



Credit Assessment of the Life Insurance Sector in 2010

Contact:

Haryo Koconegoro
Assistant Vice President
Financial Institution
+62 21 576 1516
haryo.koconegoro@icraindonesia.com

ICRA Indonesia has assessed the credit quality of the top-10 life insurance companies in Indonesia using ICRA methodology for rating insurance companies and publicly available data for 2010 and 2009. The methodology fine-tunes the credit assessment using qualitative evaluation based on discussions with various stakeholders; however, this study is based only on financial information and is, therefore, limited to that extent.

Overview on the Indonesian life insurance industry

Industry Size and Structure

According to the latest report from Capital Market and Financial Institution Supervisory Agency (Bapepam-LK), there are about 46 companies engaged in life insurance business in Indonesia. As per the July 2011 issue of Infobank magazine, however, the total number of life insurance companies in Indonesia in 2010 was 44. As and when required, ICRA Indonesia would use this number as the basis for further assessment.

In terms of assets, the top-10 life insurers in 2010 accounted for 68.3% of the industry's total assets of Rp182.8 trillion. This shows that the industry is dominated by a few big participants, even more so than the banking industry which has 122 participants. Moreover, the 10 largest banks controlled only 64.75% of the total assets of Rp3,009 trillion.

Table-1: Top-10 Life Insurance Companies based on Asset Size

Ranked based on asset size (Rp bn)	2010
Prudential Life Assurance	25,145
AIA Financial Indonesia	20,118
Asuransi Jiwa Manulife Indonesia	17,684
Allianz Life Indonesia	11,712
Asuransi Jiwa Sinarmas	11,446
Avrist Assurance	9,532
AXA Mandiri Financial Services	8,488
Asuransi Jiwasraya	7,234
Asuransi Jiwa Sequis Life	6,779
Indolife Pensionsama	6,726
Total top 10	124,863
Total Industry	182,762
Top 10 to total industry size	68.3%

Source: Infobank magazine, Bapepam-LK

Penetration Rate

The penetration rate of life insurance in Indonesia is amongst the lowest in the Association of South East Asian Nations (ASEAN) countries. According to Reactions, a global insurance intelligence company, the premiums of life insurance business as a % of the Gross Domestic Product (GDP) in 2010 for Indonesia was 1.02%, as compared to 3.21%, 4.57% and 2.61% for Malaysia, Singapore and Thailand, respectively. The low penetration rate could be attributed to low awareness of the insurance business and/or low purchasing power. Higher penetration rate in general reflects a more developed market, which is positive from the credit risk perspective in terms of resilience to macro-economic volatility. More developed insurance market implies that generally people in that market see insurance as something of a necessity rather than a nice-to-have option.

Table-2: Life Insurance Premium as % of GDP (2010)

Life insurance premiums as a % of GDP in 2010	
Vietnam	0.64
Philippines	0.71
Indonesia	1.02
Thailand	2.61
Singapore	4.57
Japan	7.99
Hongkong	10.06
Taiwan	15.39

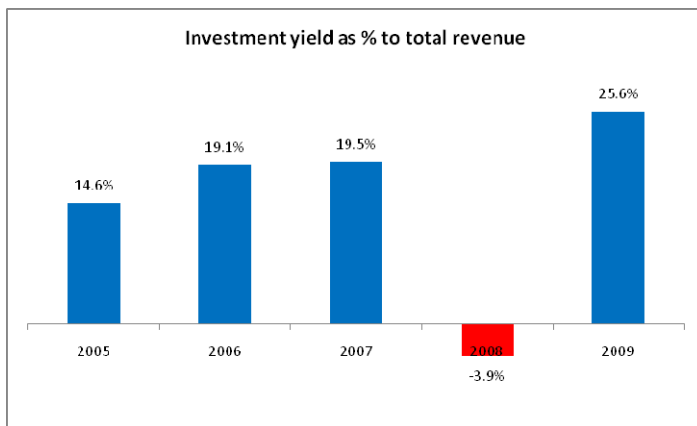
Source: Reactions - Global Insurance Intelligence

Life versus Non-Life Businesses

The growth of life insurance industry has been faster than those of the other three segments (non-life and reinsurance, social insurance and civil servant and armed forces insurance). In the period from 2005 to 2009, the asset size of the life insurance industry grew at a compounded annual growth rate (CAGR) of 19% as compared to 1.5% for non-life and reinsurance; 4.1% for social insurance and 6.0% for insurance specific for civil servants and the armed forces.

