

Microinsurance in Asia: Supply-side perspectives

Indonesia Country Analysis

April 2020

Based on findings from the Milliman research report:
Asia Microinsurance Supply-side Study



With growing interest in microinsurance in the region, we are pleased to present our first Microinsurance Supply-side Study of Asia in 2019 to gather the perspectives of the insurance industry regarding the importance of microinsurance, current practices and the enabling environment. We carried out this study primarily through a questionnaire survey, with responses from regulated insurers providing microinsurance in five countries, namely Bangladesh, China, India, Indonesia, and the Philippines. This country analysis highlights some key-takeaways based on observations from Indonesia.

Thirty-three insurers participated in the survey, of which 55% (eighteen insurers) currently sold microinsurance in the Indonesian insurance market.

The following is a summary of the criteria used to define “microinsurance” in this study:

1. Intentionally developed for low-income people
2. Government is not the sole risk carrier
3. The program is based on insurance principles implemented by regulated insurers
4. Goal of profitability or sustainability
5. Modest premium levels / affordability

Current practices: Taking a closer look at insurers' microinsurance programs and how they implement them

Of the eighteen insurers surveyed that offer microinsurance, how they reported the proportion of in-force premium from microinsurance against their total insurance business portfolio was nearly unanimous



Recently published figures indicate that **25.9**¹ million lives were covered by microinsurance in 2019 in Indonesia, yielding a relatively low coverage level of **11.7%**² of the low/middle income population. Whilst initiatives were taken by the Otoritas Jasa Keuangan—the Indonesian regulator—to grow microinsurance with the launch of the “Grand Design”

microinsurance blueprint in 2013, followed up by public awareness schemes in building the industry, this space remains underdeveloped. Although the microinsurance industry is seen to be growing, the lack of cost-effective distribution channels and limited market demand remain key challenges faced by providers.

1. <https://keuangan.kontan.co.id/news/peminat-asuransi-mikro-diprediksi-akan-terus-bergairah?page=all>
 2. <https://www.pewresearch.org/global/interactives/global-population-by-income/>
 Reference: 11.7% is calculated = 25.9 million lives covered / 221.4 million classified as low / middle income (as at Q3 2019).

Types of microinsurance products insurers, currently and planned to offer

■ Currently offer ■ Plan to offer



11.7%
Microinsurance coverage level to the low/middle income population

3/18
Proportion of insurers who develop products specifically to address climate risks of low-income people

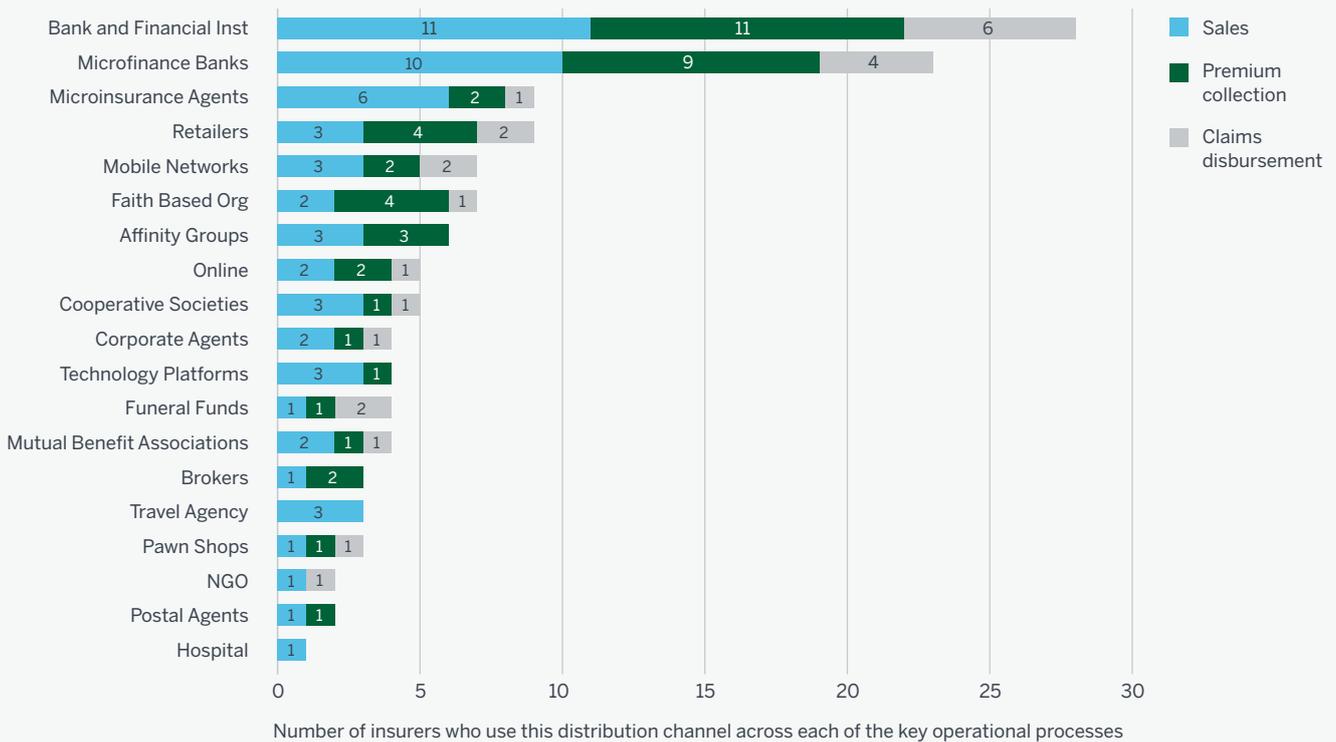
The most prevalent types of microinsurance products insurers currently offer are personal accident, term-life and credit-linked products.

