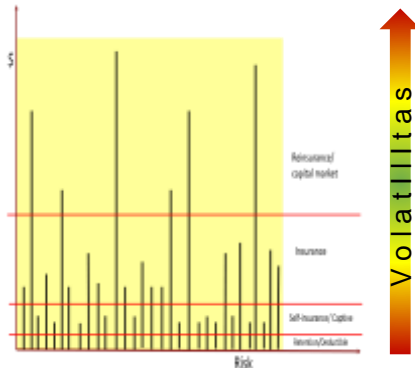


Reinsurance Role on Insurance Guarantee Scheme

Indonesia Financial Group International Conference 2023

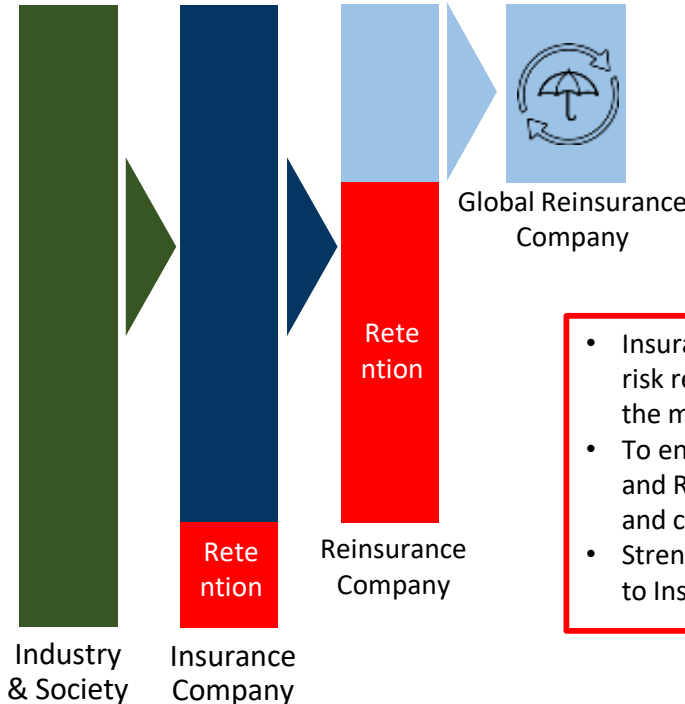
19-20 September 2023

- Reinsurance company take over most of the portfolio and high volatility portfolio from insurance company
- Therefore, reinsurance companies play an important role to stabilize insurance's portfolio by reduce the insurance volatility to acceptable level



Reinsurance as risk transfer scheme

- Reinsurance is a policy risk transfer mechanism from insurance to reinsurance
- Portfolio risk transfer could be done with **prospective** (*future liability, claim is not happened yet*), **retrospective** (*past liability, claim has been made, but no payment yet*) or **combination of both**

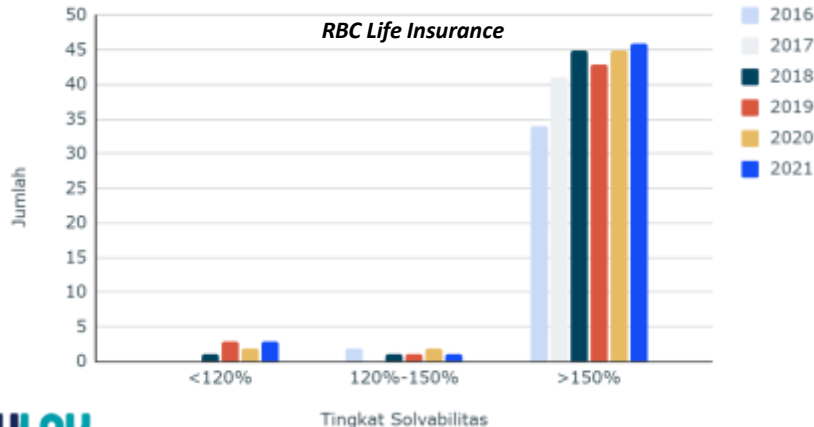
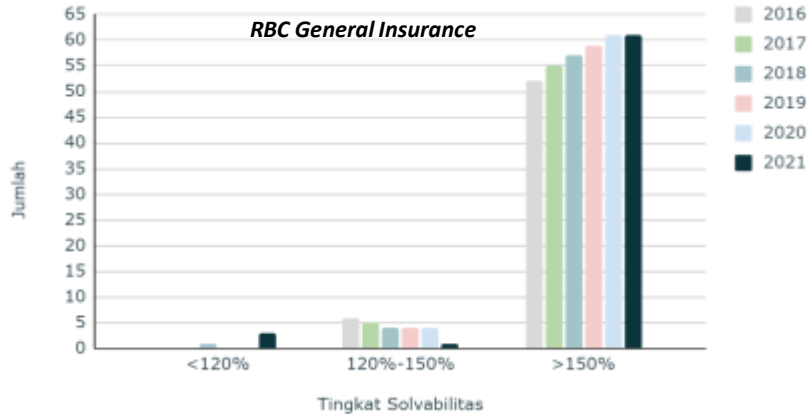