The strong growth could be attributed to the fast increasing popularity of unit link products (an investment-link insurance product exclusively offered to clients of life insurance companies), which combine conventional insurance and investment. The exponential growth of the Indonesian financial (stock market especially) markets has helped propel the demand for unit-link products, as evidenced by the increasing portion of income from investment (investment yields) to total income as compared to premium income. The contribution of investment yields rose to 25.56% of total income in 2009 from merely 14.6% in 2005.

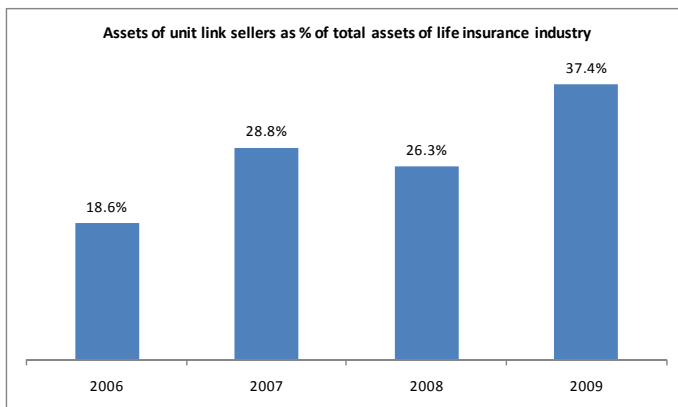
Chart-1: Investment yield as % of total income



Source: Bapepam-LK

This is further corroborated by the fact that the growth in the asset size of 25 companies with unit link products has been faster than the overall growth of the life insurance industry. In 2006 the total assets of these unit link sellers accounted for 18.6% of the total assets of the industry. In 2009, the ratio more than doubled to 37.4%.

Chart-2: Unit Link Sellers as % of Total Life Insurance



Source: Bapepam-LK

Performance of the Top-10 Life Insurers

Net Premium Written (NPW) Growth

The NPW of these top-10 companies grew by 41.7% in 2010 as compared to 2009, approximately twice the growth for the whole industry. In a longer horizon, however, the CAGR of the NPW of top-10 appeared to be in line with that of the whole industry. In the period from 2006 to 2010, the NPW of top-10 companies reached a CAGR of 20.4% as against 17.4% of the industry.

Referring to the below table, the year 2007 showed the strongest NPW growth of 70% and 69%, respectively, for top-10 and the industry, which we believe was mainly triggered by the increased contribution of unit link products buoyed by strong capital market performance.

With the introduction of unit links, there is increasing interest in applying for life insurance (hence higher NPW) that promise (although did not guarantee) higher return on the investment portion of the life insurance products.

The Jakarta Composite Index rose by 52% in 2007 over 2006. We also observe that the assets of unit link sellers grew to 28.8% of total assets in 2007 from 18.6% in 2006, which was the steepest increase in a year as compared to other years under our observation. Despite being a tumultuous year for the stock markets, NPW growth remained positive in 2008, albeit slowing down, at 11% year-on-year. The continued buying of life insurance policies despite the short-term turmoil in the market should reflect the longer-term perspective of buyers.

Table-3: Net Premium Written (Rp bn) over the Years

	2006	2007	2008	2009	2010	CAGR 06-10	2010 to 2009
Prudential Life Assurance	2,586.1	5,423.0	6,785.0	6,975.4	9,715.3	39.2%	39.3%
AIA Financial Indonesia	2,428.5	3,189.6	3,940.5	3,183.7	3,409.9	8.9%	7.1%
Asuransi Jiwa Manulife Indonesia	1,685.3	2,431.0	2,822.9	3,002.0	5,820.5	36.3%	93.9%
Allianz Life Indonesia	1,295.0	2,775.1	3,001.6	3,213.3	4,728.8	38.2%	47.2%
Asuransi Jiwa Sinarmas	1,216.5	4,231.2	5,123.9	7,115.9	9,282.9	66.2%	30.5%
Avrist Assurance	991.5	1,348.1	1,471.7	1,391.7	1,646.3	13.5%	18.3%
AXA Mandiri Financial Services	822.0	2,191.5	1,904.8	1,336.0	2,771.3	35.5%	107.4%
Asuransi Jiwasraya	2,090.4	2,248.9	2,296.0	2,474.2	3,498.8	13.7%	41.4%
Asuransi Jiwa Sequis Life	789.9	1,078.8	1,131.8	1,062.0	1,350.5	14.3%	27.2%
Indolife Pensiantama	1,780.1	1,728.8	1,510.0	3,069.9	4,299.0	24.7%	40.0%
Total top 10	15,685.3	26,646.0	29,988.1	32,824.1	46,523.5	20.4%	41.7%
Total Industry	26,345.2	44,504.2	49,222.0	60,012.8	72,558.5	17.7%	20.9%

Source: Bapepam-LK

Profitability

In ICRA's view, the life insurance industry is capital-intensive. In early years, companies are usually required to infuse funds from time-to-time to achieve a desirable premium growth. For instance, life insuring companies in India typically require at least five to seven years to break-even.

