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In 2016 and beyond, we expect significant investment in the Indonesian insurance sector, thanks to a combination of:

• the foreign investment environment:

- relatively generous foreign ownership cap of 80%
- some foreign investors own more than 80% of a local carrier, and may need to sell down to the 80% cap by October 2019
- some shareholders own more than one type of insurance entity and may need to comply with a single presence policy by October 2017
- regulations requiring that domestic reinsurance is used as far as possible (offshore reinsurers may need to acquire a local presence).

market fundamentals:

- low penetration, at around 2.3%¹ of Gross Domestic Product ("GDP")
- strong returns
- relatively untapped Islamic insurance opportunities (Indonesia has the largest Muslim population in the world)
- untapped micro-insurance opportunities (only 22%² of the population are thought to have access to a bank account)
- Indonesia's macro-economic fundamentals:
 - large population, 255 million³ people
 - young population, half the population is under 30 years old⁴
 - growing middle class
 - a perception that the Indonesian Government is reversing a recent anti-foreign investment rhetoric and regulations, in response to an economic slow down in 2015, which at least in part was due to a fall in Foreign Direct Investments ("FDI").
- a weakened Indonesian Rupiah ("IDR") versus the US dollar ("USD") resulting in Indonesian insurance company valuations being relatively cheaper in dollar terms.

A relatively liberal insurance foreign investment environment has led to the entry of the largest insurance companies in the world, who have taken a strategic view on Indonesia being a top priority emerging market.

The insurance industry has witnessed phases of rapid growth along with recent growth moderation and intensifying competition in both Life and P&C segments.

- The Life market accounted for 46%¹ of overall premiums in 2014 and is predominantly focused on savings products, distributed by tied agents and banks. It is relatively concentrated and foreign-owned insurers dominate.
- The Non-Life market is focused on motor and property risks, distributed fairly evenly by brokers, agents, banks and auto companies (dealerships/vehicle leasing companies). It is relatively fragmented and locally owned carriers dominate.

While there are limited large acquisition targets, there are plenty of smaller insurers potentially available for sale (please refer to pages 33 - 40).

The biggest challenge for new entrants is distribution. The low hanging fruit, in terms of target policyholders (urban-wealthy, large corporates) and distribution networks (banks), have largely been secured by incumbents. New investors will need to find alternative channels and/or develop niche products to target new segments.

Overall, we believe inbound M&A and consolidation will continue to be positive for the sector; consolidation will help solidify capital positions and new entrants will bring product and distribution innovation as they seek to tap into new markets, improving financial inclusion.

We welcome your insights and opinions on this inaugural KPMG publication on Insurance in Indonesia.



Barnaby Robson Insurance Lead, Deal Advisory



Market Snapshot



Positive growth expected to continue to 2020

13%⁵ projected CAGR growth in Life premiums to IDR 243 trillion⁵

10%⁵ projected CAGR growth in P&C premiums to IDR 81 trillion⁵

- **High consumption** and rising middle class, growing from 55 million^{6,42} in 2013 to an estimated 86 million^{6,42} in 2020
- Demographic bonus the working population is projected to reach 200 million⁷ by 2035
- **Low insurance penetration**, estimated at 1.1% for Life and 0.5% for P&C as at 2014¹





- **Opaque and uncertain** regulatory, legal and political environment presenting foreign investors with operational risks.
- high vulnerability to **natural disasters**. Recent years have been relatively benign
- A slowdown in China and weakened confidence in the Indonesia Rupiah, could depress economic growth

In January 2014, the Indonesian government introduced **mandatory universal healthcare coverage** (known locally as "JKN"). The JKN aimed to enroll 122 million by 2015 and 250 million people by 2019⁸. The scheme is part funded by mandatory corporate contributions. As such privately sponsored corporate healthcare coverage is likely to lose out. However, personal private plans for those who can afford private coverage are likely to see continued demand due to service differential







INSURANCE REGULATIONS

Recent regulations impacting the market include:

- Re-insurance proposals stipulate a ceding of non-life premiums to domestic reinsurers 'as far as possible'. This may dampen premium growth due to low capacity at domestic re-insurers. Offshore reinsurers will need to consider acquiring a local carrier
- Single presence policy: an investor can only be the 'controlling shareholder' of one of each of the three categories of insurance companies. Several groups will need sell or consolidate entities to comply
- Maximum commissions: Starting from 2014, motor and property commissions could not exceed 25% and 15% of premiums respectively
- Compulsory insurance tariffs: statutory tariffs are in place for motor and property
- Capital requirements increased to IDR 100bn for Life and Non-Life insurers and IDR 200bn for reinsurers from 31 December 2014. Smaller insurers unable to meet these requirements are being pressured to sell their businesses

 80% foreign ownership cap. Foreign entities owning more than 80% may be forced to part sell stakes





- Life: Prudential Indonesia has a c. 21%⁴¹ Life market share, a significant lead over nearest competitors, Allianz Indonesia Life (7%)⁴¹ and AXA-Mandiri (6%)⁴¹, by virtue of a market leading agency force
- Non-Life: Jasindo (a SOE), Asuransi Astra and Asuransi Sinar Mas (both owned by large diversified Indonesian conglomerates) are the leading players, individually with c. 7 – 9% market share
- Brokering: Marsh Indonesia leads the brokering market with c. 11%¹ share of commissions, followed by KBRU (local broker) (9%)¹, MIR (8%) ¹, AON (7%)¹ and JLT (5%)¹



Indonesia

More than half the country lives on the island of Java with in excess of 30 million people residing in and around the capital, Jakarta.

SUMATRA

Medan, in North Sumatra, is the largest city outside Java (2.1m). Sumatra's economy is focused on energy and natural resources (oil, coal, gold, coffee and other plantation crops)

With more than fifty percent of the population under the age of 30⁴, Indonesia boasts a large pool of labor and an ambitious generation of new consumers.

KALIMANTAN

Five resource rich provinces with an economy based on forestry, oil, gas and coal production

Strong FDI inflows in recent years have been fuelled by this consumer market as well as by the country's resources sector.

The economy is also benefiting from a more stable financial sector. The domestic banking industry is consolidating and is in many respects better governed than prior to the Asian Financial Crisis in 1997/1998.

SULAWESI

Economy dominated by export crops and fishing

MALUKU & PAPUA

The largest province in Indonesia and a center for commodity mining and forestry industries

BANTEN, JAKARTA & WEST JAVA

Jakarta is also a province in its own right and generates the largest share of GDP of any one province(16.5% in Q2 2013). Jakarta is bordered by multiple large cities / suburbs with high population density which are centers for manufacturing

EAST & CENTRAL JAVA

Surabaya, in East Java, is the second largest city in Indonesia and is seen as a gateway to eastern Indonesia. Central Java is the third most populated province in Indonesia, after East and West Java and considered to be the cultural heart of the nation

BÁLI & NUSATENGGARA

The center of Indonesia's tourism industry with a large expat community and international airport in Bali

Population by region, 2014^(a)

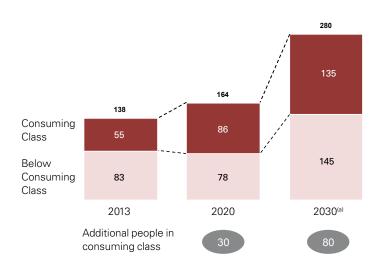
SUMATRA	JAVA	KALIMANTAN	BALI & NUSA TENGGARA	SULAWESI	MALUKU & PAPUA
(10 provinces)	(6 provinces)	(5 provinces)	(3 provinces)	(6 provinces)	(4 provinces)
54.4 million	143.6 million	15 million	13.9 million	18.5 million	6.7 million

Note: (a) 2014 population is BPS' projection based on 2010 census. Census is conducted every 10 years

(b) IDR was converted to USD at a rate of USD 1: IDR 11,869

Source: Central bureau of statistics ("BPS"), www.bps.go.id, 2014

An estimated 80 million additional Indonesians could join the consuming class by 2030



(a) 5-6% GDP scenario Note: (b) number in millions

Source: (1) McKinsey Consumer Insights Indonesia 2012 and 2013

(2) BPS

(3) McKinsey Global Institute analysis

Indonesia has the largest economy in ASEAN

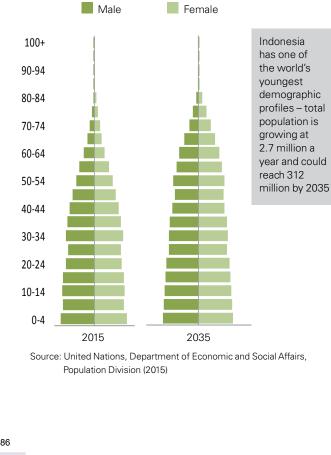
2014 Nominal GDP (USD billion)



Source: IMF: World economic outlook database, October 2015

II The Republic of Indonesia is the world's fourth most populous country spanning an economically and ethnically diverse archipelago of over 17,000 islands.

Indonesia's working age population could reach more than 200m by 20357



17

Cambodia

12

Lao PDR

17

*IThe economy

2014 and 2015 were eventful years for Indonesia's economic, investment and political landscapes.

In 2014 we elected a new president Joko Widodo ("Jokowi"). Jokowi's win was widely seen as reflecting popular voter support for "new" politics, with very high expectations of an acceleration of progressive reforms from Indonesians and international spectators.

In practice, Jokowi has experienced a number of domestic and foreign policy troubles. In 2015 the economy slipped to its lowest levels since 2009, in a year characterized by a continuation of falling global commodity prices, deceleration in China, a strengthening USD and a depreciating IDR. This resulted in a decline in domestic consumption, the main driver of Indonesia's economic growth.

A new Investment Negative List with a general tightening of foreign investment restrictions was released ahead of the 2014 Parliamentary and Presidential elections.

The tightening of foreign investment restrictions in the revised Negative List seemed to many to be at odds with the importance of foreign investment. In the second half of 2015, as the economy struggled, the government began reversing certain foreign investment restrictions and introducing other economic stimulus. This trend continues into 2016.

What is the outlook for Indonesia in 2016 and beyond? While 2015 was a challenging year, it is reasonable to take a more positive longer term outlook for a country located in the world's fastest growing region; underpinned by the power of positive sentiment, a demographic bonus with high consumption fundamentals - but notwithstanding the likelihood of economic and other policy "hiccups" along the way.

