

PRESS RELEASE

STIPULATION OF PREMIUM TARIFF AND ACQUISITION COST PROVISION FOR MOTOR VEHICLE AND PROPERTY INSURANCE BUSINESSES AS WELL AS SPECIAL RISKS INSURANCE COVERING FLOOD, EARTHQUAKE, VOLCANO ERUPTION AND TSUNAMI

WITH APPEALS TO INSURANCE INDUSTRY PLAYERS AND POLICYHOLDERS OF BUILDING, VEHICLE AND PROPERTY INSURANCE IN RELATION TO CURENT FLOOD DISASTER

A. STIPULATION OF PREMIUM TARIFF

1. We've acknowledged that article 20 of Government Regulation No. 73 of 1992 on insurance business management, which has been amended several times in Government Regulation No. 81 of 2008, gives mandate that premium tariff must be stipulated at a sufficient level, not excessive and not to be implemented discriminatively. Furthermore, article 19 of Finance Minister Decision No. 422/KMK.06/2003 stipulates that premium tariff must be calculated based on risk and loss profile in at least five years. In accordance to those matters, as one of the efforts to support healthy competition in insurance business, it is considered important to stipulate premium tariff and acquisition cost provision for some lines of insurance businesses and special risks insurance.
2. Based on intensive discussions with some insurance associations and insurance industry players, the Financial Services Authority (OJK) considers that lines of business which require regulation are motor vehicle and property insurance businesses. Apart from that, there are several businesses in special risks insurance that also require regulation, that is insurance covering flood, earthquake, volcano eruption and tsunami. Based on the considerations, OJK has issued **Circular Letter No. SE-06/D.05/2013 dated December 31st, 2013 on stipulation of premium tariff and acquisition cost provision for motor vehicle and property insurance businesses and special risks insurance covering flood, earthquake, volcano eruption and tsunami in 2014.**
3. The circular letter regulates minimum and maximum premium tariffs, except for earthquake insurance. Maximum tariff is stipulated in order to protect consumers from imposition of over-priced premium rate. Whereas minimum tariff is aimed at preventing inadequate premium rate, which can cause inability to insurers to pay insurance claims. Therefore, the stipulation of minimum premium tariff is eventually to protect the interests of policyholders. Aside from that, the stipulation of maximum and minimum rates is expected to provide a space for insurance companies to compete more healthily as they are thereby enabled to focus on competing in their services.
4. More specifically, stipulation of premium tariff as described in the circular letter contains these following matters:

- a) Premium tariff for motor vehicle insurance; regulation amendment on the partition of 3 areas, namely Area 1 (Sumatera and surrounding islands), Area 2 (Greater Jakarta, West Java and Banten) and Area 3 (outside Area 1 and Area 2) considering that loss profile data for the three areas shows different risk characteristics.
 - b) Regulation on tariff for property insurance refers to 120 codes of building occupancy with basic protection against FLEXA (fire, lighting, explosion and aircraft), whereas other additional risks that are not regulated in the circular letter must be charged with additional premium bases on insurance company policy.
 - c) Regulation on flood insurance tariff is differentiated into 2 areas, namely for areas in Greater Jakarta, Banten and West Java and areas outside of Greater Jakarta, Banten and West Java, and 4 zones that are differentiated based on flood level that had been experienced.
 - d) Regulation on earthquake insurance tariff is stipulated equally with previous provision, in which the regulation is based on 5 potential earthquake zones.
5. In order to implement the circular letter effectively, OJK has conducted socialization for general insurance companies, reinsurance companies, and insurance and reinsurance broker companies. For the next steps, OJK will also conduct socialization immediately for other parties related to motor vehicle and property insurance businesses, such as finance company, banking, motor vehicle dealer/showroom and public. Simultaneously, OJK will as well perform supervision, in relation to implementation of the circular letter, over general insurance and reinsurance companies, including imposition of administrative sanctions due to violations. As a preventive measure, OJK has issued Letter No. S-6/D.05/2014 which contains warning not to do efforts considered not complying with provision in the circular letter. For instance, by cancelling insurance policy that is yet to meet its maturity and re-issues it during transition period between the circular letter's date of issuance and the date when the circular letter takes effect.

B. APPEALS RELATED TO FLOOD DISASTER

1. Regarding natural disasters that have happened in Indonesia recently, such as volcanic eruption, landslide and flood, OJK offers deep concern and urges insurance companies to immediately realize their obligation to pay insurance claims to policyholders who suffered from losses according to their policy protection. OJK will continually monitor the process of claim service for people affected by natural disasters so that all liable claims can be handled well and quickly. OJK has appealed to insurance companies, requiring them to give time limit for claim reports according to conditions in the field and to simplify administration process related with requirement of documents for claims in case the documents cannot be found or damaged due to disasters.
2. To members of society who own insurance policy for their buildings, vehicles and properties, OJK urges them to immediately report their losses to insurance companies that issue policy with flood expansion, and ask the insurance companies to instantly follow up the incoming reports by conducting surveys or cooperate with independent loss adjusters in order to assess the losses and thereby claim payment can be done right away pursuant to the prevailing regulations.

3. The total value of claims due to current flood disaster still cannot be determined until today. However, the number of claims due to flood disaster in 2014 is estimated lower than that of 2013. OJK, in cooperation with Association of General Insurance Companies (AAUI), is currently gathering and compiling the data on flood for data updating in a bid to make the stipulation of premium tariff more perfect.

In order to create compliance with the issued circular letter, including compliance with other provisions, OJK will tightly monitor business practices performed by insurance and reinsurance companies through examinations and/or other necessary measures, among others is by conducting repeated fit and proper test for directors and commissioners of insurance and reinsurance companies who commit infringement.

Jakarta, January 24th, 2014

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