All of the top-10 life insurance companies in Indonesia have been present in the industry for over a decade, which explains why all of the companies were able to report healthy profitability in the period from 2006 to 2010.

The Return on Average Assets (ROAA) and Return on Average Equity (ROAE) of the top-10 companies were quite strong, registering an average of 3.6% and 28.7% during the period from 2007 to 2010. The top-10 posted better performance on these metrics as compared to the industry at 2.7% and 19.7%, respectively. As most of these life insurers have no or very little debt, ROAE is a better metric to gauge the profitability. The most impressive performers were Prudential and AXA Mandiri with a 4-year average ROAE of 81.5% and 67.3%, respectively. The rates compare favorably with the ROAE of Indonesia's most profitable bank, Bank Rakyat Indonesia, at 35.9% in 2010.

The stellar profitability of Prudential and AXA Mandiri was not enjoyed by all of the top-10 life insurance companies. The least impressive performer in the top-10, Indolife Pensiontama, posted an ROAA of 0.3% and an ROAE of 1.6% in 2010. This was significantly inferior to the ROAA and ROAE of the industry at 2.8% and 20.1%, respectively. This underperformance could have been contributed by higher than average expenses. As a result, the average ratio of profit after tax (PAT) to NPW of Indolife in 2006-2010 (excluding 2007 when it posted a loss) was only 0.5% as compared to 10.2% of the rest of the top-10 companies.

Comparing 2010 and 2009 on these two indicators, we can see that indeed 2010 showed good profitability. However, the performance in 2009 was better, considering that ROAA and ROAE of the top-10 were higher at 3.9% and 30.5%, respectively. This was because life insurance companies that invested heavily in the equity market in 2008, either through unit links or their own investment, were badly hit by the global financial crisis, causing their assets and equity size to shrink below their 2007 levels. When the market recovered in 2009, these companies achieved superior ROAE and ROAA levels on the back of higher numerator (strong profit) and lower denominator (lower average asset and equity in 2009 brought down by the low 2008 figures).

Table-4: ROAA

Name of company	ROAA				
	2007	2008	2009	2010	average 4 years
Prudential Life Assurance	7.6%	1.1%	11.6%	11.0%	7.9%
AIA Financial Indonesia	1.6%	0.8%	2.8%	2.3%	1.9%
Asuransi Jiwa Manulife Indonesia	4.0%	1.8%	2.9%	1.8%	2.6%
Allianz Life Indonesia	1.2%	2.4%	2.9%	2.9%	2.4%
Asuransi Jiwa Sinarmas	6.9%	2.7%	3.2%	5.6%	4.6%
Avrist Assurance	3.2%	2.3%	2.1%	2.1%	2.4%
AXA Mandiri Financial Services	4.1%	3.9%	4.4%	6.6%	4.8%
Asuransi Jiwasraya	0.7%	0.3%	6.9%	3.2%	2.8%
Asuransi Jiwa Sequis Life	3.0%	1.8%	2.5%	2.3%	2.4%
Indolife Pensiontama	0.3%	-1.0%	0.4%	0.3%	0.0%
Total top 10	3.5%	1.6%	4.7%	4.5%	3.6%
Total Industry	3.3%	0.9%	3.9%	2.8%	2.7%

Source: Bapepam-LK

Table-5: ROAE

Name of company	ROAE				
	2007	2008	2009	2010	average 4 years
Prudential Life Assurance	69.7%	17.6%	146.6%	92.1%	81.5%
AIA Financial Indonesia	9.0%	5.9%	21.8%	14.1%	12.7%
Asuransi Jiwa Manulife Indonesia	24.1%	13.0%	22.6%	12.3%	18.0%
Allianz Life Indonesia	16.1%	36.1%	31.8%	26.7%	27.7%
Asuransi Jiwa Sinarmas	71.1%	27.5%	29.2%	44.9%	43.2%
Avrist Assurance	21.9%	22.8%	22.6%	15.2%	20.6%
AXA Mandiri Financial Services	60.3%	53.6%	61.3%	94.1%	67.3%
Asuransi Jiwasraya	7.7%	3.6%	57.3%	22.7%	22.8%
Asuransi Jiwa Sequis Life	25.3%	19.9%	25.2%	18.7%	22.3%
Indolife Pensiortama	1.0%	-3.7%	1.6%	0.9%	-0.1%
Total top 10	26.1%	15.1%	41.4%	32.3%	28.7%
Total Industry	21.4%	7.0%	30.5%	20.1%	19.7%