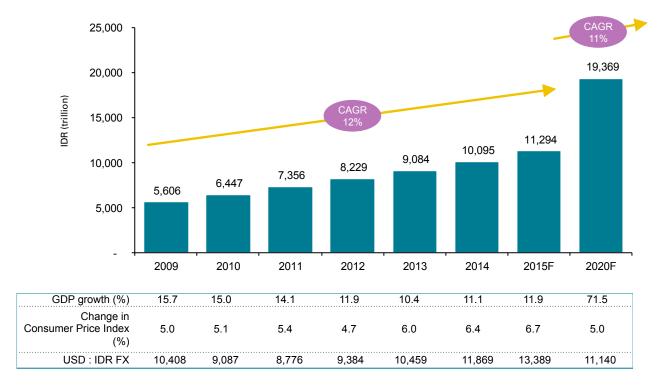
Indonesia economic growth



Source: BPS

GDP expected to grow strongly, accompanied by favorable socio-economic development

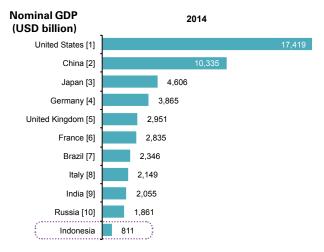
GDP development



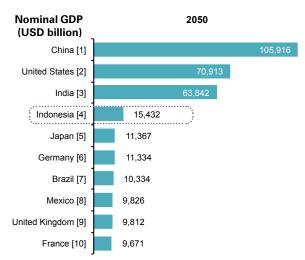
Source:

- (1) Business Monitor International
- (2) The Economist Intelligence Unit
- (3) BI middle rate
- (3) Trading Economics, www.tradingeconomics.com/indonesia/currency/forecast, 2016

Indonesia's GDP is projected to be the fourth largest in the world by 2050



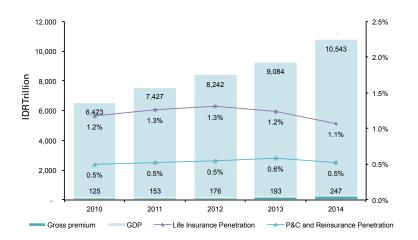
Source: (1) Business Monitor International (2) The Economist Intelligence Unit

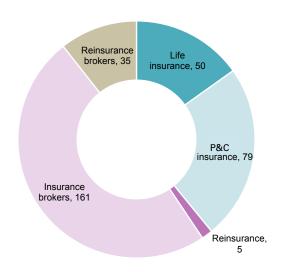


Indonesia insurance market overview

Insurance penetration(a)

Number of players at 30 June 2015





Note: (a) penetration is ratio of gross premium to GDP

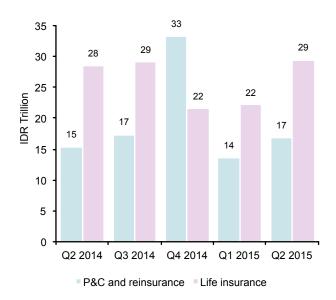
Source: OJK

Source: OJK

Claims: GWP at 30 June 2015 (%)

Life insurance 62.5% Reinsurance and P&C insurance

Quarterly Gross Written Premiums by segment



Source: OJK Source: OJK

✓ | Insurance regulations

Effective 1 January 2013, the Indonesia Financial Services Authority (Otoritas Jasa Keuangan or "OJK") assumed the role of insurance industry regulator.

Since the OJK's formation, the insurance industry has experienced significant regulatory change which is on-going. The 'New Insurance Law' (UU No. 40/2014) came into effect on 23 October 2014, replacing the previous Insurance law (UU No. 2/1992).

Foreign ownership limitations

Under both the old law and the New Insurance Law, Indonesian shareholders must hold at least 20% of the issued capital of any Joint Venture ("JV") Insurance Business Company ("IBC"), while foreign shareholders can hold up to 80%.

In addition, a foreign investor must be able to demonstrate that it is engaged in the insurance business.

It must also have a minimum 'A' rating from an internationally acknowledged ratings agency and capital of at least five times its investment in its Indonesian entity.

Shareholding thresholds and limitations

Under the Old Insurance Law, the Indonesian shareholders of an IBC could be Indonesian citizens and/or Indonesian legal entities fully-owned by Indonesian citizens and/or Indonesian legal entities. The New Insurance Law has removed the italicized words meaning that an Indonesian corporate IBC shareholder must now ultimately be fully-owned by Indonesian citizens in order to qualify as Indonesian. This now makes unlawful the use of the dual-layer PMA Company structure which foreign entities had previously utilized to ultimately own 100% of an IBC.

Insurance companies have five years from October 2014 in which to either:

- ensure that the shares that must be held by Indonesian shareholders are all directly or indirectly held by Indonesian citizens; or
- conduct an IPO, we presume with a minimum free float of 20%.

Single presence policy

The New Insurance Law also introduced a 'single presence' policy to the insurance sector in Indonesia. This law provides that each party can only be the 'controlling shareholder' of one of each of the following categories of insurance companies:

- Life insurance company
- General insurance company
- Re-insurance company
- Syariah life insurance company
- Syariah general insurance company
- Syariah re-insurance company

The New Insurance Law does not provide further detail on how this new policy will be applied in practice in the event that a party is already, or becomes, the controlling shareholder of more than one entity in each of the relevant categories of insurance companies set out above, apart from specifying that the requirement must be complied with within three years of the New Insurance Law being promulgated.

Relevant OJK regulations will need to be rolled out with further details in relation to what is considered a 'controlling shareholder' for the purpose of the New Insurance Law, and how any consolidation or merger requirement will be implemented (including whether pre-existing holdings, prior to the New Insurance Law taking effect, will be grandfathered).

The single presence policy had to be complied with by October 2017. Groups with majority holdings in more than one entity in a category of insurance, will need to consolidate or sell.

Other major changes introduced in the 'New Insurance Law'

Other impacts include:

- Insurance and reinsurance companies must separate into a stand alone entity all sharia divisions within 10 years from the enactment of the New Insurance Law, or when the sharia component exceeds 50% of the total insurance portfolio, whichever is the earlier
- The insurance for any asset or risk located in Indonesia must be placed with a local insurer, irrespective of ownership of that asset or responsibility for a risk, unless no local insurer is able or willing to underwrite the risk. This removes the previous concession that allowed foreign entities to purchase insurance from offshore insurers
- A new policy assurance program replaces the existing mandatory guarantee fund, with the aim of providing protection to policyholders in case their insurer is liquidated or has its license revoked
- Insurance and reinsurance companies must optimize domestic capacity. In other words, domestic insurers and reinsurers must provide local reinsurance coverage "as far as possible". The intention is to encourage all insurers and reinsurers (both conventional and sharia) to assist with the expansion of the local reinsurance market.

Minimum capital requirements

Current regulations require an insurance company's minimum capitalization to be IDR100 billion. Indonesian Ministry of Finance regulation No.53/2012 further requires an insurance company to target its RBC solvency margin ratio at 120% and maintain its solvency margin ratio at a minimum 100%. The regulator will require an insurance company to alter its business plan if it fails to exceed the 120% ratio.

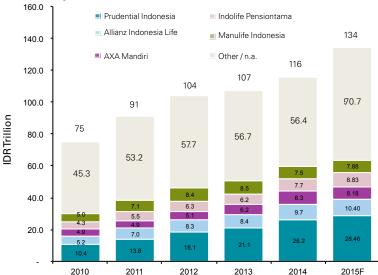
Other matters

The OJK also requires insurance company Directors and Commissioners to pass the 'fit and proper' test. This test includes requirements for an insurance company to have at least three Directors and three Commissioners including at least one independent commissioner.



LIFE INSURANCE SECTOR Life insurance is the by far the biggest segments.





Note: (a) 2015F is annualized 9 months ending 30 September 2015 data. (b) 2015 data excludes Sinarmas MSIG Source: (a) OJK (b) Infobank June 2015 (c) AAJI press release Q3 2015 (d) AAJI unaudited annual report

Overview

As with most Asian life insurance markets, ILPs are the dominant product class. For Prudential Indonesia, the largest player, ILPs generated 99% ¹⁰ of total premium income in 2014. Typically, protection products are sold as riders to ILPs.

In Indonesia, the strength of the ILP proposition has been underpinned by the stock market performance. The Jakarta Stock Exchange Composite Index ("JKSE") grew at CAGR 22% between January 2010 and May 2013¹¹, and premium income grew at CAGR 17.7% from 2010¹² to 2012¹³.

Indonesia's life sector saw strong growth in premiums from 2006 to 2012.

Life insurance is the by far the biggest segment, with 46%¹ of total insurance premium income in 2014. International insurers dominate and are mainly focused on Investment Linked Products ("ILPs")

From June 2013 through to December 2013, the JKSE was in negative territory and consequently premium growth was relatively flat in 2013, compared to 2012.

This trend continued into 2014, where GWP rose by 'only' 8.1% to IDR 116 trillion, and new business premium growth was negative.

2015 however, was a far more resilient year. The JKSE peaked in March 2015¹⁴ and the Asosiasi Asuransi Jiwa Indonesia ("AAJI") data for the first nine months of 2015 ("9M15"), showed premium income increased 16%, to IDR 100.8 trillion¹⁵. New business and renewals both grew at around the same level.

The uptick in 2015 performance may be attributable to:

- growth in the agency force. The number of licensed agents increased from 361,000 to 447,000, between September 2014 and September 2015 according to AAJI. The agency channel remained the largest contributor to GWP in 9M15 with a 45.3% share¹⁵
- increased focus on maximizing the productivity of bancassurance channels. Bancassurance delivered 36.6% of premium income in 9M15¹⁵
- expansion of traditional protection products (which are not as cyclical as ILPs).

♀ | Life insurance – top 10 players



Note: (a) Claims & OPEX Ratio is the sum of net incurred claims and operating expenses over GWP. (b) Sinarmas MSIG shows 2014 data, as 2015 results were not included in AAJI reporting.

Sources: (1) AAJI unaudited annual report 2015 (2) Company' Financial Statements and websites (3) KPMG Analysis

Overview

The Indonesian life segment is relatively concentrated among 10 large companies, which accounted for 75% of GWP in 2014.

Overall, the leading multi-nationals, which have a commitment to the region, have shown a competitive advantage relative to the privately owned domestic players.