Personal accident products hold a strong position in the market typically due to its low premium level. The high uptake in term-life insurance is likely because of their simplicity, thus easy to reach scale and profitability at an early stage of the product cycle. Credit life products are often

considered as an entry product into the market as it is easy to offer such products embedded with a microloan product. Different to other markets studied, Indonesia did not see the emergence of hospital cash products. Microinsurance product diversity remains in its infancy in Indonesia, with a great need to evolve beyond basic life and personal accident products.

Numbers refer to the number of insurers who currently offer / plan to offer this type of product.

The distribution channels insurers used for sales, premium collection, and claims payment



Microfinance banks, banks and financial institutions are the top distribution channels in Indonesia.

Whilst overall banking proportion is relatively low in Indonesia, there is high use of banks and financial institutions as distribution channels because of their extensive reach to the rural population in the country. Furthermore,

microinsurers typically leverage on the microfinance bank partner's reach to the target market, as well as their operational capabilities to service microinsurance products that are bundled together with their own microcredit products. Identification of cost-efficient distribution channels is important for market development with several insurers naming this to be their key challenge faced.

How insurers are applying technology in their microinsurance processes



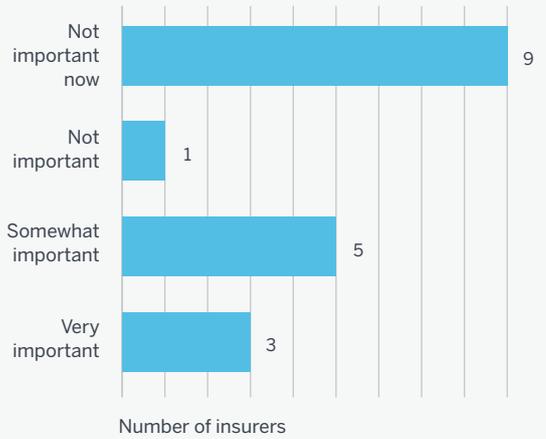
All countries studied remain reliant on technology in physical forms, including Indonesia. However, there is also a rise in the use of mobile phones (smartphones), particularly in the enrollment, premiums and claims related processes. Furthermore, there is also a great amount of activity surrounding innovation insurance and the emergence of insurtech companies in Indonesia. A case in point is PasarPolis, which has partnered

with various ecommerce platforms in the region including Go-Jek, Tokopedia and Traveloka. As of 2018, PasarPolis has sold approximately 250,000 microinsurance policies to Go-Jek's pool of 800,000 drivers, demonstrating a viable cost-effective business model through the use of technology and innovative distribution channels.

Numbers refer to the number of insurers who have adopted this technology across each of the key operational processes.

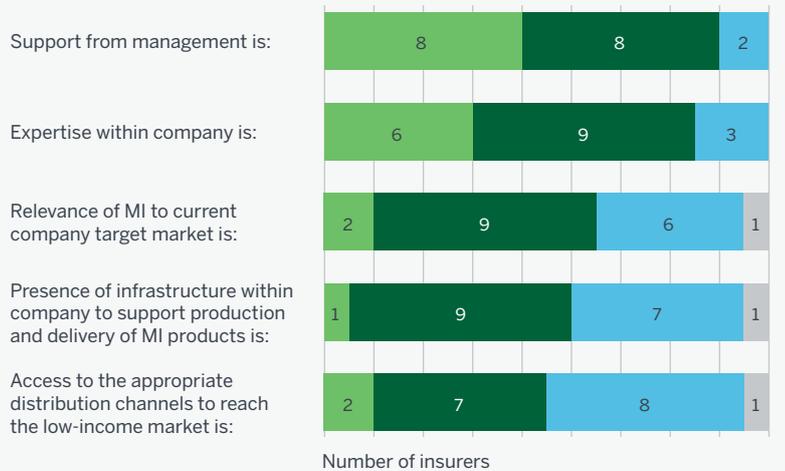
Perspectives: Insurers' observations on their institutions and the microinsurance market

