

## Factsheet microinsurance business model

# Indonesia: Synergy in Public-Private Partnership in Implementing the National Strategy for Financial Inclusion: A Case of Microinsurance Penetration in East Nusa Tenggara Province

### Background

On 1 September 2016, Indonesia President Joko Widodo signed a Presidential Regulation No. 82/2016 on **National Strategy for Financial Inclusion** (Strategi Nasional Keuangan Inklusif – SNKI). SNKI focuses on six pillars: financial education, public financing facilities, financial information mapping, supportive regulations, distribution networks and intermediation facilities and consumer protection. The main target is to increase the proportion of its citizens who have access to product and services of financial service (financial literacy index) from 36% in 2013 to 75% by 2019. Based on the data released by OJK on 25 January 2017, the index for 2016 is 67.82%. In some less developed provinces, the index is still below 67.82%.

In order to achieve the target, all government bodies and institutions have to work appropriately and synergize all resources especially at the provincial and district levels. Therefore, the OJK provincial offices are challenged to develop strategies which match well with those of the local society.

Since the Indonesian government is focusing on the development of the most remote and least income province in the eastern part of the country, NTT has been designated as one of the targets for the Financial Inclusion program. Incidentally, OJK at East Nusa Tenggara Province (OJK NTT) is one of the local offices of OJK that have a high interest to do the challenge of promoting microinsurance as a strategy for financial inclusion. Given this situation, and having its own branch office in NTT with the capacity to implement a microinsurance program, PT. Asuransi Central Asia (ACA) considered NTT as an ideal location for piloting a business model in support to SNKI.

### Profile of ACA

ACA is a general insurance company with a mission to provide inclusive insurance products for the poor in Indonesia. It offers a wide range of property insurance products, including fire, theft and burglary, and home protection policies; motor car insurance policies; engineering and electronic insurance products; marine

cargo and hull policies; and miscellaneous insurance products, including personal safety, medical, dengue fever, travel safe, personal accident, directors and officers liability, money, and growing trees policies, as well as custom and surety bonds. Currently, ACA has 36 branches and 34 representative offices located throughout Indonesia, and 1 (one) sharia unit in Jakarta.

### GIZ and MEFIN Support

In May 2016, ACA was visited by a Mission of the GIZ Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (GIZ-RFPI Asia). The Mission resulted to a partnership in the development and documentation of innovative business models. GIZ-RFPI Asia also helps ACA in awareness campaigns and training of agents, if needed. ACA is also supported by the Mutual Exchange Forum on Inclusive Insurance (MEFIN) in the areas of capacity building and awareness campaign to advance the implementation of business models developed.

### Profile of NTT Province

Nusa Tenggara Timur, which means "eastern southeastern islands", is composed of more than 500 islands and occupies about 47,931,54 square meters of land area. NTT has a total population of 5,120,061. The three largest districts with the most dense population are: Timor Tengah Selatan district (495,310), Kupang City (390,877), and Kupang district (348,010). About 22% of the total population are considered poor, the third largest in Indonesia. From the age perspective, 35% of the children are 0-14 years old, 60% are in the productive age 15-64 years old and 5% are elderly above 65 years of age.

NTT has a high unemployment rate of 30%. Maternal and infant mortality rates are high partly because of poor access to health facilities especially in rural areas.

### Funeral Insurance: Culture-based strategy

During the discussion with ACA's Kupang Branch Manager in December 2016, the head of OJK NTT shared some important



*This factsheet is jointly produced and published by the Financial Services Authority of Indonesia (OJK), PT Asuransi Central Asia (ACA), and the German Development Cooperation - Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (GIZ-RFPI Asia) for the MEFIN Network, a collegial body of insurance policy makers and regulators in Asia. RFPI Asia is the Secretariat of MEFIN Network. Contact us: +63 2 353 1044-45. [www.mefin.org](http://www.mefin.org)*

information about the local culture. Part of the culture is spending much money for the funeral of a family member. This practice causes financial difficulties to the family especially if the deceased was the bread winner. With this background, ACA assessed that funeral insurance is an appropriate product to introduce in NTT Province in line with the government's strategy for financial inclusion. With the support of OJK, ACA sees a synergy of public-private partnership in implementing the SNKI.

### Financial Institutions

Financial institutions play a significant role in the implementation of the SNKI. Quite a big number of them are operating in NTT such as the following:

- a. **MFIs.** Currently, there are only 9 MFIs and all of them are under the supervision of OJK NTT. Most MFIs work with 2 insurance companies – with life insurance to provide credit life to cover the death of the borrower, and with credit insurance to cover credit default due to any cause.
- b. **Credit Unions.** These financial institutions have been well established in the province since 1960. In 2010, there were 209 Credit Unions (CUs) in NTT with more than 126,832 members. These CUs are members of CUCO, the Indonesian Credit Union Association. CUs apply for self-insurance to manage their own risks. They are not under the supervision of OJK.
- c. **Cooperatives.** As of November 2016, 3,955 of the 4,037 cooperatives in the country, are in NTT and have been registered with the Ministry of Cooperative at the provincial level. Although about 15% - 20% of the coops are not active, NTT has been awarded as the Cooperative Province because of the high growth of the number of coops that are spreading among all districts and employing more than 680,000 individuals. Like the MFIs, cooperatives normally partner with life and credit insurance companies.

### Challenges and Ways Forward

As a partner of government in implementing the SNKI in NTT Province, ACA faces the following challenges:

- a. **Education.** Most of the people are not insurance literate. Therefore, the first challenge is to find out the most effective and most efficient way to make the people

understand the main purpose and benefits of inclusive insurance. Partnering with OJK NTT is one of the ways to do the financial literacy campaign.

- b. **Stakeholders.** Another challenge is identifying the stakeholders and involving them continuously through a solid ecosystem making them well literate and willing to share to others their experiences on the benefits of inclusive insurance products. Whilst the new city major has just been elected for the 2017-2022 period, ACA plans to propose microinsurance to become part of the city program to protect the poor.
- c. **Business model.** Developing a business model with low administration cost and accessible through trusted and reputable distribution channels is another challenge. Ideally, this model should include education, product knowledge, customer data entry, premium collection, insurance certificate delivery, claim report, claim handling, renewal and data analysis using technology.
- d. **Distribution channel.** Another challenge is tapping a distribution channel that has access to many people given the big number of islands in the province. ACA shall choose the right channels that can reach all target markets.

### Formalizing the “Informal”: An opportunity for Inclusive Insurance

As members of the CUCO, CUs are provided a national protection scheme called DAPERMA. DAPERMA is mandatory and covers the CU's outstanding loan should a borrower passes away or suffers from total permanent disability. It consists of funeral insurance, hospital cash plan and social fund. The CU pays the premium from its income. This “informal insurance” has been running for more than 10 years and the CU manages the fund 100% at its own risk. Partnering with CUs in the implementation of SNKI offers an opportunity to formalize this informal scheme, thus, providing a mechanism to transfer the risk from the CU to an insurance company like ACA.



*This factsheet is jointly produced and published by the Financial Services Authority of Indonesia (OJK), PT Asuransi Central Asia (ACA), and the German Development Cooperation - Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (GIZ-RFPI Asia) for the MEFIN Network, a collegial body of insurance policy makers and regulators in Asia. RFPI Asia is the Secretariat of MEFIN Network. Contact us: +63 2 353 1044-45. [www.mefin.org](http://www.mefin.org)*