We profile below the largest 6 in the following pages. Aside from Sinarmas MSIG, all the top 10 life insurers achieved strong growth during the period 2010 to 2014. While Prudential Indonesia has the largest market share and greatest profitability - 22.6% of total market premiums in 2014, up from 19.7% in 2013 – AXA Mandiri is the fastest growing.

Prudential Indonesia

PT Prudential Life Assurance ("Prudential Indonesia")'s position as the leader in the country's life insurance industry is founded on:

- early investment and focus on the market (established in 1995) and a well established brand name
- an agency force of upwards of 237,000¹⁰ around half the number of licensed agents, and over 380 independent marketing offices¹⁰ across Indonesia
- an asset management arm, that has generated market leading returns. Prudential Indonesia had AUM of over 56.4 trillion¹⁰ as at 31 December 2014.

Prudential Indonesia has a high focus on unit linked sales – 99% ¹⁰ of total premium income in 2014. It was also the largest Sharia Life insurer in 2014, with total ujrah received of IDR 1.71 trillion¹ – approximately half the market.

Prudential Indonesia had 2.4 million¹⁰ policyholders in 2014.

AXA Mandiri

While Prudential has followed an agency led model, PT AXA Mandiri Financial Services ("AXA Mandiri") has focused on bancassurance. A JV was formed with Bank Mandiri in 2003. Bank Mandiri was the largest bank in Indonesia by assets at 31 December 2014. The current shareholding of the joint

venture is $51\%^{17}$ owned by Bank Mandiri, $49\%^{17}$ owned by the AXA group.

AXA Mandiri products are mainly marketed through financial advisors placed in the branches of Bank Mandiri, though AXA Mandiri also have a strong telemarketing presence. AXA Mandiri estimated in 2014 that it had 23% ¹⁷ market share of Weighted New Business Premiums ("WNBP") from bancassurance and a 40.7% WNBP market share from telemarketing.

Similar to Prudential Indonesia, the majority of sales are Individual ILPs (Individual products and ILPs were $96\%^{17}$ and $80\%^{17}$ of premium income in 2014, respectively), with a target customer base at the high end.

AXA Mandiri had 3.0 million¹⁷ policyholders at 31 December 2014.

The AXA Group also owns two other life insurance companies in Indonesia, which may need to be sold or consolidated with AXA Mandiri by October 2017 in line with the single presence policy introduced in the revised 2014 insurance law.

Allianz Indonesia Life

Allianz entered Indonesia's life market in 1996, and has adopted a multi-channel multi-proposition approach, with:

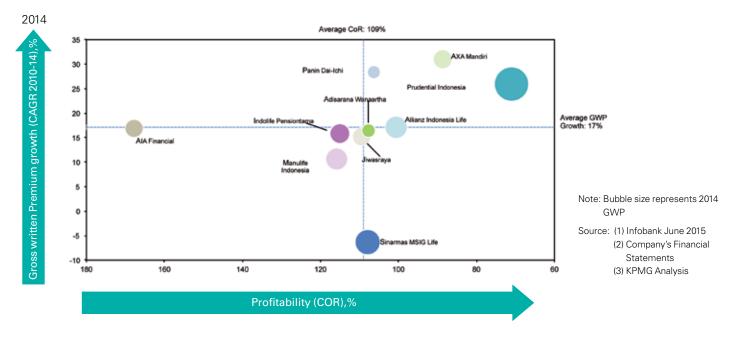
- multi-bank partnerships (6 banks)¹⁸ with in-branch advisors
- an agency force (over 14,000¹⁸ in 2014)
- early focus on digital distribution
- products targeting customer segments from HNWI to micro.

PT Asuransi Allianz Life Indonesia ("Allianz Indonesia Life") had over 6 million¹⁸ policyholders in Indonesia in 2014 – significantly more than the nearest competitors. This reflects an early focus on microcredit-insurance through bank partners, such as Bank Tabungan Pensiunan Nasional ("BTPN"), a private local bank with a focus on microloans to small family owned businesses.

Its premiums were roughly evenly split between protection and savings classes in 2014.

Top Life Insurance Players Market Performance

AXA Mandiri and Prudential Indonesia have both achieved significantly above average growth and profitability



AIA Financial

AIG originally established presence in Indonesia with the acquisition of Lippo Life in 2004. Following the AIG bail out during the 2009 global financial crisis, the business was renamed PT AIA Financial ("AIA Financial"). Due to the 2009 issues at AIG, sales suffered and AIA Financial fell behind Asia regional competitors in Indonesia, such has Prudential and AXA.

Since the AIA Group IPO in 2010, and separation from AIG, there has been renewed focus on the Indonesia market. Expansion has focused on development of bancassurance partnerships, and currently AIA Financial has ties with nine banks. The largest bank partner in Indonesia is BCA (the largest private bank). However, BCA separately acquired its own life insurance license in 2014, which may impact this channel.

AIA Financial had 1.2 million¹⁹ customers in Indonesia in 2015. Its product focus is mainly ILPs and AIA was the second largest Sharia Life insurer in 2014.

In 2015, according to AAJI data, AIA Financial became the second largest life insurer in Indonesia wih GWP of IDR 11.2 trillion (of which 67% was generated through bancassurance); leap frogging Allianz Indonesia Life, AXA Mandiri and Indolife Pensiontama.

Sinarmas MSIG Life

Sinarmas MSIG Life is a joint venture between Sinarmas (one of the largest conglomerates in Indonesia) and Mitsui Sumitomo Insurance Group ("MSIG"), of Japan. MSIG acquired 50% of Sinarmas Life in 2011 for IDR 7 trillion²⁰.

Sinarmas Life had grown by selling mainly endowment and investment linked products to high net worth customers, primarily through bancassurance, and was the second largest life insurer by premiums in 2010. Sinarmas MSIG Life had slipped to the fifth largest life insurer by 2014, with retraction in GWP, while the overal market has grown rapidly.

Strategies to improve Sinarmas MSIG Life's performance include a refocus of enhancing the existing bancassurance relationships and development of new bancassurance partnerships, as well as efforts to increase active agent numbers and digital distribution.

Customer numbers increased from c. 0.6 million^{21} in 2013 to 1.0 million^{21} in 2014.

Manulife Indonesia

The Manulife Group established a presence in Indonesia in 1985, and has more than 2.3 million²² customers, with 10,000 employees²² and agents across 25 cities²².

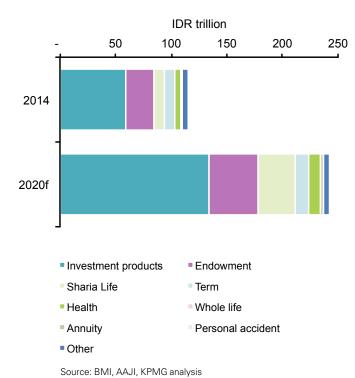
PT Asuransi Jiwa Manulife Indonesia ("Manulife Indonesia") has bancassurance agreements with 14 banks²². The principal partner is Bank Danamon. Bank Danamon is one of the largest privately held banks in Indonesia, with over 3,200 branches²³. Manulife Indonesia won the Bank Danamon bancassurance agreement from AIA in 2013.

Manulife Indonesia's principal product focus is ILPs which generated over 51%²⁴ of premium income in 2014.

KPMG Indonesia perspectives: products

We project the life market to grow at a CAGR of 13% to 2020. Conventional ILPs with riders will continue to dominate, with Sharia ILPs growing faster than the market.

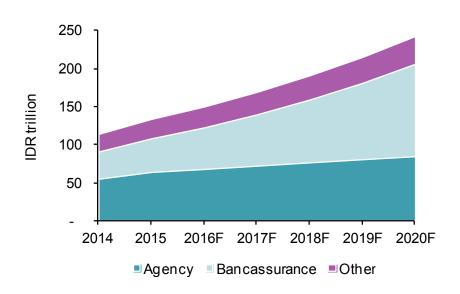
Projected GWP by product



- ILPs with riders will remain the dominant product class. Their simplicity makes them easy to sell via bank and alternative channels. There is a risk that further falls in equity markets/investment returns will adversely impact ILPs, however we believe Indonesian customers will continue to prefer savings products with an element of protection, to more protection focussed offerings.
- Endowment products will grow slower than the overall market (9% projected CAGR from 2014 to 2020), but will continue to benefit from a high demand for savings products.
- Sharia business will show the fastest growth, at 26% CAGR. Indonesia has the largest Muslim population in the world, but very low Sharia penetration. Growth has accelerated in the past few years, and we expect penetration to reach 14% by 2020 still somewhat behind the current 15% penetration of Sharia Life in premiums in Malaysia in 2014²⁵.
- Protection products (term and whole life): will underperform the market growth, as customers will continue to prefer savings orientated products. Protection business will mainly be sold as riders to linked products.
- Health and pension business will suffer from the 2014 local universal health reforms, with growth particularly inhibited in corporate, mass affluent and lower income markets.

KPMG Indonesia perspectives: distribution

Projected GWP by distribution channel



Bancassurance will become as important as agency distribution, as banking partners of insurance companies leverage their client base

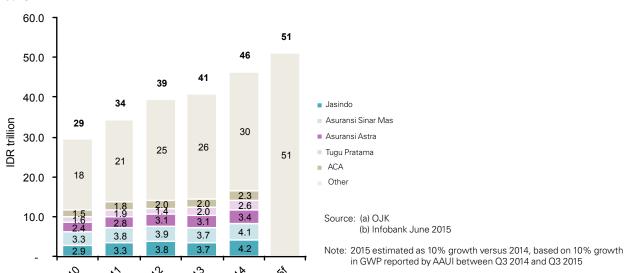
Source: BMI, AAJI, KPMG analysis

- Tied and independent agents who are technologically enabled (e.g. electronic signatures on ipads, etc) will remain prevalent, due to the wide geographic spread of Indonesian islands, which makes it costly to expand insurance and bank branches.
- Bancassurance is anticipated to grow at above market 23% CAGR. Insurance companies have spent large sums obtaining bank ties and are therefore highly focussed on increasing the productivity of this channel. Banks, such as BRI, the largest bank in Indonesia by assets, are largely
- untapped but have large customer bases and strong reputations with their customers. BRI is reputed to be the largest micro-finance provider in the world and the bank's move into insurance is likely to spur growth in micro-insurance.
- Digital and direct channels will expand but not gain significant share, due to a lack of education/knowledge amongst consumers, with the sense that Indonesia is still a market where insurance is sold, rather than bought.



