Unofficial Translation

MINISTRY OF FINANCE OF THE REPUBLIC OF INDONESIA

INDONESIA CAPITAL MARKET AND FINANCIAL INSTITUTIONS SUPERVISORY AGENCY

COPY OF

REGULATION OF THE CHAIRPERSON OF INDONESIA CAPITAL MARKET AND FINANCIAL INSTITUTIONS SUPERVISORY AGENCY

NUMBER: PER-09/BL/2012

CONCERNING

THE GUIDELINES FOR FORMATION OF TECHNICAL RESERVES FOR INSURANCE COMPANIES AND REINSURANCE COMPANIES

THE CHAIRPERSON OF INDONESIA CAPITAL MARKET AND FINANCIAL INSTITUTIONS SUPERVISORY AGENCY,

Considering : that in order to implement Article 19 of the Regulation of the Minister of Finance Number 53/PMK.010/2012 on the Financial Soundness of Insurance Companies and Reinsurance Companies, it is necessary to stipulate a Regulation of the Chairperson of Indonesia Capital Market and Financial Institutions Supervisory Agency concerning the Guidelines for Formation to Technical Reserves for Insurance Companies and Reinsurance Companies;

In view of :

1. Law Number 2 of 1992 concerning Insurance Business (State Gazette of the Republic of Indonesia Number 13 of 1992 and Supplement to the State Gazette Number 3467);
2. Government Regulation Number 73 of 1992 concerning the Operations of Insurance Business (State Gazette of the Republic of Indonesia Number 120 of 1992, Supplement to the State Gazette of the Republic of Indonesia Number 3506) as has been amended several times and last by the Government Regulation Number 81 of 2008 (State Gazette of the Republic of Indonesia

Number 212 of 2008, Supplement to the State Gazette of the Republic of Indonesia Number 4954);

3. Regulation of the President of the Republic of Indonesia Number 24 of 2010 concerning the Positions, Duties, and Functions of State Ministries as well as the Organizational Structures, Duties, and Functions of Echelons I of State Ministries as has been amended several times and last by the Regulation of the President of the Republic of Indonesia Number 92 of 2011;
4. Regulation of the Minister of Finance Number 184/PMK.01/2010 concerning the Organization and Administration of the Ministry of Finance;
5. Regulation of the Minister of Finance Number 53/PMK.010/2012 concerning the Financial Soundness of Insurance Companies and Reinsurance Companies;

HAS DECIDED:

To enact : REGULATION OF THE CHAIRPERSON OF INDONESIA CAPITAL MARKET AND FINANCIAL INSTITUTIONS SUPERVISORY AGENCY CONCERNING THE GUIDELINES FOR FORMATION OF TECHNICAL RESERVES FOR INSURANCE COMPANIES AND REINSURANCE COMPANIES

Part One

MINISTRY OF FINANCE OF THE REPUBLIC OF INDONESIA

INDONESIA CAPITAL MARKET AND FINANCIAL INSTITUTIONS SUPERVISORY AGENCY

Error! Unknown **switch argument.**

General Provisions

Article 1

In this regulation:

1. Company is Insurance Company or Reinsurance Company, whether incorporated as a limited liability company or a non-limited liability company.
2. Inherent Derivative Benefit is a future benefit promised by the insurance company to the insured/policyholders, which is linked to a specific condition.
3. Non-Binding Participation Feature Benefit is an option given by the insurance company to the insured/policyholders to receive a specific benefit with or without paying extra premiums.
4. Unearned premium reserve, hereinafter abbreviated to UPR is the fund that must be formed to represent the portion of the premiums with unexpired insurance period.
5. Unexpired risk reserve, hereinafter abbreviated to URR is the estimated claim payment that will be made in future insurance period arising from policies in force on the date of formation to technical reserves, including any existing claim handling costs.

Part Two

General Guidelines

Article 2

(1) The Company must form to technical reserves using the following methods and assumptions:
   a. it is in accordance with to the relevant product characteristics and risk profiles;
   b. it is consistent across various products within the same product group;

c. it is consistent for the same products between the reporting date of technical reserves;
d. it guarantees reasonable and fair recognition of liability for all policyholders;
e. it is in accordance with the promised or guaranteed benefits in the policies; and
f. it is in accordance with actuarial practice standards that applicable in Indonesia.

(2) If there is a change in the methods and assumptions of formation to technical reserves, the appointed Company's actuary must explain the reason for and effect of such change on the reported technical reserves and the Company's solvency level.