The Importance of strengthening Insurance and Reinsurance

- Insurance and Reinsurance hold the national's risk retention, so Insurance and Reinsurance have the majority of national's risk
- To ensure the national's stabilization, Insurance and Reinsurance must have an adequate capacity and capability
- Strengthening both industry is reducing pressure to Insurance Guarantee Scheme

The Risk of (Re)Insurance Company Failure

Insurance's Risk Based Capital



Insurance solvability has decreased for 5 year period (2016-2021)

34% General Insurance

38% Life Insurance

The possibility of Insurance Company going **bankrupt is increasing**, leaving **consumers unprotected**

Strategy to Mitigate Insurance Company's Default

UU Perasuransian No. 40 tahun 2014 Pasal 53

The government requires the participation of insurance companies in the Insurance Guarantee Scheme program.

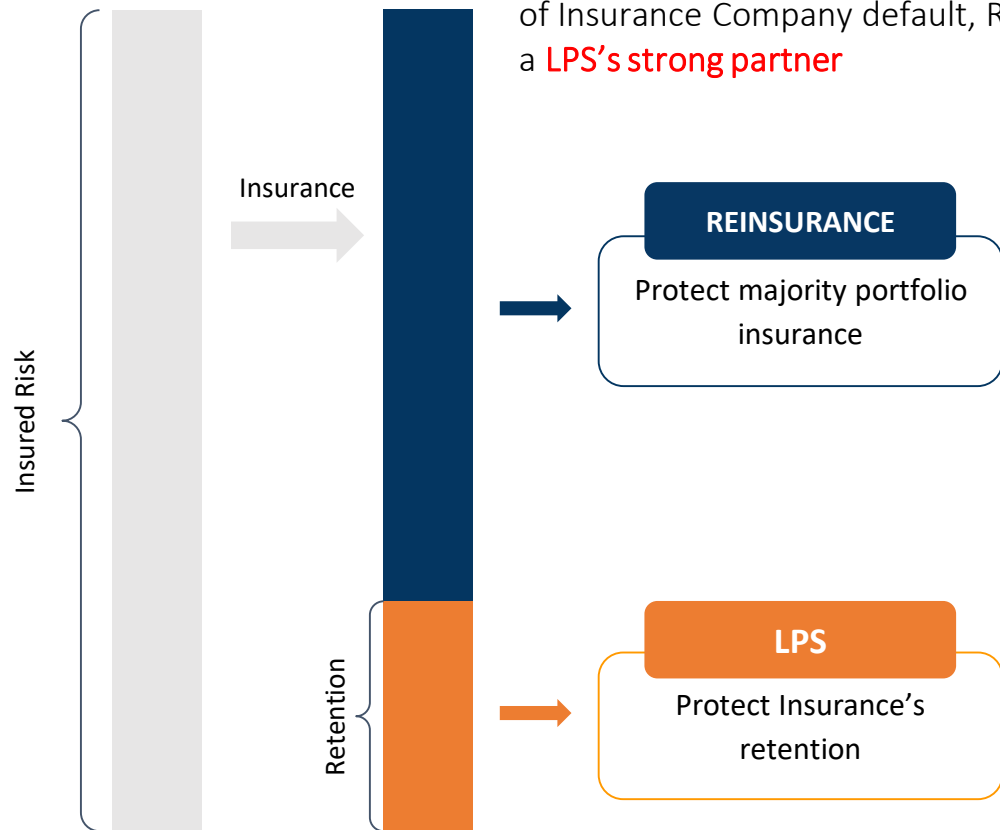
UU Pengembangan dan Penguatan Sektor Keuangan No. 4 Tahun 2023

Lembaga Penjamin Simpanan (LPS) also serves as the executor of the policy guarantee program, which must be formed 5 years after its establishment.