P&C Insurance Sector

GWP by insurer



Overview

The P&C sector is highly fragmented with over 80 players²⁶. The top 10 companies accounted for 54.2%⁹ of the non-life gross written premium in 2014.

Unlike the life insurance sector, the large non-life insurance companies (by gross premium income) are domestically owned.

Private local players tend to focus their efforts on maintaining a strong position in property and motor personal lines, while state-owned insurers focus on commercial lines in support of SOE businesses (such as Pertamina, the state-owned oil and natural gas company).

The P&C market is highly fragmented. Most of the larger players are domestically owned. No single player dominates. A major constraint on P&C penetration is few statutory requirements for insurance coverage, such as for vehicles and buildings.

A number of foreign players are looking to enter the market – IAG acquired Parolamas in 2015 – and we expect the competitive landscape to develop considerably over the next five years, as sophisticated international players enter and with the regulator actively seeking consolidation/better capitalized businesses.

One of the drivers of the low penetration in the P&C market is a lack of Compulsory Third Party ("CPT") motor insurance. That said, most cars are bought on finance, and many lenders typically make CPT (and comprehensive cover) compulsory.

The P&C segment overall grew at CAGR of 12.1% over the period 2010¹² to 2014⁹. The key drivers were a rise in passenger car sales, property prices and other improving economic indicators.

Asosiasi Asuransi Umum Indonesia ("AAUI"), the non-life insurance association, estimated a 10%²⁷ growth in gross premium for the third quarter of 2015 versus the third quarter of 2014, mainly driven by a 16.4%²⁷ increase in property business.

Motor business only increased 5%²⁷ during the same period, following a 10%²⁸ slow down in vehicle sales in 2015.

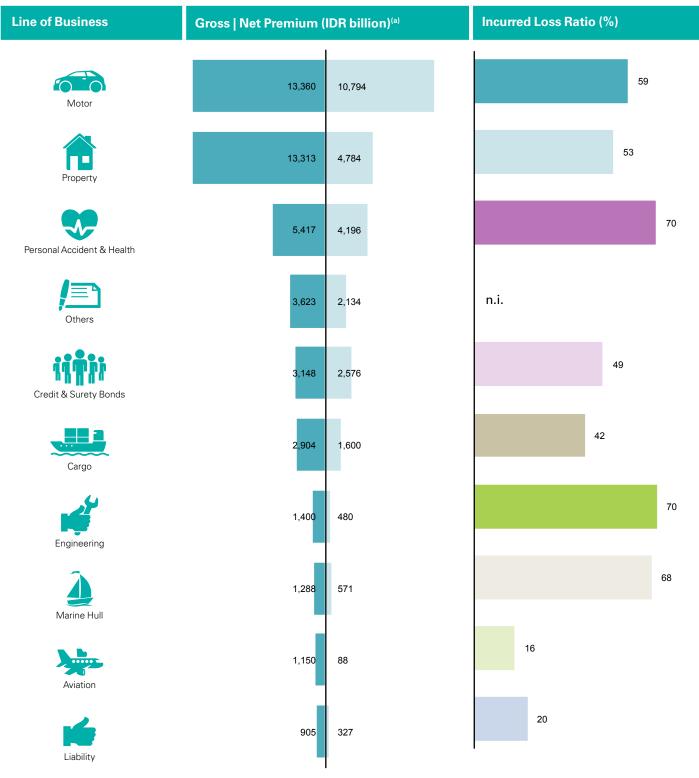
Independent agents, including car dealers and finance companies acting as agents, are the dominant distribution channel for personal lines insurance. Bancassurance has typically focussed on life business but is gaining prominence for motor and property lines.

Brokers dominate the corporate market distribution and are growing in importance in the SME segment. There are relatively few international brokers in Indonesia, which may be due to the relatively high capital requirements faced by JV brokers, however, the few global brokers in the market have a significant share.

Direct sales are not as significant as in more developed markets. However, branch networks are important in servicing motor lines.

Premiums by line of business

Motor and property account for the bulk of non-life premiums. Loss ratios appear attractive, however, due to the geographical spread of the country and relatively undeveloped distribution environment, distribution costs can be high.



Note: (a) IDR converted to USD at a rate of 11,869

Source: Statistik perasuransian, www.ojk.go.id, 2014

Tariffs and maximum commissions

In December 2013, the OJK issued premium and acquisition fee rate regulations for motor and property insurance, effective the first guarter of 2014.

Statutory tariffs regulate maximum and minimum premiums. The former due to concerns regarding pricing of high flood risks properties and vehicles (following the 2013 Jakarta floods), the latter due to concerns that excessive competition, particularly in motor, was leading insurers to under-price risks. However, pricing flexibility still exists for firms which demonstrate 5 years of under-writing profitability.

Acquisition cost are now restricted to 25% and 15% of total premiums for motor and property insurance, respectively.

Lines of business

Motor

Indonesia is the only market in ASEAN without CPT. Given the ASEAN Economic Community's ("AEC") commitment to harmonization, this may change in the medium term.

Despite a lack of CPT, vehicle insurance has grown rapidly as most vehicle sales use financing, and financers typically require insurance coverage.

Further, the government has also created a system to cover bodily injury risks from uninsured motorists, which is funded by a mandatory surcharge on vehicle registrations.

In 2014, net motor insurance premiums fell 5.43%¹, reaching IDR 10.8 trillion¹. We believe this was due to a reduction in retention, however, we note car sales fell in 2014 and 2015 compared to previous years²⁹. Reported financial year loss ratios were 59%¹.

Distribution is dominated by finance companies and independent agents (leasing and auto traders). We are also seeing more leasing, financing and auto trading companies set up their own insurance arms – perhaps as a consequence of the introduction of maximum commissions. PT Mitra Pelindung Mustika ("MPM"), one of the largest leasing companies, established a P&C assurance arm in 2012.

Motorcycle coverage is increasing, but at a slower rate than for four-wheeled vehicles, despite losses through motorcycle thefts and collisions being widespread. This may reflect a lower cost and therefore more purchases are made without financing.

Property

Overall, the property insurance market is heavily weighted towards commercial segments and coverage of fire risks. Limited personal lines cover is purchased outside of central urban areas.

As such, personal lines residential cover offers better potential for growth and profits than the more competitive commercial lines fire risks.

Personal accident and health

The personal accident and health market is currently underdeveloped with relatively low competition.

However, the government introduced a universal health plan in 2014, known as Jaminan Kesehatan Nasional ("JKN"), which aims to cover all Indonesian's by 2019. We believe this will have a significant dampening impact on health insurance – particularly corporate cover for mass affluent and lower segments of the health market.

Travel insurance is underpenetrated, however, online travel agents are rapidly helping to expand this segment – e.g. "Traveloka" and "Tiket.com", the largest online travel agents, have distribution agreements with PT ACE Jaya Proteksi and PT Asuransi Allianz Utama Indonesia, respectively, with flight insurance starting at IDR 12,500³⁰.

Marine, cargo and aviation

Coverage within the transportation sector is expanding, although aviation insurance represented only 0.3%¹ of total gross premiums in 2014.

Aviation industry changes may boost the importance of aviation coverage. In 2012 airlines were required to compensate passengers for takeoff delays of longer than four hours. Further, given the growth in air travel and high accident frequency, air casualty and liability coverage would be expected to grow. On the flipside, large anticipated payouts in relation to the Air Asia accident in 2014 (Jasindo and Asuransi Sinar Mas were the local insurers) and other recent accidents, may deter competition.

Pl P&C Insurance - Top 10 Players



Note: (a) CoR is the sum of net incurred claims, earned commisions and operating expenses over net earned premiums (b) RoE is profit over average equity (c) Data as at 2014

Source: (a) Infobank June 2015 (b) Company's Financial Statements (c) Company websites Overall, the competitive landscape can be viewed as three distinct segments:

- 1. State-owned insurers, focused on optimizing synergies with state-owned companies
- Conglomerate linked insurers, concentrated largely on property and motor, often with an increasing focus on retail lines and providing insurance to conglomerate employees
- 3. Foreign JVs, focused on a select number of lines of businesses, mainly looking to leverage international relationships.

State-owned insurers

Jasindo

PT Asuransi Jasa Indonesia ("Jasindo") was the largest insurer by gross premium income in 2014. Together with Sinar Mas, Jasindo has the broadest reach across the P&C market – being a top 10 player across most lines of business.

In 2014 Jasindo was the largest player in the marine & energy segment, and second largest in aviation¹ – leveraging off state-owned companies such as Garuda Indonesia (the national airline).

Tugu Pratama

PTTugu Pratama Indonesia ("Tugu Pratama") is owned by the state-owned mining and oil and gas company, Pertamina, and consequently is a large player in commercial property, marine and energy, engineering. Tugu Pratama was also the largest aviation insurer in 2014.

Askrindo

PT Asuransi Kredit Indonesia ("Askrindo") was established as part of efforts to cultivate the Micro, Small and Medium Enterprises ("MSME"). Consequently, the sole focus of Askrindo is credit insurance and surity bonds – i.e. helping MSME gain access to credit resources, and it's the largest player in both these segments¹.

Askrindo has grown rapidly due to a number of government led initiatives to accelerate micro lending (please refer to our publication "New Indonesian 'Branchless Banking' and Microfinance Laws - a catalyst for microfinance growth?").

Askrida

PT Asuransi Bangun Askrida ("Askrida") traditionally focused on insurance of government property and vehicles, but has increasingly been used to provide credit insurance, alongside PT Asuransi Kredit Indonesia ("Askrindo"). Askrida was the second largest credit insurer in 2014¹.

Conglomerate linked insurers

Asuransi Sinar Mas

PT Asuransi Sinar Mas ("Asuransi Sinar Mas") has significant reach across most lines of business, leveraging off the Sinar Mas Group network which includes an estimated 200,000 employees³¹ operating in food, energy, real estate, financial services (including asset managers, banks, insurers, reinsurance brokers), telecoms and infrastructure. Sinar Mas land is one the largest property developers in Indonesia.

In 2014 Asuransi Sinar Mas was the largest property, motor, personal accident and health, and liability insurer in Indonesia¹.



Asuransi Astra

Astra International is the largest diversified conglomerate in Indonesia, with employees in excess of 200,000³² and over 180 subsidiaries³². The group's strength is the auto business – Astra International is the largest automotive distributor and has exclusive rights to distribution rights to Toyota (the country's biggest selling brand), Peugeot, Daihatsu, BMW, Isuzu and Nissan Diesel. PT Asuransi Astra Buana ("Asuransi Astra") leverages off this network and was the largest motor insurer in 2014, with GWP of IDR 2.5 trillion – double the size of the next largest competitor.

