GENERAL OBSERVATIONS FROM A NEWLY-ARRIVED ACTUARY IN INDONESIA

RANDY AMIDHARMO

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PERSATUAN AKTUARIS INDONESIA
(THE SOCIETY OF ACTUARIES OF INDONESIA)

ZURICH

ABOUT MYSELF

- Born in Jakarta
- Moved and settled in Sydney for 17 years
- Worked for 8+ years at Zurich Financial Services Australia
- Back in Jakarta to work at Zurich Topas Life from March this year
- Life insurance background
- Fellow member of the Institute of Actuaries of Australia
- Bahasa proficiency at primary school level…

Presentation Content

- Broad coverage of relevant topics for the profession
- Based on my personal observations of local industry, technical and commercial aspects, with Australian experience/background chipped in
  - hopefully provides unique perspective
  - Does not necessarily reflect the views of my employer
- Focused on conventional life insurance
- Look forward to insights, discussions and enlightenment!

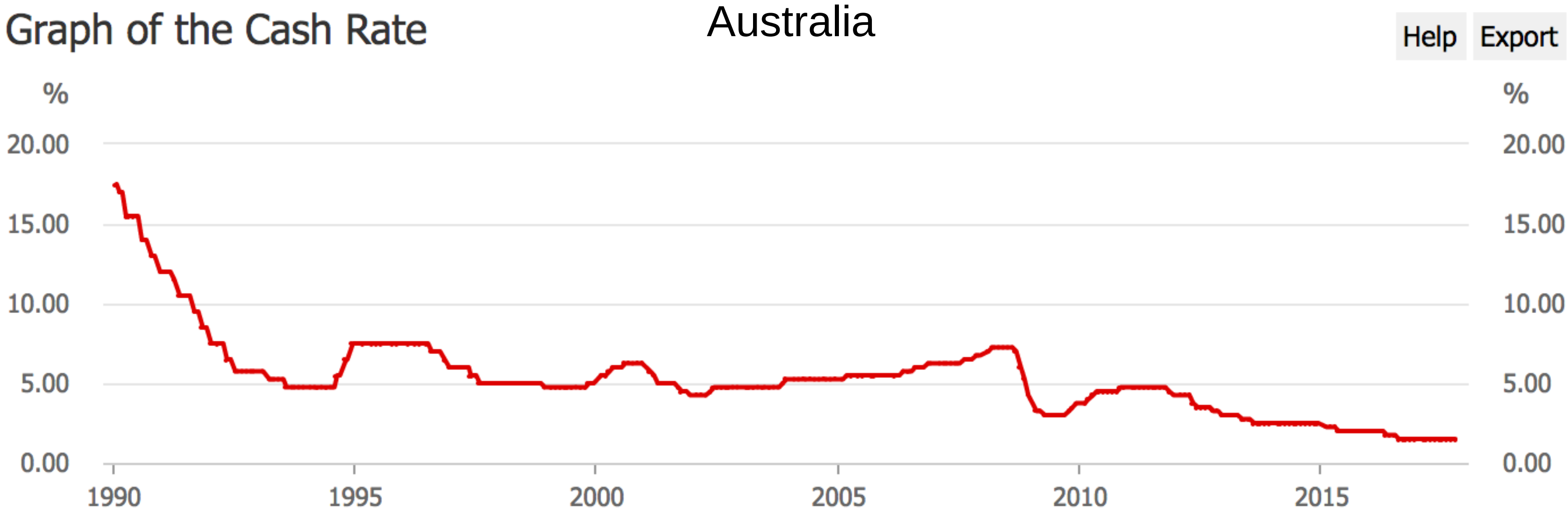
Industry landscape in Indonesia

- Obvious things first - dynamic, fluid, fast-moving!
  - Care in building complex & risky legacy portfolio, systems, etc…
- Regulator interaction - quite open!
- Certain information/data is opaque eg. industry surveys/benchmarks?
- Shortage of actuaries - sustainability of industry growth?
- Products - where are we headed? UL (front-end/back-end), traditional, YRT, annuities/retirement solutions?
- Experience: lapse rates for front-end product? Medical claims?

Industry landscape in Indonesia

- Care with making (economic) assumptions…

Australia



Source: RBA

Regulatory reserving changes 2017

Process and timing…

- Standards issued in June, implementation date from 1 July
- Through AAJI, industry unsuccessfully proposed delayed implementation
- Apart from operational considerations, impact could drive volatility of P&L and capital position, particularly for smaller insurers
- Assumptions review cycle (which would also drive reserve/capital positions) may not be in line with the implementation date
- Transitional arrangements? eg. Australia's capital framework changes:

[*If insurers are unable to implement changes to their current operations or arrangements to mitigate these impacts before 1 January 2013, APRA will consider transitional arrangements on a case-by-case basis. In addition, APRA has the ability to modify particular provisions if they result in inappropriate outcomes for a particular insurer.*]

- PAI may be able to coordinate socialisation and/or discussions among members / Appointed Actuaries eg. "one-pager" note, facilitate workshops

Regulatory reserving changes 2017

- **Discount rate changes**
  - 3-year average to 1-year average
  - Right direction, but still challenging from an Asset-Liability Management perspective
  - Need robust ALM framework before moving to marked-to-market basis…?
  - Increased sensitivity to interest rates - care with negative GPV (prior to flooring), limited premium contracts (so different sensitivity between PV revenue and PV outgo), assumption changes.