Increment Minimum Insurance's Capital

OJK plan to increase the minimum capital for insurance company. This strategy to strengthening the capability company take over risk.

Strong Reinsurance Company reduces the risk of Insurance Company default, Reinsurance as a **LPS's strong partner**



- Reinsurance protect the majority of portfolio from Insurance Company through treaty and facultative agreement
- LPS should partner with Reinsurance Companies in following areas:
 1. Reinsurance Company to take over active portfolio from default Insurance Company
 2. Reinsurance provide consultancy to LPS managing the risk of insurance portfolio

- LPS need to protect only retention of the portfolio, so the insurance company will avoid double reinsurance
- Insurance need to ensure that they have adequate the capacity reinsurance's program
- Lack of reinsurance's program capacity is the Insurance Company's responsibility



Singapore Deposit Insurance Corporation Limited (SDIC)

For Life Insurance and all compulsory insurance

Scope of Coverage :

- Compensate policy owners for claims, surrenders of policies, maturity of policies and ongoing annuity payments
- Fund the transfer to another insurer if the business is sold
- Provide coverage until all policies have matured or expired if the business is being run off
- Compensate policy owners if the policies are terminated

Protection Ratio :

Maximum limit start from **S\$100.000** to **S\$500.000**.



Perbadanan Insurans Deposit Malaysia (PIDM)

Life Insurance, General Insurance, Family Takaful and General Takaful must be denominated in Ringgit Malaysia

Scope of Coverage :

- Make a payment of the protected benefits to the certificate or policy owners
- Arrange for transfer of takaful certificates or insurance policies from the failed insurer member to another insurer member to secure continuity of coverage for takaful certificate or insurance policy owners

Protection Ratio :

100% for Healthcare. Others are limited to **RM 500.000**.



Financial Services Compensation Scheme (FSCS)

Only eligible for Third-party Motor, Employers' liability, whole of life assurance, Term life insurance, CI, Travel, Home, Dental, Health, Warranty, Public liability, Property.

Scope of Coverage :

- Pay the cost of replacement of the old policy with a new policy by a different insurer
- Fund and process the payment if the policy is not replaced and the customers are entitled to the remaining portion of their insurance policy premium
- Pay either **90% or 100% of the claim** value if policyholders have valid claims under an insurance policy with a failed insurer

Insurance Guarantee Scheme in other countries are limited by amount and type of risk

UU P2SK article 84

1. Program penjaminan polis dilaksanakan atas **polis asuransi yang masih aktif atau belum berakhir dan klaim polis asuransi** dari Perusahaan Asuransi dan Perusahaan Asuransi Syariah yang dicabut izin usahanya.

*The policy guarantee program applies to **insurance policies that are still active or have not yet expired and insurance claims** from Insurance Companies and Sharia Insurance Companies whose business licenses have been revoked.*

2. Pelaksanaan program penjaminan polis sebagaimana dimaksud pada ayat (1) dilakukan terhadap:
 - a. polis asuransi yang masih aktif atau belum berakhir, dengan cara **pengalihan portofolio polis** atau **pengembalian hak pemegang polis, tertanggung, atau peserta**; dan/atau
 - b. klaim polis asuransi yang disetujui oleh Perusahaan Asuransi dan Perusahaan Asuransi Syariah atau Lembaga Penjamin Simpanan, dengan cara **pembayaran klaim penjaminan**.

The implementation of the policy guarantee program as intended in paragraph (1) is carried out on:

- a. *insurance policies that are still active or have not yet expired, **by transferring the policy portfolio or returning the rights of the policy holder, insured or participant**; and/or.*
- b. *insurance claims approved by the Insurance Company and Sharia Insurance Company or the Deposit Insurance Corporation, by means of payment of the guarantee claim.*

Concern arise from the article 84 UU P2SK

- How is the mechanism of portfolio transfer from the default insurance company?
- Does LPS cover the risk before the portfolio is transferred?
- Does LPS cover transfer fund from the default insurance company to the new carrier?
- To execute point 2a, LPS must have a strong capability in managing insurance portfolio.

- 1 Insurance Guarantee Scheme is not a **silver bullet**
- 2 Insurance Guarantee Scheme must be supported by **strong and resilience Insurance and Reinsurance Industries**
- 3 Regulator needs to ensure that every insurance company **has adequate** reinsurance protection
- 4 LPS needs to partner with reinsurance in implementing UU No 4 P2SK article 84

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