ACA

PT Asuransi Central Asia ("ACA") is owned by the Salim Group. The Salim Group is Indonesia's second largest conglomerate, and is dominant in food manufacturing and distribution

through its 'Indofood' business, and 'Indomaret' chain of convenience stores - the largest chain in Indonesia with over 11,000 branches³³. In addition, the Salim Group owns an auto manufacturing business – 'Indomobil'.

ACA leverages off the motor and property presence of the Salim Group and was a top 5 player in both segments in 2014^{1,} and also has significant presence in marine & energy insurance.

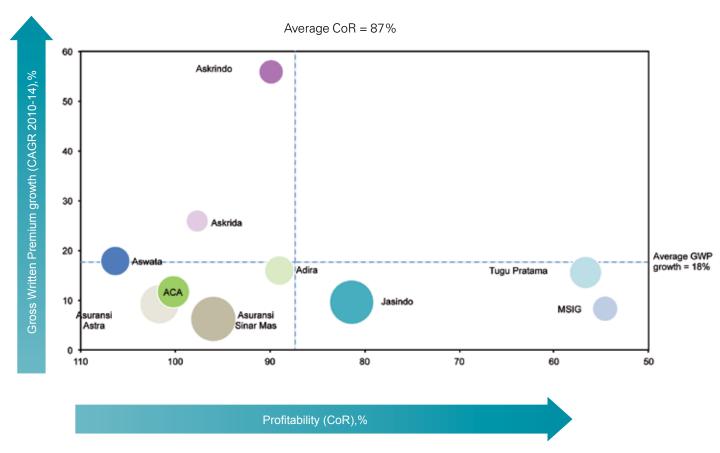
Adira

PT Asuransi Adira Dinamika ("Adira") is owned by Bank Danamon – one of the largest private banks in Indonesia. Adira has leveraged the Bank Danamon bancassurance channel to grow rapidly and was the second largest motor and third largest personal accident health insurer in 2014¹.

Top P&C Insurance Players Market Performance

No players have achieved both above average growth and profitability





Source: (1) Infobank June 2015

Note: Bubble size represents 2014 GWP

(2) Company's Financial Statements(3) KPMG Analysis

Aswata

PT Asuransi Wahana Tata ("Aswata") is owned by the Santini Group. The Santini Group has interests in automotive parts, property development, natural resources, infrastructure and other services. Aswata is focused mainly on motor and property risks and is broadly growing in line with the market, deploying a multi-distribution strategy.

Foreign JVs

MSIG

PT Asuransi MSIG Indonesia ("MSIG"), a subsidiary of Mitsui Sumitomo Insurance Co. Ltd., was the only foreign held insurance group in the top 10 insurers by GWP in 2014.

The business is mainly focused on commercial lines for Japanese corporate clients operating in Indonesia. In 2014, 56.8% of GWP related to property, with marine cargo at 18.9% and motor business at 14.0%³⁴.

MSIG had the lowest combined ratio of the top 10 insurers in 2014, but growth has been below the market.

Other significant foreign players in the P&C market include ACE, Allianz, AIG, AXA, Zurich, Fairfax and IAG. We believe many others will enter via acquisition in the near term.

KPMG Indonesia perspectives:

We project the P&C market to grow at a CAGR of 10% to 2020. We expect smaller sub-segments, such as engineering and credit insurance, to outperform the market due to significant planned infrastructure investments and a proposed regulatory 5% hard target for micro-insurance.

Products

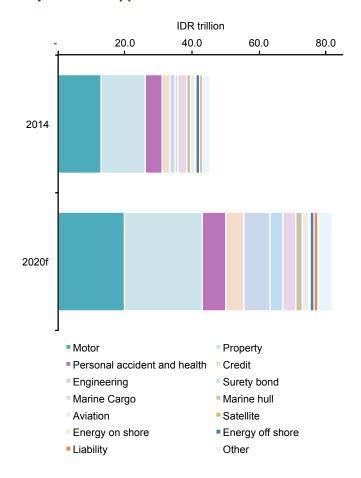
Motor: we expect motor to underperform the market with CAGR 7.5% growth from 2014 to 2020. There was a 16.1% ³⁵ fall in car sales in 2015 compared to 2014; we expect this to act as a drag on motor GWP growth. Offsetting this, will be general inflation in claims costs and greater penetration, the latter as more players enter the market and target customers through alternative distribution channels and products (e.g. pay-as-you-go insurance).

A game changer for motor would be the introduction of CPT, which is not anticipated in the projections.

Property: we expect property to grow slightly slower than the market at 8.5% CAGR growth. Similar to the motor sector, there was a sharp slow down in property development in 2015. The introduction of a 20% luxury goods tax in 2015, means at the top-end of the market, total tax charges on property transactions are up to 40%. This has significantly dampened demand. Many property developers have begun delaying projects. Offsetting this, will be an increased focus by banks on penetrating the P&C segment.

A game changer for the property sector would be removal of the 20% luxury goods VAT and opening up of property purchases to foreign investors. Neither are anticipated in the projections.

Projected GWP by product



Source: BMI, AAUI, OJK, KPMG analysis

Personal accident and health: we expect growth in private healthcare spending to be impacted by the new BPJS/JKN national healthcare scheme. However, middle/upper earning consumers will continue to buy health insurance, as BPJS is underfunded and wealthier individuals will opt to pay to cover critical medical conditions given perceived better service in the private sector, in terms of wait times, facilities and staff.

We expect travel cover to outgrow the market – particularly given the growth in e-travel services, travel cover being semi-built in at point of purchase and general growth in the travel market.

Overall, we project a CAGR 5% growth for this segment.

KPMG Indonesia perspectives:

Credit insurance: We expect credit and financial insurance will grow faster than the market at CAGR 15%. Credit insurance will benefit from a massive government push to increase MSME lending. Commercial banks are required to meet 20% SME lending by 2018.

Engineering and surety bonds: Jokowi has prioritized developing infrastructure, such as ports, airports and roads, since his inauguration and there are multiple planned billion dollar projects due to be completed over the five years ending 2020, which will require significant insurance coverage. As such, we project CAGR 35% and 30% growth in engineering insurance and surety bonds, respectively.

Other segments: We expect marine and energy segments to be impacted by continued depressed commodity prices/demand, with corresponding CAGR 5% growth projected.

Distribution

There is limited data available on distribution dynamics. Below are our subjective views:

Personal lines distribution

At present, there is believed to be a limited direct market, in part because property and motor insurance is not compulsory.

As such, most motor and property risks as sold at point of financing or sale when the lender imposes coverage – i.e. by banks, finance companies, leasing companies, auto dealers or property developers.

In the short-term, we do not expect this intermediated dynamic to change. However, we expect greater penetration from banks, which have historically focused on the lucrative life insurance market. Dealerships, agents and brokers will need to work hard to maintain their share as bancassurance grows.

Direct insurance, aggregators and digital (internet and mobile) cover, for motor and property risks, will only really gain prominance / take-off with regulatory actions – i.e. new compulsory cover and freedom of choice regulations.

Commercial lines / SME distribution

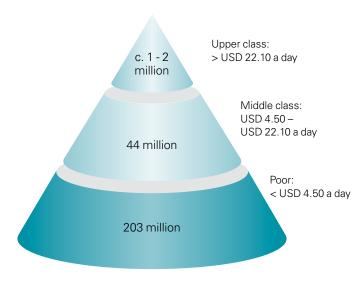
A large share of the commercial lines business is captive – i.e. SOE insurers serving SOEs, or conglomerate owned insurers serving conglomerates. SOE and conglomerate linked insurers will benefit the most from the expected growth in engineering and surety insurance.

For the rest of the corporate market and for SMEs, we expect brokers to remain the dominant distribution channel.



Micro-insurance and Digital

Indonesia's Economic Pyramid



Source: World Bank, Financial Times

Note: < 1.90 a day, 96m; USD 1,90 - USD 4.50 107m.

The micro-insurance potential in Indonesia is significant and largely untapped.

Background

Four-fifths of the population are at the base of the economic pyramid, earning less than USD 4.50 a day. The poor cannot afford property insurance, yet many are potentially affected by floods and earthquakes.

A product called Payung Keluarga ("Family Umbrella") was the first micro-insurance product delivered in the market (first sold in 2006). It provides credit life insurance protection if the participant (debtor) dies of illness or accident during the credit period. The benefit received by the beneficiary is twice the amount of the loan. It now has 3.9 million policyholders.

In 2015, OJK reported that 53 companies sell microinsurance products, with over 6 million policyholders paying premiums of IDR106 billion (USD 8.2 million) with claims of IDR71.8 billion (USD 5.6 million)36.

At present micro-insurance is mainly focussed on microcredit life – as it is mandatory in many cases and relatively cheap to deploy. Insurers have been reluctant to invest in costly education programs and to develop distribution networks that will reach out geographically, as the return on investment takes a long time to materialize.

Regulatory actions

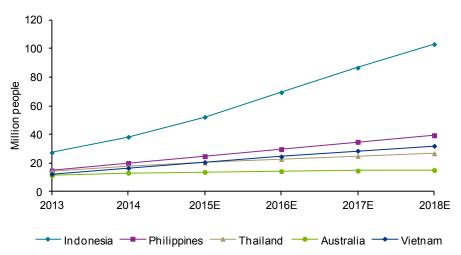
As a consequence of the low penetration, in 2013, OJK launched a micro-insurance blueprint. Subsequently, OJK, together with the AAUI and AAJI, has designed four basic micro-insurance products for personal accident insurance, term life insurance, home fire insurance and business interruption insurance.

In December 2015 it was reported that OJK may require insurance companies to make micro sales of at least 5% of GWP by the end of 2016 37. OJK sets the maximum premium price at IDR 50,000 per product and the benefits at IDR 50 million per customer.

KPMG Indonesia perspectives:

Indonesia is forecasted to pass 100 million smartphone users by 2018. Greater smartphone penetration will ease geographical distribution challenges.

Smartphone Users



Mobile communications and the growing role of mobile money will be a key enabler of micro-insurance for the unbanked

Source: eMarketer, December 2014

Opportunity and competitive background

Demand is strong in the lower earning brackets for insurance to cover wider protection/risks - e.g.: critical illness, death obligations, poor harvests, etc - given most have minimal safety nets. Few insurers in Indonesia have fully explored the low-income market (estimated at c. 203 million people). We expect this to change, given the poor will become the middle class of the future, and the opportunity to generate early and deep interactions with these emerging customers.