Regulatory reserving changes 2017

- **Increased prudence on UL with certain features** eg. Loyalty bonuses
  - GPV method, with flooring done at per-policy (ie. no cross-subsidy between policies)
  - Profit signatures would change (higher new business strain; higher expected profit later on from reserve releases)
  - ALM implications
  - To some extent, actuarial assumptions rely on broad averages, so per-policy flooring can have spurious accuracy…

Regulatory reserving changes 2017

- **DAC for back-ended UL** (subject to OJK approval)
  - Definition of "Acquisition Costs"? Direct/indirect, allocation of acquisition vs maintenance?
  - Reduces NB Strain on P&L, but continue to watch liquidity
  - Amortisation method – straight-line? Duration?
  - Recoverability test
  - Caution: Playing with DAC can be like playing with fire - P&L impacts could be significant (eg. operationally, methodology issues, recoverability test surprises).

Other Conundrums

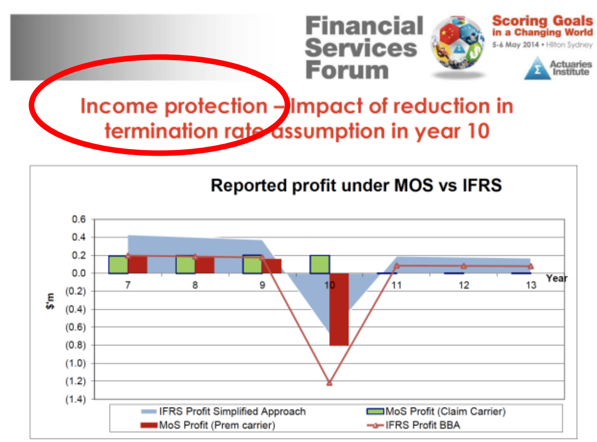
- **GPV-based reinsurance Asset**
  - If non-0, implies reinsurers are making losses (PV Reinsurance Recoveries > PV Reinsurance Premium)
  - Temporary asset? Reinsurers may reprice eg. Australian disability income market…
  - May also be a result of differing views on assumptions between ceding company and reinsurer
  - What if PV Reinsurance Recoveries < PV Reinsurance Premium - no reserve required?

Other Conundrums

- **Admissible Assets for RBC**
  - DAC, reinsurance assets (GPV)…
  - In the event of severe stress, these assets have little to no value
  - eg. “DAC” in Australia inadmissible

IFRS 17 - Practical worries

- Delayed implementation date, possibly by 1-3 years.
- Australian reserving methods ("Margin on Services") and analytical infrastructures ('profit by source') are relatively close to IFRS 17 requirements, but there remains significant complexities to tackle.
- Presentation from 3 years ago (2014):



- Assuming an implementation delay of 1-3 years, in my view, 2018 for Indonesia is the year to (at least) understand methodological and operational implications **given our specific product-set**.

IFRS 17 - practical worries

- **What worries me:**
  - **Granularity** of aggregation/groupings:
    - By expected resilience to becoming onerous at initial recognition
    - By portfolio
    - By annual cohorts
    - Products easier to become onerous? So much about smooth profit…
    - Granularity of actuarial assumptions required - spurious accuracy?
  - **Significantly more information** required (to calculate and disclose):
    - 'profit by source' reporting view - requires much deeper understanding of drivers of performance, deconstructing reserves, discount rates
    - Infrastructure and resourcing to support the above complexities
    - Data integrity needs to be even stronger

IFRS 17 - practical worries

- **What worries me:**
  - **Transition** - complexity of retrospective approach; all those upfront profits we've been recognising in the past…? Potential tax impacts?
  - **Capital impacts** - at point of transition and post implementation?
  - Given new P&L recognition between different contract types, could it re-shape **product landscape**?

IFRS 17 - practical worries

- Good news: IFRS 17 will provide actuaries with job security for years to come!

- Where can we start?
  - KPMG First Impressions publication
  - Working group? Eg. Right mix of consultants, corporates, conventional, takaful, etc, life & GI separate.
  - Possible output: overview of key impacts specific to local products; PAI presentation by PAI representatives/working group next year on key findings.
  - OJK, Accounting Standards Board liaison? Eg. gauge appetite for full adoption of IFRS 17?
  - Gain learnings from overseas implementation (given delayed implementation).

Thank You

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Sekretariat : Jl. Tebet Raya No.66 C, Jakarta Selatan 12820, Indonesia , Telp. +62-21 835 5105, Fax. +62-21 3650 5600

Website : www.aktuaris.org, E-mail : secretariat@aktuaris.org, Twitter: @AktuarisPAI