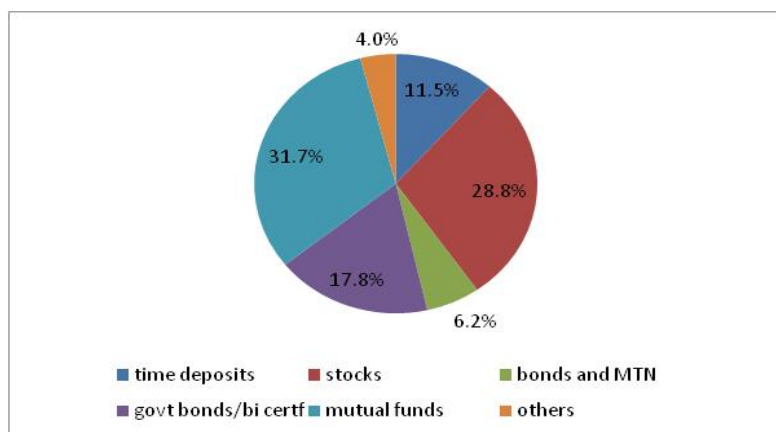
Source: Bapepam-LK

Asset Quality

For a life insurance company, it is very important to maintain asset quality while generating expected returns to avoid credit risk. For unit links, the investment risk is borne by the policyholder whereas conventional insurance products (non unit link), the investment risk is borne by the insurance company.

In 2010, the investments of top-10 life insurance companies were held in mutual funds (31.7%), stocks (28.8%), government bonds and Bank Indonesia certificate (SBI) (17.8%), time deposits (11.5%), corporate bonds and MTN (6.2%) and others (4.0%). There was no significant change from 2009, when investments were placed on mutual funds (32.1%), stocks (27.4%), government bonds and SBI (19.5%), time deposits (10.0%), corporate bonds and Medium Term Notes (MTN) (6.4%) and others (4.6%).

Chart-3: Investment Mix 2010



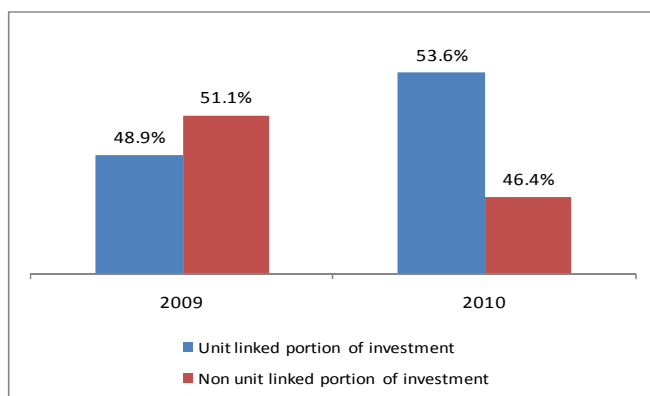
Source: Infobank magazine, Bapepam-LK

As these financial statements do not provide break-up of unit-link and non unit-link investments by instruments, it is difficult to study how these insurance companies expose their non unit-link assets to the two riskiest instruments -- stocks (equity) and equity mutual funds.

Furthermore, we cannot accurately gauge the risk on investments into mutual funds without any disclosure on where these funds had been invested, for example, equity mutual funds (risky) as compared to money market mutual funds (less risky). If all the mutual funds were invested in equity, the combination of stocks and mutual funds would account for 60.5% and 59.5% of total investments in 2010 and 2009, respectively, which is a significantly high risk appetite.

ICRA, however, derives some comfort from the fact that the heavy weightage towards equity investment may be contributed mostly by unit link products (hence, the investment risk is borne by policy holders), by simply looking at the unit link and non-unit link investment break-up. Investment related to unit link products accounted for 53.6% of total investments in 2010, up from 48.9% in 2009.

Chart-4: Unit Link and Non-Unit Link Investments



Source: Companies' Financial Reports, ICRA Indonesia database

We also derive comfort from the fact that all the top-10 life insurance companies have capitalisation levels well above the minimum risk based capital (RBC) ratio of 120%, which implies that the risks of these investments have all been amply provided for.