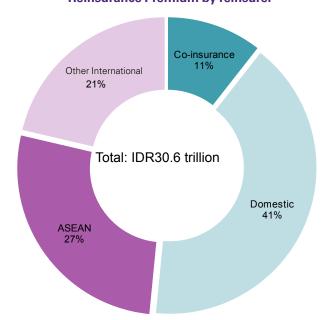
To meet the new OJK microinsurance targets and profitably seize the large opportunity, innovation in product design, distribution and policyholder management will be required. Only 22% of the Indonesian population are estimated to have access to formal bank accounts² and there is limited awareness of insurance products.

- Products will need to be pre-underwritten, with simplified information and documentation requirements in order to achieve sufficient volume and consumer interest
- Distribution with need to be mobile. Geographical inaccessibility of much of the population makes branch networks etc expensive. Indonesia is forecast to pass 100 million smart-phone users by 2018, and as such digital distribution capability will be a key tool to address the wider market. Key partners which can act as agents, such as commercial banks, rural banks, village credit cooperatives, NGOs and telco companies will need to be locked down quickly
- Policyholder management: will need to be digitalized, including digital based enrollments and premium payments, automated monitoring and processing of claims etc.



Reinsurance Sector

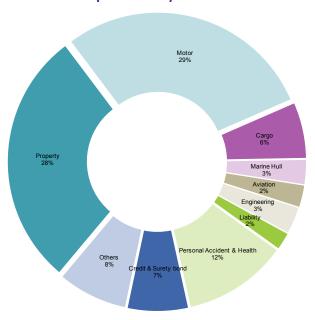
Reinsurance Premium by reinsurer



Source: Statistic perasuransian, www.ojk.go.id, 2014

In 2014 almost half the reinsurance premiums were paid to offshore reinsurers. In 2015, OJK introduced multiple new rules which are set to significantly increase domestic retention.

Reinsurance premiums by Line of Business



Indonesia's reinsurance market has remained stable, with no major Catastrophes ("CATs") since the 2004 tsunami off the coast of Aceh. However, Indonesia is one of the world's most exposed countries to natural CATs, particularly earthquakes. A national earthquake insurance pool was set up in 2003, known as "Maipark", which is funded by all non-life and reinsurance companies.

Indonesia's domestic reinsurance market consists of 5 reinsurance companies, which are mostly state-owned reinsurers. The low capital bases of domestic reinsurers and underwriting capability means historically the market has relied heavily on foreign reinsurers to cover larger, specialized or more volatile risks.

To reduce Indonesia's reinsurance balance of payments deficit, effective 1 January 2015, OJK set out new rules prescribing:

- 100% domestic reinsurance cession of motor, health, personal accident, credit, life and surety lines of business
- Domestic insurers are required to cede locally at least 25% per treaty
- The lender of each treaty should be a domestic reinsurer.

At present, given the lack of domestic capital, these requirements are being met by local reinsurers through fronting arrangements.

The Indonesian government plans to merge all the state-owned insurers to create a regionally competitive reinsurer, with capital to be injected by the state-owned P&C companies.

State-owned insurers

Reindo

PT Reasuransi International Indonesia ("Reindo") was the largest reinsurer by net premium in 2014. Reindo mainly covers life, fire and motor lines. It is owned by state-owned reinsurers, Reasuransi Umum Indonesia ("RUI").

In the late 2015, RUI and Reasuransi Indonesia Utama ("RIU") were merged in the hope of strengthening reinsurance sectors in Indonesia. The combined business is referred to as "Indonesia Re".

Nasional Re

PT Reasuransi Nasional Indonesia ("Nasional Re") is owned by a state-owned insurer, Askrindo. It was established to support MSME initiatives.

In 2013 and 2014, Nasional Re received an A rating from the Indonesia credit rating agency (PT Pemeringkat Efek Indonesia).

Tugu Re

PTTugu Reasuransi Indonesia ("Tugu Re") is a subsidiary of Tugu Pratama, one of the large players in the non-life insurance market, ultimately owned by Pertamina, the stateowned oil and gas company.

It was first established as a reinsurer for Tugu Pratama exclusively. However, the growth in the insurance market led Tugu Re to expand its business scope to other insurance companies.

Tugu Re's revenues are mainly driven by the marine and aviation sectors, which accounted for more than 20% of the gross premium income in 2014³⁸. Fire and engineering business is also growing rapidly due to state led infrastructure investments.

Maipark

PT Reasuransi Maipark Indonesia ("Maipark") was initially established by the government due to an increasing concern that the insurers and reinsurers in Indonesia would be unable to meet their obligations in the event of large catastrophies.

In order to diversify the catastrophe risks, all licensed general insurance and reinsurance companies are required to become shareholders of Maipark, with a minimum of 0.5% of the invested funds.

Publicly-owned reinsurers

Marein

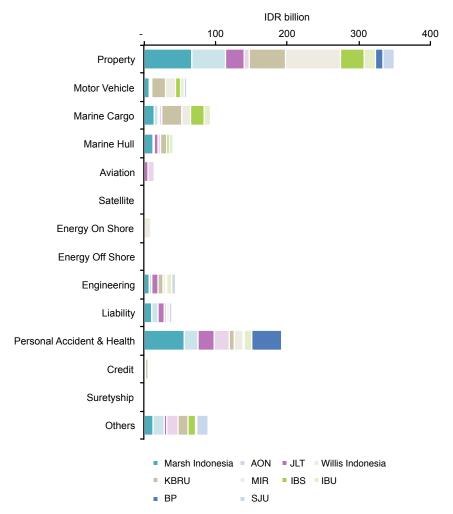
PT Maskapai Reasuransi Indonesia ("Marein") is a publicly listed reinsurer, offering general and life insurance products. The largest shareholder of Marein as at October 2015 was PT Asuransi Jiwa Bersama Bumiputera, a publicly-owned life insurer.

The highest contributors for Marein's gross premium income in 2014 were life and health insurance business, which accounted for 76.5% of the total³⁹. The third highest was fire which contributed 11.7% of the total³⁹.



Brokers Sector

2014 commission income by line of business - top 10 brokers



Source: OJK, KPMG Analysis

The brokering market is highly fragmented with 159 registered brokers in 2014. The top 10 brokers earned 57% of commission income in 2014.

Overview

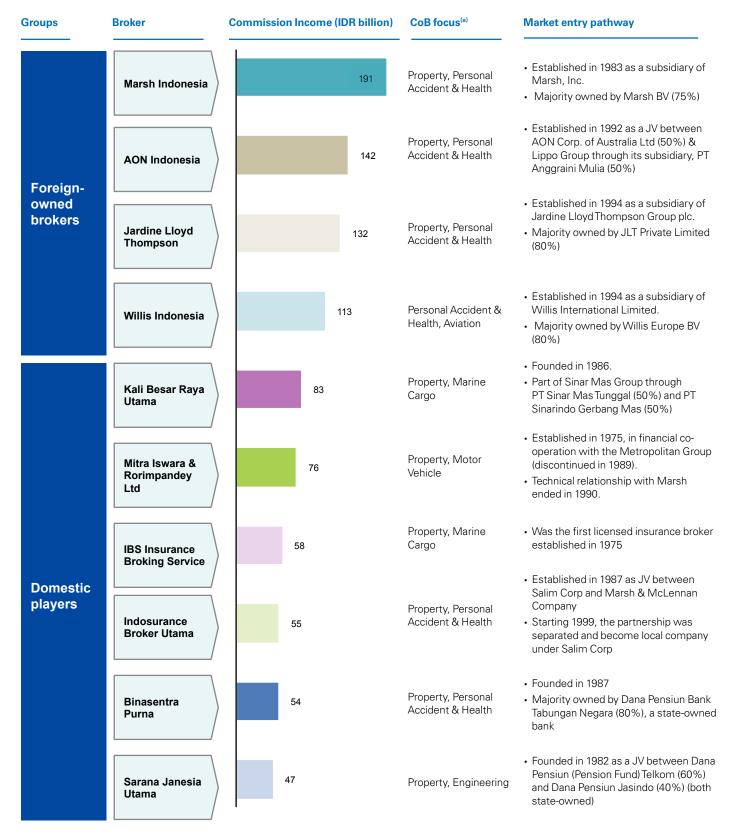
Brokers are heavily involved in most corporate businesses and are growing in importance in the SME market.

Of the 159 brokers listed in 2014, only 7 were foreign owned¹. Foreign owned brokers face higher capital requirements (IDR 3 billion, versus IDR 1 billion for a locally owned broker), and this perhaps discourages the smaller foreign brokers from entering. However, larger international foreign brokers had significant market share. Marsh Indonesia was the market leader by commission income in 2014.

Property is by far the largest risk distributed through brokers, followed by personal accident and health. These lines are a heavy focus for the foreign brokers.

Starting 2014, insurance brokerage commissions may not exceed 25% of the gross premium for motor and 15% for property. In our experience brokers are typically able to charge the maximum amount.

Top 10 brokers



Note: (a) Two biggest classes of business based on commision income

Source: (1) Statistik perasuransian, www.ojk.go.id, 2014 (2) Company websites



Deal Activity

Completed life insurance deals (a)



Key









value above USD 250 m USD 50 m - 250 m

below USD 50 m

undisclosed value

Completed P&C insurance deals (a)



Key









value above USD 50 m USD 20 m - 50 m

below USD 20 m

undisclosed value

Source: (1) Merger market, KPMG analysis

Note: (a) 2015 deals public information but not completed at the date of drafting this report

The insurance market remains attractive, but finding high-quality opportunities with realistic price expectations is a big challenge.

Since the beginning of 2011, there have been 11 completed deals in the life insurance sector and 14 in the P&C sector, with a combined deal value of USD 3.3 billion⁴⁰. The number of mooted and aborted deals was substantially higher.

The M&A landscape for the insurance industry in Indonesia in recent years been shaped by the following trends:

- In the life sector, large acquisitions (average deal size USD 139 million)40, predominantly by Japanese and other Asian insurers (MSIG, Sumitomo, Hanwa, Dai-ichi, Nippon Life) making a push into the market, to secure remaining joint ventures
- In the P&C sector, smaller deals (average deal size: USD 30 million)⁴⁰, from a range of multinational and domestic players
- Locking in bancassurance opportunities (for example AXA with Bank Mandiri)
- Locking in alternative distribution channels (for example Aviva's JV with the Astra Group).