How insurers rank the importance of selling microinsurance within their companies



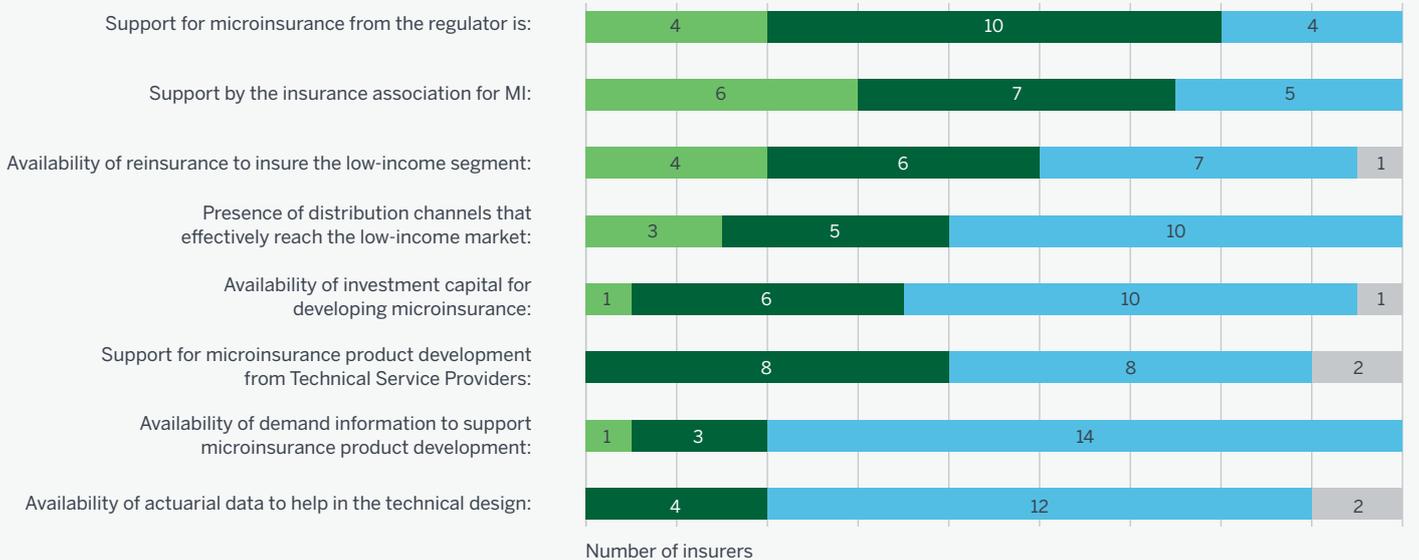
In comparison to other countries in the study, Indonesian insurers placed the least level of importance on microinsurance development. This phenomenon is also correlated with the insurers' perspective of Indonesia being a less supportive environment in respect to both internal and external drivers of microinsurance operations.

The opportunities and challenges insurers faced regarding microinsurance within their companies



In comparison to other countries, Indonesia had relatively low levels of internal support for microinsurance development. There was also a relatively high degree of variation observed between the different drivers. Furthermore, insurers in Indonesia strongly stated that the lack of access to appropriate distribution channels is the key challenge faced. This challenge is amplified with its rural population scattered across thousands of islands, making geographical reach difficult.

Insurers' views on the supporting environment for microinsurance in Indonesia



In this survey, microinsurance providers in Indonesia had the lowest perceived level of support across all drivers to a sound operating environment. The key factors that may spur companies into selling microinsurance are the availability of demand information in supporting product development and the readiness of actuarial data. In order to encourage growth in the microinsurance market in Indonesia, it is highly recommended that insurers conduct demand studies to understand consumer needs in the micro-segment.

Key contacts



Brian Colgan
 Head of Life Insurance Consulting
 Jakarta, Indonesia
 +62 21 25532599
brian.colgan@milliman.com



Indira Gopalakrishna
 Microinsurance Specialist – Asia Pacific
 Singapore
 +65 9035 4271
Indira.gopalakrishna@milliman.com