 14 and 16) first before amending disclosure requirements; and • encourage insurers to improve disclosure of risk management and corporate governance voluntarily and find best practices with a good balance between cost and benefits;
ICP 21	**Countering Fraud in Insurance** The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report, and remedy fraud in insurance.
Description	**Framework** The Insurance Law specifies the types of actions that are considered as insurance frauds, which are subject to criminal sanctions, such as imprisonment and/or fines. **Regulation** OJK requires insurers and brokers to implement risk management against fraud including sufficient steps to deter, prevent, detect, and report, risks of fraud as part of operational risks. Fraud incidents are reported to OJK and the off-site team analyses these reports regularly. **Understanding** OJK has implemented risk-based supervision, and is monitoring insurance frauds as part of operational risk. According to OJK staff, they are aware of higher risk in the life insurance sector, such as premium cheating by agents. OJK has addressed emerging fraud risks by enhancing off-site monitoring and on-site inspections when it detects high operational risk (including fraud risk).

	Collaboration OJK coordinates with police, industry associations regularly to exchange information and increase awareness of insurance fraud by providing trend analysis and risks.
Assessment	Observed
Comments	
ICP 22	**Anti-Money Laundering and Combating the Financing of Terrorism** The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the financing of terrorism. In addition, and the supervisor takes effective measures to combat money laundering financing of terrorism.
Description	**Framework** PPATK (the central reporting and analysis of financial transactions unit) is responsible for stipulating the provisions and procedures related to suspicious transaction reporting (STR). It also conducts on-site inspections at financial institutions including insurers, but the scope is on compliance with its reporting requirements. OJK is a designated AML/CFT authority that is responsible for regulation and supervision of all financial entities on risk management related with AML/CFT. OJK publishes Minister of Finance Regulation No. 30 / PMK.010 / 2010 concerning Implementation of Know Your Customer for Non-Bank Financial Institutions in 2010, the next instance of this regulation was published in 2011, namely PER / 01 / BL / 2011 on Guidelines for Application of Know Customers for the Insurance Company. In 2015, OJK amended PMK Number 30 / PMK/010/2010 to POJK.39/POJK.05/2015 regarding the Implementation of Anti-Money Laundering and Combating the Financing of Terrorism Program for Non-Bank Financial Industry Sector (NBFI), followed by guidelines that describe detailed requirements related to active supervision by directors, procedures, internal control, information system, human resources and training. Insurers (including both life and non-life) are required to conduct Customer Due Diligence (CDD), including the source of funds of prospective customers/beneficial owner. OJK conducts off-site monitoring and on-site inspections relating to AML/CFT regulations. **Supervision and on-site inspections** In 2013, OJK conducted 125 insurance companies' reviews covering the implementation of AML/CFT principles by checking; • work unit or officer responsible for applying CDD principles; • CDD principles training program; • acceptance form with attached data, identity of customer, and source of funds; and • update of customer data. OJK actively uses its sanctioning power to improve the compliance with the requirements.

	Regulatory actions During 2015, there were 34 sanctions imposed on 24 general insurance companies and 10 life insurance companies. For the part year ended April 2016, OJK had imposed 22 sanctions, being 14 sanctions given to general insurance companies and 8 sanctions given to life insurance companies. **Coordination, cooperation and exchange of information** OJK has an MoU with PPATK to coordinate responsibilities for supervision of CDD and suspicious transaction reporting (STR). The MoU includes cooperation for exchange of information, regulation and guideline making, coordination of on-site inspections, education and socialization, study and research, and development of information system. PPATK receives STRs from insurers and shares the summary of reporting to OJK annually and the agencies exchange their views occasionally. When PPATK conducts on-site inspections, the report is sent to OJK. OJK and PPATK regularly arrange seminars related to AML/CFT.
Assessment	Observed
Comments	
ICP 23	**Group-wide Supervision** The supervisor in cooperation with other involved supervisors, identifies the insurance group and determines the scope of group supervision.
Description	**Group Supervision Framework** Integrated supervision is conducted by OJK, covering banking, capital markets and non-bank institutions. In determining group-wide supervision, OJK identifies all relevant institutions but only financial institutions are included in the group-wide supervision. OJK has identified 38 groups of conglomerates in which at least one insurer is a member of the group. Among 38 groups, only one group is led by an insurance company and there is no group which has insurance operations outside Indonesia, thus there are no groups where OJK is the home supervisor. **Scope of Group Wide Supervision** Articles 4, 5 and 6 POJK Number 17 regulate financial conglomerates structure. Criteria of subsidiaries and sister companies are based on the ownership and control. Influence of nonfinancial institutions on the group is also taken into account in the group risk analysis.
Assessment	Largely Observed
Comments	OJK has coordinated with home supervisors mainly through participation in supervisory colleges. However, the information exchanges with home supervisors are not yet active enough to contribute effectively to define the scope of group supervision through close cooperation with home and other involved supervisors. It is recommended that OJK:

	• establish a relationship with home and other relevant supervisors through more active participation in supervisory colleges and IAIS activities (including IAIS MMoU); • analyze intergroup transactions in detail so as to cooperate effectively with the home and other relevant supervisors to determine the scope of group wide supervision
ICP 24	**Macroprudential Surveillance and Insurance Supervision** The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and insurance markets and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilize information from, and insights gained by, other national authorities.
Description	OJK collects data monthly, quarterly, annually and conducts analysis in the form of financial highlights and stress test analysis. OJIK also publishes an annual statistical insurance book with detailed data on both individual insurer and the industry wide bases. OJK has a process in place to conduct regular market analysis weekly and monthly and provides the output to the Board meeting. **Financial System Stability Committee (KSSK)** In March 2016, the Financial System Crisis Prevention and Mitigation Law was approved by Parliament. The Law creates the Financial System Stability Committee (KSSK), comprising the Minister of Finance, the Governor of Bank Indonesia, the Chair of the Board of Commissioners of OJK, and Chair of the Board of Commissioners of Indonesia Deposit Insurance Corporation. Industry wide stress tests were performed in 2015 and reported to KSSK. With the assumptions of 20 percent drop of shares, 10 percent drop in bonds etc. the exercise identified significant impacts on a number of large life and nonlife insurers. The discussion resulted in the introduction of the temporary suspension of the mark to market requirements in the insurance sector. **Horizontal Review** OJK has conducted the following two horizontal reviews; 1) top 10 non-life insurers selling motor insurance, 2) top ten life insurers selling unit-linked products. However, these reviews are more desk-based exercises, although OJK followed up through day-to-day supervision when the exercises identified issues in insurers. **Identification of Systemically Important Entities** KSSK has an established an assessment methodology to identify systemically important entities, in line with that used in the FSB process. KSSK has designated a few conglomerates, some of which have insurance entities within the group. The list is not disclosed and the authorities have not communicated with the designated groups about the decisions. However, OJK imposed enhanced fit and proper test, risk-based supervision, increased on-site inspections on the designated groups.
Assessment	Largely Observed

Comments	While OJK has conducted vulnerability analyses, most of them are still focusing on individual entity or group level, and there is no exercise to capture the interconnectedness among sectors and among conglomerates. Given the interconnectedness between banks and insurers and through reinsurers in Indonesia, possible concentration and contagion could have systemic implications for the entire financial sector or the real economy. It is recommended that OJK: • integrate the conglomerate analysis conducted by each group level together to identify possible contagion among conglomerate and among sectors; • conduct analysis of the contagion caused by domestic concentration of reinsurance coverage, for example through stress testing with an assumption of failure of large domestic reinsurance companies; and • consider the suppression of mandatory reinsurance programs if that could cause contagion among domestic insurers and reinsurers.
ICP 25	**Supervisory Cooperation and Coordination** The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.
Description	Article 47 of Law No 20/2011 refers to the relationship between OJK and international organizations. Article 47(1) states that: "OJK may cooperate with other countries and international organization and other international agencies, on the field and in the activities below: • Institutional capacity building including training of human resources in the field of regulation and supervision of Financial Services Institutions; • Information Exchange; and • Cooperation in the examination and investigation and prevention of crime in financial services". OJK has put in place a number of MOUs with both domestic and international organizations. According to the OJK, under the terms of the MoUs, the confidentiality of the arrangements and the information shared during the arrangements is guaranteed. The relationship between OJK and the Bank of Indonesia and LPS is subject to separate legal provisions. OJK internal coordination arrangements between sectors are clearly done via the information flows, communication, periodic meetings, and a comprehensive assessment of the group. OJK has not yet actively cooperated and coordinated with other supervisors from other jurisdiction, however OJK participates in cross border supervision by attending the invitations to supervisory college. Although OJK participates from time to time in supervisory colleges, it does not at this point actively participate in inspections and is not likely to act as head supervisor in

	the short to medium term given the size and profile of the insurance industry and the absence of local insurers that could be considered the head of an international group.
Assessment	Observed
Comments	
ICP 26	**Cross-border Cooperation and Coordination on Crisis Management** The supervisor cooperates and coordinates with other relevant supervisors and authorities such that a cross-border crisis involving a specific insurer can be managed effectively.
Description	The Financial System Stability Coordination Forum (KSSK) was established in November 2011 under Article 44 of Act Number 21/2011. KSSK consists of OJK, Bank Indonesia, MoF and Indonesia Deposit Insurance Corporation. As a member of the forum, OJK monitors and evaluates the stability of the financial system using crisis management protocols. KSSK has designated domestic systemically important groups and some groups have insurance entities. OJK has participated in crisis simulation exercises of those institutions and has requested the insurance entities that belong to those groups to develop recovery plans for the exercises. OJK contributed to the exercises by providing those plans and their views of feasibility. While OJK has not been invited by home supervisors to Crisis Management Groups, it can share detailed information (such as intragroup transactions from/to Indonesian entities) under the current MoUs that it has agreed with some supervisors. Currently, OJK has signed MoUs with Japan, Dubai, Korea, etc. and also applied to IAIS MMoU. There are no insurance groups which are internationally active and for which OJK is the home supervisor.
Assessment	Largely Observed
Comments	MoUs with relevant regulators are still missing, which may prevent OJK from coordinating in cross border supervision and crisis management effectively. It is recommended that OJK expand the scope of MoU, for example by joining in the IAIS MMoU, and offering its analysis (such as key results of inspection results) to the home supervisors to enhance the cooperation with home supervisors.