

DEPARTMENT OF FINANCE OF THE REPUBLIC OF INDONESIA
INDONESIA CAPITAL MARKET AND FINANCIAL INSTITUTIONS
SUPERVISORY AGENCY

COPY OF

DECISION LETTER OF THE CHAIRPERSON OF INDONESIA CAPITAL
MARKET AND FINANCIAL INSTITUTIONS SUPERVISORY AGENCY

NUMBER: KEP-104/BL/2006

CONCERNING

UNIT-LINKED PRODUCTS

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

- Considering :
- a. that nowadays unit-linked products have grown so rapidly both in terms of number of the insured and total accumulated funds;
 - b. that in relation to the foregoing, in order to improve transparency to unit-linked product policyholders, it is deemed necessary to amend the Decision Letter of the Director General of Financial Institutions Number Kep-2475/LK/2004 concerning Investment-Linked Insurance Products by stipulating a new Decision Letter of the Chairperson of Indonesia Capital Market and Financial Institutions Supervisory Agency concerning Unit-Linked Products;
- Observing :
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 20 of 1992, Supplement to the State Gazette of the Republic of Indonesia Number 3506) as has been amended by the Government Regulation Number 63 of 1999 (State Gazette of the Republic of Indonesia Number 118 of 1999, Supplement to the State Gazette of the Republic of Indonesia Number 3861);
3. Presidential Regulation Number 9 of 2005 concerning the Positions, Duties, Functions, Organizational Structures, and Administration of State Ministries of the Republic of Indonesia as has been amended by the Presidential Regulation Number 62 of 2005;
4. Presidential Regulation Number 10 of 2005 concerning the Organizational Units and Duties of Echelons I of State Ministries of the Republic of Indonesia as has been amended several times and last by the Presidential Regulation Number 66 of 2006;
5. Decree of the Minister of Finance of the Republic Indonesia Number 422/KMK.06/2003 concerning the Implementation of Insurance Company and Reinsurance Company Businesses;
6. Decree of the President of the Republic of Indonesia Number 45/M of 2006;

HAS DECIDED:

To issue : **DECISION LETTER OF THE CHAIRPERSON OF INDONESIA CAPITAL MARKET AND FINANCIAL INSTITUTIONS SUPERVISORY AGENCY CONCERNING UNIT-LINKED PRODUCTS.**

Article 1

The provisions for unit-linked products shall be stipulated in the Regulation of Insurance Business Number 2 as specified in the Appendix to this Decision Letter.

Article 2

Upon the stipulation of this Decision Letter, the Decision Letter of Director General of Financial Institutions Number Kep-2475/LK/2004 concerning Investment-Linked Insurance Products shall be declared invalid.

Article 3

Any life insurance companies that have marketed unit-linked products prior to the issuance of this Decision Letter must make adjustments according to the Regulation of Insurance Business Number 2 in the Appendix to this Decision Letter no later than one year following the issuance of this Decision Letter.

Article 4

This Decision Letter shall come into effect on the date of issuance.

In order that it is known by the public, it is ordered that this Decision Letter is announced by its placement on the Official State Gazette of the Republic of Indonesia.

Issued in : Jakarta

on : October 31, 2006

Chairperson of Indonesia Capital Market
and Financial Institutions Supervisory
Agency,

signed

A. Fuad Rahmany

NIP¹ 060063058

Provided as a true copy

Secretary

signed

Abraham Bastari

NIP 060076245

¹ *Nomor Induk Pegawai* or Civil Service Employment Number

APPENDIX

Decision Letter of the Chairperson of Indonesia
Capital Market and Financial Institutions
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REGULATION OF INSURANCE BUSINESS NUMBER 2: UNIT-LINKED PRODUCTS