Article 3

(1) When making formation to technical reserves, the appointed Company's actuary must follow the proper procedures to gain assurance that:
a. the data presented by the Company is complete, accurate, and reliable; and
b. the central estimate or best estimate assumption used by the Company is the latest assumption and based on the experiences from the past 3 (three) to 5 (five) years.

(2) When making formation to technical reserves, the appointed Company's actuary must provide justification for every use of assumption.

Part Three

Premium Reserves

Article 4

(1) The technical reserves in the form of premium reserves for any insurance products with a period of more than 1 (one) year and non-renewable terms on every policy anniversary shall be valuated based on the central estimate or best

estimate of possible future revenues and expenses plus margins for adverse deviation with at least 75% (seventy five percent) confidence level on the Company level.

(2) The expenses as referred to in paragraph (1) shall include expenses of:
   a. main insurance benefits;
   b. Inherent Derivative Benefits;
   c. Non-Binding Participation Feature Benefits;
   d. marketing costs;
   e. policy issuance costs;
   f. policy maintenance costs; and
   g. taxes, except income taxes.

(3) The revenues as referred to in paragraph (1) shall include revenues of:
   a. premium income, i.e. based on gross premiums, including extra premiums due to additional medical risks, occupational risks, and other risks;
   b. premium income from Inherent Derivative Benefits;
   c. premium income from Non-Binding Participation Feature Benefits; and
   d. other income in direct relation to insurance contracts.

(4) The revenues and expenses as referred to in paragraph (1) shall exclude:
   a. investment revenues;
   b. revenues and expenses from and for reinsurance;
   c. revenues and expenses from and for accumulated fund reserves;
   d. revenues and expenses from and for claim reserves; and
   e. revenues and expenses from and for different policyholder entities.

Article 5

(1) The discount rate assumption used to calculate premium reserves shall be at maximum of the average yield rate of securities issued by the Republic of Indonesia at the end of the year for the past 3 (three) years.

(2) The discount rate assumption as referred to in paragraph (1) may be increased at maximum 0.5%.

(3) For rupiah-denominated policies, the securities issued by the Republic of Indonesia as referred to in paragraph (1) shall be benchmark series securities issued by the Republic of Indonesia.

(4) For foreign-currency denominated policies, the securities issued by the Republic of Indonesia as referred to in paragraph (1) shall be United States dollar-denominated securities issued by the Republic of Indonesia.

(5) The securities issued by the Republic of Indonesia as referred to in paragraph (1) shall be securities issued by the Republic of Indonesia with the remaining term of maturity consistent with/close to the average remaining insurance contract period of the Company's policies in force.

(6) Up to December 31, 2013, the Company may use:
   a. the discount rate assumption used by the Company in 2012 year-end report; or
   b. the discount rate assumption as referred to in paragraph (1).

(7) Up to December 31, 2014, the Company may use:
   a. the average discount rate assumption between the discount rate assumption used by the Company in 2012 year-end report and the discount rate assumption as referred to in paragraph (1); or
   b. the discount rate assumption as referred to in paragraph (1).

Article 6

(1) When the Company makes the formation to premium reserves as referred to in Article 4 paragraph (1), the following terms shall apply:
   a. for cost assumption, using the company's latest experience consisting of fixed costs and variable costs linked to the number of policies/participants in force,

premium billing, claim filing, total premiums and sum insured of policies/participants in force;

b. for claim rate assumption (mortality/morbidity/incidence rate), using the table of Indonesian insurance industry's experience;
c. for policy/participant transfer assumption (lapse/surrender/reinstatement/withdrawal), using the company's latest experience; and
d. for inflation assumption, using Indonesia's experiences for at least the past 3 (three) years.

(2) If the Company uses cost assumption, claim rate assumption, policy/participant transfer assumption and/or inflation assumption other than those referred to in letter a to letter d, the appointed Company's Actuary must explain that the assumptions used have reasonably reflected the Company's condition.

(3) The total premium reserve value for policies within the same product category shall not be less than zero.

(4) In the case that the total formed premium reserves are less than the total cash value, the Company must increase the premium reserve value to at least equal to the cash value.

Part Four

Unearned Premium Reserves and Unexpired Risk Reserves

Article 7

(1) For products with a period of up to 1 (one) year or more than 1 (one) year and renewable terms on every policy anniversary, the Company must calculate UPR and URR.

(2) The formed reserves for the products as referred to in paragraph (1) is whichever larger between the UPR and the URR as referred to in paragraph (1).

Article 8

(1) The UPR shall be calculated daily based on the proportion of gross premiums for unexpired insurance period.
(2) The gross premiums as referred to paragraph (1) is gross premiums minus direct commissions.
(3) The direct commissions as referred to in paragraph (2) calculated in the formation to UPR is actual commissions paid by the Company.
(4) The direct commissions as referred to in paragraph (2) calculated in the formation to UPR shall be maximum 20% (twenty percent) of gross premiums.

