

FINANCIAL SERVICES AUTHORITY

To:

1. Sharia Insurance Companies;
2. Sharia Reinsurance Companies;
3. Insurance Companies with Sharia Units; and
4. Reinsurance Companies with Sharia Units;

at the respective addresses.

COPY

CIRCULAR LETTER OF THE FINANCIAL SERVICES AUTHORITY

NUMBER 10/SEOJK.05/2015

CONCERNING

GUIDELINES FOR THE FORMATION OF CONTRIBUTION RESERVES AND

METHODS TO CALCULATE CLAIMS RESERVES

IN SHARIA INSURANCE AND SHARIA REINSURANCE

In relation to the mandate as stipulated in Article 18 paragraph (7) of the Regulation of the Minister of Finance No. 11/PMK.010/2011 on the Financial Soundness of Insurance and Reinsurance Business with Sharia Principle as amended by Regulation of the Minister of Finance No. 228/PMK.010/2012, it is necessary to set the guidelines for the FORMATION of contribution reserves for products with a maturity of more than 1 (one) year in which the terms and conditions of its insurance policy cannot be renewable annually and method of calculation of the reserves for claims are incurred but not reported in sharia general insurance businesses, sharia life insurance businesses, and sharia reinsurance businesses in the Circular Letter of

Financial Services Authority as follows:

I. GENERAL PROVISIONS

1. Company is sharia insurance company, sharia reinsurance company, insurance company with sharia unit, and reinsurance company with sharia unit.
2. Technical Reserves is the contribution reserves for products with a maturity of more than 1 (one) year and conditions of its insurance policy can not be renewable annually and reserves for claims are incurred but not reported (hereinafter abbreviated as IBNR).
3. *Tabarru'* contribution is part of the contribution allocated to *tabarru'* funds.
4. *Tabarru'* fund is a collection of funds derived from contributions of the participants, in which its usage mechanism in accordance with the agreed *tabarru'* contract.

II. CALCULATION OF TECHNICAL RESERVES

1. Calculation of Technical Reserves of sharia insurance business, sharia life insurance business, and sharia reinsurance business shall be conducted by an actuary.
2. Calculation of Technical Reserves shall be performed on the following conditions:
 - a. Using methods and assumptions which is:
 - 1) in accordance with the relevant product characteristics and risk profile;
 - 2) consistent across various products within the same product group;
 - 3) consistent for the same products between the reporting date of technical reserves;
 - 4) guarantees reasonable and fair recognition of liability for all policyholders;

- 5) in accordance with the benefits promised or guaranteed in the insurance policy; and
 - 6) in accordance with actuarial practice standards that applicable in Indonesia.
- b. Actuaries shall provide justification for any assumptions used.
 - c. In the event of any changes in the methods and assumptions, the actuary should explain the reasons and the impacts of these changes to the amount of Technical Reserves and the *Tabarru'* solvency level.
 - d. Actuaries shall perform sufficient procedures to obtain assurance that:
 - 1) the quality of data presented by the Company is complete, accurate and reliable.
 - 2) central estimate/best estimate assumption used by the Company are the present assumptions and based on experience from the past 3 (three) to five (5) years.

III. FORMATION OF CONTRIBUTIONS RESERVES FOR PRODUCTS WITH MATURITY IS MORE THAN 1 (ONE) YEAR IN WHICH THE TERMS AND CONDITIONS OF ITS POLICY CANNOT BE RENEWABLE ANNUALLY

1. Method of Calculation

- a. Contribution reserves shall take into account all revenues and expenditures of *Tabarru'* funds that may occur in the future by assuming the central estimate/best estimate plus a margin for adverse deviation, with a confidence level at least 75% (seventy five percent) at the Company level.
- b. Revenues referred to in letter a includes