KPMG Indonesia perspectives: deal activity

The importance of Southeast Asia and particular, Indonesia, as a future growth engine for the industry has led to some of the highest deal multiples globally. Looking ahead, the attractiveness of Indonesia, both from a growth and a margin perspective will continue to drive M&A activity. However, it is becoming increasingly difficult to find targets and, with continued high demand, we expect the trend of upward pressure on price to continue.

We expect future M&A will be driven by a wide range of factors including:

- Increasing capital requirements. Many smaller insurers are struggling due to enhanced capital requirements introduced in 2014. It is likely the bar will be raised higher in the next few years. An option for smaller insurers will be a sale, otherwise they may need to surrender their licenses
- Many P&C and Life insurers are owned by SOE business pension funds and will need external funding to meet capital requirements and/or growth ambitions
- A drive to secure bancassurance partners and broader distribution channels. Distribution partners are increasingly looking for JV arrangements rather than a commission model

- Large insurers and reinsurers, previously operating offshore, looking to enter the market due to government focus and policies aimed at increasing onshore retention
- Chinese insurers potentially taking a more outward-looking strategy
- Increased activity by large Indonesian banking and finance groups looking to bring insurance operations in house, having gained underwriting and other capability from insurance partners
- The single presence policy, which needs to be complied with by October 2017, leading to sales by groups with multiple insurance companies
- Regulation, innovation and margin pressure, sparked by current industry dynamics, resulting in many insurers adopting a 'grow' or 'go' strategy
- Local banks deciding to buy into the industry rather than solely acting as distributor.

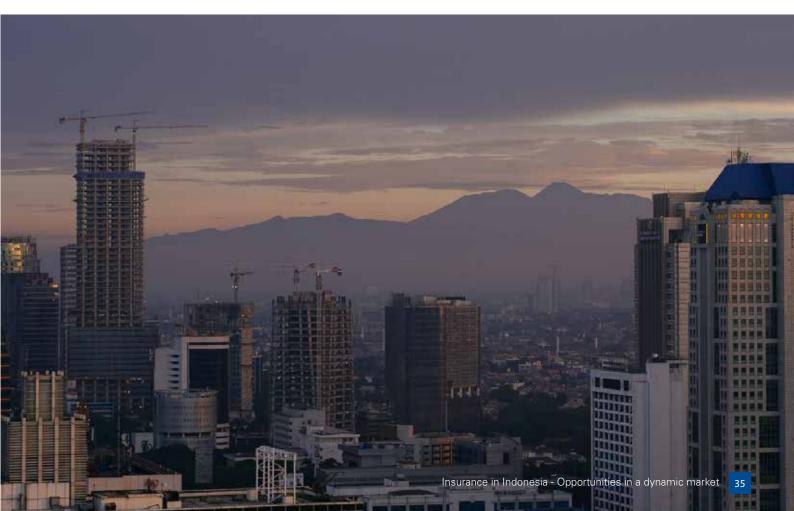
Accordingly, we expect to see a sustained period of M&A across all parts of the value chain, with inbound investment taking advantage of a weakened rupiah, together with consolidation, particularly in the P&C sector, where there is a large number of sub-scale insurers.

We have set out over the following pages a summary of the smaller insurers with potential M&A needs.

Life insurance companies with equity under IDR 150 billion

Life insurance companies with owner's capital below IDR 150 billion								
in IDR million	Owner's Capital	Total G assets	ross premium income	Net premium income	Retention	Expense ratio	PBT ratio	Solvency ratio
Asuransi Jiwa Reliance Indonesia	121,075	264,599	132,995	30,798	431.8%	68.0%	11.2%	618.0%
Heksa Eka Life Insurance	122,924	586,871	245,318	164,633	149.0%	104.7%	16.3%	132.5%
Asuransi Jiwa Mega Indonesia	105,428	132,443	41,352	39,516	104.6%	80.0%	1.9%	3560.0%
Asuransi Jiwa Tugu Mandiri	103,685	637,530	239,176	231,764	103.2%	123.0%	1.4%	194.0%
Pasaraya Life Insurance	80,261	110,783	5,864	5,740	102.2%	185.7%	1.0%	3300.8%
Central Asia Financial	126,338	129,720	751	742	101.2%	7116.0%	-4.5%	1270.0%
Sinergi Proteksi Indonesia	100,905	101,713	100	77	129.9%	5219.9%	0.4%	1049.7%
Indosurya Life	115,689	117,405	2,466	1,631	151.2%	0.0%	0.2%	1037.0%

Note: We have removed two companies owned by large financial institutions $% \left(1\right) =\left(1\right) \left(1\right)$



P&C insurance companies with equity under IDR 150 billion

P&C insurance companies with owner's capital below IDR 150 billion								
in IDR million	Owner's Capital	Total assets	Gross premium income	Net premium income	Retention	Expense ratio	PBT ratio	Solvency ratio
Asuransi Asoka Mas	107,537	455,418	275,402	100,232	274.8%	100.3%	6.1%	180.0%
Asuransi Qbe Pool Indonesia	129,452	685,259	439,819	237,882	184.9%	133.0%	25.0%	121.0%
Citral International Underwriters	102,391	277,221	298,493	93,700	318.6%	74.0%	17.2%	136.0%
Pan Pacific Insurance	129,550	738,553	678,106	421,095	161.0%	129.2%	22.6%	131.1%
Asuransi Tugu Kresna Pratama	86,573	617,596	264,380	62,977	419.8%	103.5%	3.3%	129.2%
Asuransi Sumit Oto	136,252	611,456	235,388	195,864	120.2%	103.0%	60.8%	280.7%
Asuransi Binagriya Upkara	108,424	333,429	91,774	48,790	188.1%	102.8%	22.8%	343.2%
Asuransi Raya	101,422	176,478	126,767	100,421	126.2%	102.7%	26.8%	195.0%
Meritz Korindo Insurance	105,190	164,081	81,060	16,184	500.9%	16.2%	3.4%	1055.3%
Asuransi Artarindo	116,699	171,409	44,386	25,689	172.8%	112.0%	8.1%	945.0%
China Taiping Insurance Indonesia	147,904	387,108	139,021	41,105	338.2%	74.0%	8.7%	488.0%
Asuransi Mitra Pelindung Mustika	131,880	269,430	125,221	49,657	252.2%	117.0%	15.8%	663.0%
Asuransi Buana Independent	137,955	432,607	218,071	128,874	169.2%	116.0%	17.8%	280.0%
Asuransi Umum Videi	102,172	140,001	47,735	35,702	133.7%	116.8%	11.0%	1090.7%
Asuransi Harta Aman Pratama	123,185	365,644	239,649	164,316	145.8%	147.0%	22.4%	179.0%
Bess Central Insurance	118,241	278,047	138,336	40,855	338.6%	106.8%	5.9%	276.9%
Berdikari Insurance	106,273	163,333	42,664	38,427	111.0%	106.0%	7.1%	262.0%
Asuransi Bintang	140,674	442,653	212,171	121,665	174.4%	118.0%	10.4%	163.0%
Asuransi Bhakti Bhayangkara	100,139	155,410	56,453	39,242	143.9%	124.0%	4.9%	448.0%
Asuransi Staco Mandiri	103,584	215,855	87,955	28,081	313.2%	117.5%	4.6%	426.0%
Lig Insurance Indonesia	138,050	503,889	125,288	48,853	256.5%	127.0%	0.6%	519.0%
Victoria Insurance	109,047	158,185	23,384	5,208	449.0%	192.0%	7.7%	1064.0%
MNC Asuransi Indonesia	145,241	385,034	216,245	96,924	223.1%	124.8%	6.5%	282.4%

P&C insurance companies with equity under IDR 150 billion (continued)

				Net				
in IDR million	Owner's Capital	Total assets	Gross premium income	premium income	Retention	Expense ratio	PBT ratio	Solvency ratio
Avrist General Insurance	108,201	164,435	62,495	24,614	253.9%	152.8%	0.2%	1190.1%
Asuransi Intra Asia	102,738	143,037	53,892	45,872	117.5%	139.0%	6.9%	282.0%
Asuransi Mega Pratama	106,468	199,742	83,819	49,796	168.3%	118.6%	6.9%	388.1%
Asuransi Eka Lloyd Jaya	109,953	153,053	47,829	25,197	189.8%	138.0%	0.5%	1382.0%
Bosowa Asuransi	111,057	269,491	137,707	100,822	136.6%	127.0%	4.0%	135.0%
Maskapai Asuransi Sonwelis	56,810	63,751	12,745	9,585	133.0%	146.6%	3.4%	472.7%
Ksk Insurance Indonesia	138,234	474,793	96,863	30,425	318.4%	402.0%	-68.0%	140.0%
Asuransi Himalaya Pelindung	118,983	240,795	168,757	110,998	152.0%	120.0%	3.1%	232.0%
Malacca Trust Wuwungan Insurance	106,847	150,692	42,531	41,744	101.9%	194.9%	-8.0%	463.7%
Asuransi Recapital	77,091	179,900	39,736	26,246	151.4%	185.0%	-19.3%	400.0%
Asuransi Simas Net	107,118	107,419	194	33	587.9%	1674.5%	6.6%	7080.6%

Note: We have removed two companies owned by large financial institutions

KPMG Indonesia perspectives: Keys to successful M&A in Indonesia

Identifying the right opportunities requires analysis of a combination of factors:

- Market identifying high growth and profitable segments
- Ownership questions to consider include:
 - is minority ownership a deal breaker for you?
 - how many strategic shareholders are you comfortable with?
 - what is your minimum required shareholding?
 - what shareholder protections do you require?
- Cultural fit a soft area that can be difficult to measure, but often critical to ongoing success, including the desire to build a 'true' partnership and communicate frankly; sophistication of the existing management team and local market practices and compliance with your values
- Capability transfer it is important to define what you hope to achieve through a capability transfer program and, as part of that, assess your existing capability and ability to add value to the local market.

Your positions on the above factors will help you determine the appropriate markets and associated entry options and partners for your organization. Once appropriate opportunities are identified, we believe the following are critical in the implementation of your strategy:

 In-depth local market knowledge during the due diligence process to gain a real understanding of local market opportunities, issues and challenges In a rapidly developing market, with growing sophistication and a complex and rapidly evolving regulatory environment, a detailed comprehensive understanding of local conditions is critical for a successful strategy.