1. A unit-linked product shall mean a life insurance product that meets the following criteria:
 - a. the promised benefit value is determined by the performance of investment sub-funds created by the unit-linked;
 - b. the benefit value received from the investment sub-funds is stated in units; and
 - c. it incorporates natural death risk coverage.
2. The unit-linked product as referred to in number 1 must comply with the following provisions:
 - a. for a Rupiah-denominated insurance policy, the minimum sum insured for natural death is:
 - 1) for a policy with a single premium payment, whichever greater between Rp 15,000,000 (fifteen million Rupiah) and 125% (one hundred twenty five percent) of the single premium; or
 - 2) for a policy with a regular premium payment, whichever greater between Rp 7,500,000 (seven million five hundred thousand Rupiah) and 5 (five) times the annual premium;
 - b. for a foreign-currency denominated insurance policy, the minimum sum insured for natural death is:
 - 1) for a policy with a single premium payment, whichever greater between US\$ 1,500 (one thousand five hundred United States Dollar) and 125% (one hundred twenty five percent) of the single premium; or

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- 2) for a policy with a regular premium payment, whichever greater between US\$ 750 (seven hundred fifty United States Dollar) and 5 (five) times the annual premium;
- c. it has a minimum insurance policy period of 5 (five) years.
3. Unit-Linked Product's Name and Investment Strategy
 - a. A Life Insurance Company shall not give to the unit-linked product, a name that can lead to different interpretations about its investment strategy.
 - b. The investment strategy for the unit-linked can be:
 - 1) Money market investment strategy, if the life insurance company invests the sub-fund's assets in debt securities with a maturity of less than 1 (one) year and/or Money Market Mutual Fund Units.
 - 2) Fixed-income investment strategy, if the life insurance company invests at least 80% (eighty percent) of the sub-fund's assets in debt securities and/or Fixed-Income Mutual Fund Units.
 - 3) Equity investment strategy, if the life insurance company invests at least 80% (eighty percent) of the sub-fund's assets in equities and/or Equity Mutual Fund Units.
 - 4) Balanced investment strategy, if the life insurance company invests the sub-fund's assets in debt securities and equities with a composition other than as referred to in point 2) or point 3), and/or Balanced Mutual Fund Units.
 - 5) Sharia investment strategy, if the life insurance company invests the entire sub-fund's assets in Sharia securities.
 - c. The life insurance company must create a sub-fund for each investment strategy.
 - d. The asset types available as options for creating sub-funds must comply with Article 21 paragraph (2) of the Decree of the Minister of Finance Number

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424/KMK.06/2003 as has been amended by the Regulation of the Minister of Finance Number 135/PMK.05/2005.

e. The benefit value reserved as the rights of policyholder is determined based on the number and value of its sub-funds units.

4. Sub-Fund's Asset Value

a. The life insurance company must value the assets of every sub-fund based on the fair value.

b. The assets of every sub-fund shall be valued based on the fair value of each asset type forming it.

c. The fair value of each asset type as referred to in letter b shall be as follows:

1) Cash and bank, based on the nominal value.

2) Time deposits, including deposits-on-call and deposits with a term of 1 (one) month or less, based on the nominal value.

3) Certificates of deposit, based on the cash value.

4) Shares, as follows:

a) for those actively traded in the Stock Exchange, based on the market price according to the information of the last trade price of such shares in the Stock Exchange;

b) for those inactively traded in the Stock Exchange, the life insurance company must set a price for such shares in good faith and with full responsibility by taking into account previous last trade prices or comparative prices for similar shares.

5) Debt securities issued by a company, i.e. bonds and Medium Term Notes (MTN), as follows:

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- a) for those actively traded in the Stock Exchange based on the market price according to the information of the last trade price of such securities in the Stock Exchange;
 - b) for those inactively traded in the Stock Exchange, the life insurance company must set a price for such securities in good faith and with full responsibility by taking into account previous last trade prices or comparative prices for similar securities.
- 6) Mutual Fund Units, based on the net asset value.
- 7) Government of Indonesia or Bank Indonesia bonds or other securities, as follows:
- a) for those actively traded in the Stock Exchange based on the market price according to the information of the last trade price of such bonds or other securities in the Stock Exchange;
 - b) for those inactively traded in the Stock Exchange, the life insurance company must set a price for such bonds or other securities in good faith and with full responsibility by taking into account previous last trade prices or comparative prices for similar bonds or other securities;
 - c) for those traded outside the Stock Exchange based on the reference price published by the trade operator of Government of Indonesia or Bank Indonesia bonds and other securities authorized by the Indonesia Capital Market and Financial Institutions Supervisory Agency.
- d. The asset valuation for every sub-fund shall be carried out on a daily basis.
5. Marketing Brochure
- a. To market the unit-linked product, the life insurance company must use brochures containing at least the following:

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- 1) general information about insurance benefits stating that the policy benefits depend on investment performance and other factors affecting them;
- 2) information about investment strategies.
- 3) the description of risks borne by policyholders;
- 4) the breakdowns of all costs, fees, and charges collected from policyholders, among others, acquisition costs, management fees, and mortality charges;
- 5) withdrawal fees;
- 6) the description of the basis of policy benefits calculation;
- 7) the description of the basis and frequency of funds valuation;
- 8) the description of guaranteed matters for policyholders, if any, for example guaranteed minimum death benefits, maximum mortality charges and other fees, minimum interest rates, minimum cash values, and guaranteed maturity benefits;
- 9) the illustration of benefit growth, including death insurance benefits, based on realistic assumptions and presented in graphs or diagrams;
- 10) the description of investment performance of the relevant sub-funds within a period of at least the past 5 (five) years or the actual period for a company selling the product for less than 5 (five) years; and
- 11) statements clarifying that:
 - a) the benefit value may increase or decrease;
 - b) the benefit growth as referred to in point 9) is for illustration purposes only;
 - c) it is not guaranteed that the investment performance of sub-funds will be the same as that during the period as referred to in point 10); and

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- d) the benefit value may be less than the value of funds invested, depending on whether or not some of the benefits are guaranteed.
 - b. The statements as referred to in letter a point 11) must be printed in such a way that they are easily legible and intelligible.
 - c. The life insurance company must furnish prospective policyholders with information stated in the marketing brochures and about the risks contained in the investment strategies.
6. Every business day, the life insurance company must supply the public with information about the prices of sub-funds units it manages by at least placing it on one nationally circulated Indonesian-language daily newspaper.
7. In addition to complying with Article 8 of the Regulation of the Minister of Finance Number 422/KMK.06/2003 concerning the Implementation of Insurance Company and Reinsurance Company Businesses, the insurance policy for the unit-linked product must at least also contain the following information or provisions:
- a. the period in which it is possible for the policyholder to return policy to the life insurance company and receive the refund of premiums it has paid minus the administrative fees;
 - b. the investment strategies;
 - c. the creation of units derived from the premiums;
 - d. the method and frequency of unit valuation;
 - e. the rights of policyholder to choose one or more sub-funds;
 - f. the rights of policyholder to move funds from one unit-linked product to another unit-linked product;
 - g. the rights of policyholder not to pay premiums within a set period of time; and

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- h. the breakdowns of all costs, fees, and charges collected from the policyholder, among others, acquisition costs, management fees, and mortality charges.
8. Funds Progress Reporting
- a. The life insurance company must report the funds progress, which is the rights of policyholders, to the relevant policyholder at least once a year.
 - b. The funds progress reporting as referred to in letter a shall at least contain the following:
 - 1) the values and prices of sub-fund units as at the date of valuation for the current period and past periods;
 - 2) the values and prices of sub-fund units bought during the current period;
 - 3) the values and prices of sub-fund units sold during the current period;
 - 4) the breakdowns of all costs, fees, and charges collected from the policyholder, among others, acquisition costs, management fees, mortality charges, and rider charges;
 - 5) the sum insured for death at the end of the current period;
 - 6) the net cash value at the end of the current period;
 - 7) the balance of policy loan, if any, at the end of the current period;
 - 8) the net yield for a period of at least the past 5 (five) years, if available, for every sub-fund; and
 - 9) the breakdown of investment composition for every sub-fund as at the date of reporting.
9. An agent or a marketing officer may market the unit-linked product if it meets the following terms:
- a. having an agent certificate from *Asosiasi Asuransi Jiwa Indonesia* (Indonesia Life Insurance Association); and

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b. having a special agent certificate for unit-linked products from *Asosiasi Asuransi Jiwa Indonesia*.

Stipulated in : Jakarta

on : October 31, 2006

Chairperson of Indonesia Capital Market
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