- 1) *Tabarru' contribution*; and
 - 2) Payment of reinsurance claims received from reinsurers (claim recovery)
- c. Expenditures as referred to in letter a includes:
- 1) all payments or reimbursements promised will be paid to the participants or beneficiaries of the *Tabarru' fund*;
 - 2) payment of investment return of *Tabarru' funds* to the Company in the event that *Tabarru' funds* investment management using *mudharabah* or *mudharabah musytarakah* contract; and
 - 3) payment of *Tabarru'* reinsurance contribution.
2. Assumptions in the calculation of contribution reserves with the assumption of central estimate/best estimate under the following conditions:
- a. Assumption of the level of claims (mortality/morbidity/incidence rate for life insurance or morbidity/incidence rate for general insurance) shall be based on the table of insurance industry experience in Indonesia.
 - b. Assumption of expenses other than assumption of level of claim shall be based on the Company's recent experience.
 - c. Assumption of transfer of insurance policy or policyholder (lapse/surrender/reinstatement/withdrawal) shall be based on the Company's recent experience.
 - d. Assumption of inflation shall be based on Indonesia's experience from minimum the past 3 (three) years.
 - e. Assumption of discount rate shall be based on the following conditions:
 - 1) highest discount rate is at an average rate of return (yield) of securities issued

- by the Republic of Indonesia at the end of the year in the past three (3) years.
- 2) the discount rate assumption as mentioned in point 1) may be increased at the maximum of 0.5% (zero point five per cent).
 - 3) for policies with IDR denomination, securities issued by the Republic of Indonesia as referred to in point 1) are the benchmark series securities issued by the Republic of Indonesia.
 - 4) for policies with denomination of other than IDR, securities issued by the Republic of Indonesia as referred to in point 1) are securities in US dollars denomination.
 - 5) securities issued by the Republic of Indonesia as referred to in point 1) are securities that have a remaining term of maturity that corresponds with/is close to the average remaining terms of the insurance contract of the Company policy that is still active or in force.
3. In the event that the Company uses assumption of the level of claims, assumption of expenses other than level of claims, assumption of transfer of insurance policy or policyholder, and/or assumption of inflation other than those referred to in item 2 points a to d, the actuary should explain that the assumptions used already reflect condition of the Company are reasonable.
 4. The total value of the contribution reserves to the policy in the same product group should not be less than zero.
 5. For policy that refunds the *Tabarru'* contribution in the event that a participant resigns before the end of insurance period, the amount of contribution reserves shall not be less than the amount of *Tabarru'* contribution which will be returned to

participants.

IV. CALCULATION OF CLAIM RESERVES INCURRED BUT NOT REPORTED

1. The calculation of claim reserves incurred but not reported (IBNR) is calculated based on a reasonable estimate of claims incurred but not yet reported by using the ratio of claims method or one of the triangle methods, including the costs of appraisal of insurance losses, reduced by claim expenses that will be covered by the reinsurer.
2. What is meant by a reasonable estimate of the IBNR calculation as referred to in point 1 is the central estimate/best estimate.

V. OTHER PROVISIONS

The provisions concerning the guidelines in establishing contribution reserves and calculation method of claims reserves shall be applied for the first time for:

- 1) Monthly financial statement ending on 30 June 2015;
- 2) Quarterly financial statement ending on 30 June 2015; and
- 3) Annual financial statement ending on 31 December 2014.

VI. TRANSITIONAL PROVISIONS

For annual financial statement ending on 31 December 2014, the Company may use an average discount rate assumption between the discount rate assumption used by the Company in the statement that ended in 2013 and the assumption referred to in Section III number 2 letter e item 1).

VII. CLOSING PROVISION

This Circular Letter of the Financial Services Authority shall be effective from the date of its stipulation.

For public purpose, this circular letter shall be issued in the state Gazette of the Republic of Indonesia.

Stipulated in Jakarta

on 17 April 2015

CHIEF EXECUTIVE OF

SUPERVISION OF

INSURANCE, PENSION FUND,

FINANCING INSTITUTIONS, AND

OTHER FINANCIAL SERVICES

INSTITUTIONS OF THE INDONESIAN

FINANCIAL SERVICES AUTHORITY,

Signed by

FIRDAUS DJAELANI