- Understanding the current regulatory environment and likelihood of expected developments. The regulatory reform agenda is likely to drive significant change in the competitive dynamics of the market
- A clear approach and capability to deliver robust post-deal integration.

Capability transfer

Technically all market entrants require a local partner for at least 20% of the equity.

The ability to deliver a successful capability transfer program is often a key factor in the choice of an international partner.



Accordingly, an important part of the transaction evaluation process is assessing areas where your organization can truly add value and demonstrate that value to your domestic partner.

Once a deal has been agreed, implementing a successful capability transfer program that meets the needs of both parties can be a real challenge.

There are two fundamental questions that need to be addressed up front to help determine how you will approach this type of exercise:

- How comfortable are you for a local partner to have control of the process?
- How willing are you to share your intellectual property with a local partner?

To be successful, it is very important to build a long-term partnership with the local management team. The experience and composition of the team appointed to deliver the program is therefore of critical importance (examples of overseas investors parachuting in a large team of technical experts from their domestic business has typically proven to be unsuccessful). Similarly, the content of the program must be tailored to local conditions and this can only be done through working closely with local management.

Planning ahead for integration

Identifying and successfully acquiring a business for the right price is challenging enough, but this is only the start of the process.

To realize the full potential from an investment and avoid the risk of destroying value, a detailed integration strategy is required. This should include:

- Executive alignment and mobilization, including executive alignment workshops and establishment of a blueprint for the future operating model
- Cultural alignment plan, including how to deal with differences in the respective organizations
- Working protocols, including consistency of practices, communications and practical matters, like authority limits
- Staff and client communication plan, including organizational design plans
- A project office and an issue resolution process to ensure material integration issues are progressed
- Merger baseline and draft synergies model, including identified quick wins in the first 100 days
- Day one plan and 100-day plan.

We recommend addressing integration considerations early in the process and maintaining momentum and control through a proactive approach with coherent and consistent communications.



KPMG Indonesia perspectives: How KPMG Indonesia Deal Advisory can help

KPMG is one of the leading advisors in the insurance sector across Asia, and our Indonesian practice has been very active in assisting our insurance clients on M&A strategies.

We have dedicated insurance teams to provide a host of deal advisory services, including strategy, market entry, due diligence, joint venture, restructuring, valuation, separation, integration and M&A counsel.

In particular, the KPMG Indonesia's insurance advisory practice can provide in-depth local market expertise, complemented by our integrated global network of professionals, with a solid track record of M&A support for leading global insurers.

We invite you to call upon us to discuss your transactional interests and how we can contribute our strengths, experience and insights to help you meet your strategic ambitions.





We can help you meet your objectives across the entire deal cycle:

- 1. create and execute a well developed growth strategy
- 2. identify a wide pool of potential opportunities
- understand value drivers, opportunities and risks related to potential acquisition targets
- 4. tailor M&A advice to help ensure a successful outcome when assessing opportunities
- 5. design and execute an effective post deal integration plan
- 6. implement an optimal separation plan
- 7. restructure or wind down of non-core businesses
- 8. release capital and enhance liquidity from sale of core or non-core businesses
- establish or enhance your joint venture, including structuring, maximizing protection and improving operating effectiveness
- 10. provide a robust financial and tax due diligence on your potential local partner.



Appendices

Related publications



Insurance M&A trends: A year in review and predictions for 2016

This year's report looks back at the events of 2015 and how those key underlying drivers and supporting trends have developed and the resulting impact on the sector. This publication also provides insight into the unfolding year ahead as we see M&A playing an even greater role in the insurance market.



The Power of Alliances

While there is no 'one-size-fits-all' approach to partnering for growth, in our new report, The Power of Alliances, we explore three areas where insurers have been particularly active: bancassurance, financial technology (FinTech) and digital or non-traditional distribution channels. In each of these three areas we offer practical insights and lessons to help insurers create more sustainable and value-driven partnerships and alliances.



Investing in Indonesia 2015

This publication is intended as a general guide to investing and doing business in Indonesia, primarily for new foreign investors looking to enter the Indonesian market, but also as a useful reference document for established, experienced foreign and local players.



Financial Inclusion in Indonesia

This publication looks at the microfinance landscape and implications of new *Branchless Banking regulations* (Laku Pandai) and *Microfinance Laws*. It suggests the larger domestic institutions are set to benefit over the smaller rural microfinance institutions, with opportunities opening up for larger conglomerates with banking and insurance arms attached.

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■ | Glossary

9M15	The first nine months of 2015	Bank Mandiri	PT Bank Mandiri (Persero) Tbk
AAJI	Asosiasi Asuransi Jiwa Indonesia / Indonesia Life Insurance Association	BCA	Bank Central Asia
AAUI	Asosiasi Asuransi Umum Indonesia / Indonesia Non Life Insurance Association	ВІ	Bank Indonesia / Indonesian Central Bank
ACA	PT Asuransi Central Asia	ВР	PT Binasentra Purna
ACE	ACE Group or Chubb Limited	вмі	Business Monitor International
Adira	PT Asuransi Adira Dinamika	BPJS	Badan Penyelenggara Jaminan Sosial / Social Security Agency
Adisarana Wanaartha	PT Asuransi Jiwa Adisarana Wanaartha	BPS	Badan Pusat Statistik / Central Bureau of Statistics Indonesia
AEC	ASEAN Economic Community	BRI	PT Bank Rakyat Indonesia Tbk
AIA Financial	PT AIA Financial	BTPN	Bank Tabungan Pensiunan Nasional
AIG	American International Group, Incorporation	CAGR	Compound Annual Growth Rate
Allianz	Allianz SE	CAT	Catastrophe
Allianz Indonesia Life	PT Asuransi Allianz Life Indonesia	СоВ	Classes of Business
AON	PT AON Indonesia	CoR	Cost of Revenue
ASEAN	Association of Southeast Asian Nations	СРТ	CompulsoryThird Party
Askrida	PT Asuransi Bangun Askrida	Fairfax	Fairfax Financial Holdings Limited
Askrindo	PT Asuransi Kredit Indonesia	FDI	Foreign Direct Investment
Astra International	Astra Group or PT Astra International Tbk	FX	Foreign eXchange
Asuransi Astra	PT Asuransi Astra Buana	GDP	Gross Domestic Product
Asuransi Sinar Mas	PT Asuransi Sinar Mas	GWP	Gross Written Product
Aswata	PT Asuransi Wahana Tata	HNWI	High-Net-Worth Individual
AUM	Asset Under Management	IAG	Insurance Australia Group Limited
Aviva	Aviva International Holdings Limited, a part of Aviva plc	IBC	Insurance Business Company
AXA	AXA Group or AXA S.A.de CV	IBS	PT IBS Insurance Broking Service
AXA Mandiri	PT Asuransi AXA Mandiri	IBU	PT Indosurance Broker Utama
Bank Danamon	PT Bank Danamon IndonesiaTbk	IDR	Indonesian Rupiah

ILP	Investment-Linked product	P&C	Property and Casualty
IMF	International Monetary Fund	Panin Dai-ichi	PT Panin Dai-ichi Life
Indolife Pensiontama	PT Indolife Pensiontama	PBT	Profit (loss) before tax divided by average capital
Indonesia Re	PT Reasuransi Indonesia Utama and PT Reasuransi Umum Indonesia	Parolamas	PT Asuransi Parolamas
IPO	Initial Public Offering	Pertamina	PT Pertamina (Persero)
Jasindo	PT Asuransi Jasa Indonesia	PMA	Penanaman Modal Asing / Foreign Investment
Jiwasraya	PT Asuransi Jiwasraya	Prudential Indonesia	PT Prudential Life Assurance
JKN	Jaminan Kesehatan Nasional / National Health Insurance	Reindo	PT Reasuransi International Indonesia
JKSE	Jakarta Stock Exchange Composite Index	RIU	PT Reasuransi Indonesia Utama
JLT	PT Jardine Lloyd Thompson	RoE	Return on Equity
JV	Joint Venture	RUI	PT Reasuransi Umum Indonesia
KBRU	PT Kali Besar Raya Utama Insurance Brokers	SJU	PT Sarana Janesia Utama
M&A	Merger and Acquisition	Sinarmas MSIG	PT Asuransi Jiwa Sinarmas MSIG
Maipark	PT Reasuransi Maipark Indonesia	SME	Small and Medium Enterprises
Manulife Indonesia	PT Asuransi Jiwa Manulife Indonesia	SOE	State-Owned Enterprise
Marein	PT Maskapai Reasuransi Indonesia	Telkom	PTTelekomunikasi IndonesiaTbk
Marsh Indonesia	PT Marsh Indonesia	Tugu Pratama	PTTugu Pratama Indonesia
MIR	PT Mitra, Iswara & Rorimpandey Ltd	Tugu Re	PTTugu Reasuransi Indonesia
MPM	PT Mitra Pelindung Mustika	USD	United States Dollar
MSIG	PT Asuransi MSIG Indonesia	UU	Undang-Undang / Law
MSME	Micro, Small and Medium Enterprises	VAT	Value-Added Tax
Nasional Re	PT Reasuransi Nasional Indonesia	Willis Indonesia	PT Willis Indonesia Insurance Brokers
NGO	Non-governmental Organization	WNBP	Weighted New Business Premiums
ОЈК	Otoritas Jasa Keuangan / Indonesia Financial Services Authority	Zurich	Zurich Insurance Group Ltd.



Contact us

KPMG Indonesia

35th Floor, Wisma GKBI 28, Jl. Jend. Sudirman Jakarta 10210, Indonesia T: +62 (0) 21 574 0877 F: +62 (0) 21 574 0313

ASEAN

Indonesia

Barnaby Robson Insurance Lead, Deal Advisory Barnaby.Robson@kpmg.co.id

Susanto

Head of Insurance Susanto@kpmg.co.id

Ho Wah Lee Head of Advisory Services

Wahlee.ho@kpmg.co.id

David East

Head of Transaction Services, Deal Advisory David.East@kpmg.co.id

Singapore

Frank Dubois Actuarial Lead +65 6411 8187 fdubois@kpmg.com.sg

Paul Brenchley Insurance Advisory Lead +65 6411 8402 paulbrenchley@kpmg.com.sg

kpmg.com/id

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