Article 9

(1) The URR shall be calculated under the following terms:
    a. the URR shall be calculated for every business line or product with similar risk characteristics, including catastrophic risks, by multiplying the average claim ratio for the past 3 (three) years with the UPR;
    b. the claim ratio as referred to in letter a shall be calculated by dividing the claim paid for a period of 1 (one) year by the premium income for the same period of 1 (one) year;
    c. the average claim ratio shall be calculated by dividing the sum of the ratio claim as referred to in letter b for the past 3 (three) years by 3 (three);
    d. the premium income as referred to in letter b shall be the premium income for the past 1 (one) year plus the decrease in UPR or minus the increase in UPR for the past 1 (one) year.
(2) The UPR value for every policy shall not be less than zero.
(3) In the event that the total formed UPR or URR are less than the promised return on premium value, the Company must increase the reported reserve value to at least equal to the total promised return on premium value.

Part Five

Accumulated Fund Reserves

Article 10

(1) The technical reserves in the form of accumulated fund reserves for any products or any parts of products that provide benefits in the form of accumulated funds shall be at least equal to the sum of:
   a. accumulated asset fair value;
   b. Inherent Derivative Benefit estimated value; and
   c. Non-Binding Participation Feature Benefit estimated value.

(2) The Inherent Derivative Benefit estimated value and the Non-Binding Participation Feature Benefit estimated value shall be calculated under the following terms:
   a. for insurance products that provide guaranteed refunds, they shall be at least equal to the positive difference of refund obligation value minus the accumulated asset fair value up to the date of formation to technical reserves; and
   b. for insurance products that provide guaranteed benefits on the basis of changes in a variable and are a requirement for benefit provision, they shall be calculated based on the central estimate or best estimate of possible future revenues and expenses plus the margins for adverse deviation with at least 75% (seventy five percent) confidence level on the Company level.

(3) The period used to estimate the Inherent Derivative Benefit and the Non-Binding Participation Feature Benefit as referred to in paragraph (2) shall refer to the contract period referred to in policy terms.

(4) The accumulated fund reserve value for every policy shall not be less than zero.

(5) In the event that the total formed accumulated fund reserves are less than the promised accumulated fund benefit value, the Company must increase the

accumulated fund reserve value to at least equal to the promised accumulated fund benefit value on the date of formation to technical reserves.

Part Six

Claim Reserves

Article 11

(1) The technical reserves in the form of claim reserves shall be calculated at least equal to the sum of:
   a. estimated value of claim on process; and
   b. estimated value of Claim Incurred But Not Reported.

(2) The value of claim on process for insurance products and/or reinsurance products shall be calculated at least based on the central estimate or best estimate of incurred and reported but on process claim, plus the insurance loss adjuster's cost, legal settlement cost and other costs in relation to claim settlement.

(3) The value of Claim Incurred But Not Reported shall be calculated based on the central estimate or best estimate of incurred but not reported claim using the claim ratio method or one of the triangle methods, plus the insurance loss adjuster's cost.

(4) In the event that the on process claim as referred to in paragraph (1) letter a cannot be estimated, the reserves shall be calculated by multiplying the average percentage of claim paid by sum insured for the same business line in the previous fiscal year with the sum insured of such claim.

Part Seven

Reinsurance Assets

Article 12

(1) In the event that the Company reinsures the risks covered, estimated value of the claim recovery for the portion of reinsurance formed by the Company shall be calculated consistently with the formation to technical reserves stipulated in this Regulation of the Chairperson;

(2) Estimated value of the claim recovery for the portion of reinsurance formed by the Company shall be presented as assets constituting a part of the reinsurance receivables and included in the admitted assets in the calculation of financial soundness level.

Article 13

This regulation shall come into effect on January 1, 2013.

Stipulated in Jakarta

on December 27, 2012

CHAIRPERSON OF INDONESIA CAPITAL MARKET AND FINANCIAL INSTITUTIONS SUPERVISORY AGENCY

Signed by

NGALIM SAWEGA

Copy is in accordance with the original

Head of General Affairs

Signed by

Prasetyo Wahyu Asi Suryo

MINISTRY OF FINANCE OF THE REPUBLIC OF INDONESIA

INDONESIA CAPITAL MARKET AND FINANCIAL INSTITUTIONS
SUPERVISORY AGENCY

Error! Unknown **switch argument.**

NIP[1] 19571028 198512 1 001

[1] *Nomor Induk Pegawai* or Civil Service Employment Number