Table 6: RBC

RBC (%)	2009	2010
Prudential Life Assurance	420	766
AIA Financial Indonesia	379	515
Asuransi Jiwa Manulife Indonesia	212	237
Allianz Life Indonesia	428	499
Asuransi Jiwa Sinarmas	302	469
Avrist Assurance	329	711
AXA Mandiri Financial Services	791	718
Asuransi Jiwasraya	140	156
Asuransi Jiwa Sequis Life	208	263
Indolife Pensiontama	335	376
Minimum requirement	120	120

Source: Companies' Financial Reports

Liquidity

Another important quantitative assessment would be on the liquidity position of life insurance companies for which we look at the following two factors:

- Liquid assets that are cash, time deposits, government bonds and SBI.
- The technical reserve (estimates of future claim and premium liabilities), as estimated by an actuary.

The calculation shows that on an average, liquid assets accounted for 33.6% and 34.2% of technical reserves in 2010 and 2009 which, in our view, signifies sufficient liquidity to meet short-term needs such as surrenders and withdrawals. Furthermore, knowing that more than half of investments are related to unit link products (all risks, including liquidity risk, are borne by policyholders), it can be concluded that liquidity risk of these insurance companies has been well mitigated and managed.

On a year-on-year comparison, liquidity remains healthy and relatively unchanged, with 5 of the top-10 life insurers showing better liquidity ratio in 2010 as compared to 2009. AJ Manulife registered the most solid liquidity ratio at 57.2%. Meanwhile, AXA Mandiri posted the lowest at 14.6% although higher than 10.8% in 2009. Overall, we can conclude that the liquidity of these companies is quite strong.

Table 7: Liquidity Ratios

Liquid assets to technical reserve ratio	2009	2010
Prudential Life Assurance	45.8%	48.2%
AIA Financial Indonesia	36.7%	38.0%
Asuransi Jiwa Manulife Indonesia	60.3%	57.2%
Allianz Life Indonesia	39.5%	34.3%
Asuransi Jiwa Sinarmas	14.0%	19.8%
Avrist Assurance	37.6%	42.8%
AXA Mandiri Financial Services	10.8%	14.6%
Asuransi Jiwasraya	18.6%	16.4%
Asuransi Jiwa Sequis Life	21.6%	20.5%
Indolife Pensiantama	16.6%	15.2%
Average	34.2%	33.6%

Source: Companies' Financial Reports, ICRA Indonesia database

Capital Adequacy and Financial Flexibility

One of the key requirements of a life insurance company is to maintain its solvency at all times and meet its liabilities accordingly. This must be done by continuously ramping up provisions into reserves, which then will be used to pay for future obligations. We have seen from the previous table on RBC that all top-10 life insurance companies exhibited individual solvency ratios well above the minimum requirement of 120%.

Given their strong ROAE, we expect the capital adequacy of life insurance companies to be largely supported by income generated from normal operations. The companies are not dependent on their parents in terms of capital infusion. In case capital infusion is required, the strong parentage of these life insurance companies will help them maintain their solvency ratio well above minimum requirement. In fact,

we are also less concerned with the capitalisation level of Asuransi Jiwasraya, which registered the lowest RBC of 156% in 2010, up from 140% in 2009 --a tad higher than the minimum requirement of 120%, as it is the only state-owned life insurance company and enjoys support from the Government.

Conclusion

Using the rating methodology for life insurance companies approach and publicly available (financial) data, ICRA views the credit quality of top-10 life insurers as strong in 2010, just as it had in 2009. Liquid assets which accounted for 33.6% and 34.2% of technical reserves in 2010 and 2009 also signified sufficient liquidity to support claim paying ability of these life insurance companies. This should provide sufficient guidance on the strength of the overall industry, as the top-10 life insurance companies represent as much as 68.3% of the total assets of the industry. However, the recent strong performance may be attributed to the high proportion of unit-link products that have posted robust growth on the back of a strong equity market. Consequent to the high dependence on unit link products, life insurance companies are exposed to the volatility of the equity market. It was evident when assets of companies selling unit-link products shrank by close to 9% in 2008 from their 2007 levels.

© Copyright, 2011, ICRA Indonesia. All Rights Reserved.

All information contained herein has been obtained by ICRA Indonesia from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Indonesia in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Indonesia shall not be liable for any losses incurred by users from any use of this publication or its contents.