

LIFE INSURANCE BUSINESS DEVELOPMENT IN INDONESIA

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As we know that life insurance industry has given a very significant contribution to the development of some countries or nations. Advancement of a country will create good opportunities for improving the welfare of its nation and society, and prosperity of a nation will stimulate the growth of life insurance business. On the contrary, the advancement of life insurance industry in a country will provide very significant contribution to the country development. In a country in which the life insurance industry develops well, we can prove that its people have had high insurance awareness or fact even insurance mindedness, and the society mindedness to insurance will stimulate the growth of the life insurance industry.

Realities that we can see in some advanced countries (industrialized countries) compel us to believe that the efforts for

developing a country and the efforts for advancing its life insurance industry will be better if both activities are carried out simultaneously.

Historically the oldest national or domestic life insurance company in Indonesia was established at the beginning of 1912, and later on this company is known as Bumiputera 1912 that up to now it is still the only mutual life insurance company in this country. Another life insurance company that was established in Indonesia was NILLMIJ that was abbreviated from *Nederlandsch Indische Lijfrente Levens verzekering Maatschappij* (Dutch name).

This company was established by the Dutch and it stimulated the establishment of Bumiputera 1912, because the founders of this national life insurance company felt that had responsibility to improve the wealth of nation, especially Indonesian teachers. The

founders of Bumiputera 1912 were the board members of an organization called PGHB that was abbreviated from "Persatoean Goeroe-Goeroe Hindia Belanda" that could be freely translated into Association of the Indonesian Teachers.

Since the sixteenth century up to year of 1945, Indonesia was in colonial domination, therefore, the development of all aspects including life insurance were very slowly or on advancement at all. During more than three centuries, Indonesia was under the colonial domination of the Dutch nation, hence, up to 1960 the life insurance industry in Indonesia was managed based on the Dutch life insurance operation system. Sukarno and Hatta who were then recognized as the first president and Vice President of the Republic of Indonesia declared the Indonesia Independence at August 17, 1945. Since that time the government started to manage and develop all aspects of the nation defence. Life insurance can be considered as one of economical life aspects, and hence, it is relevant for us to discuss about the life insurance business development in Indonesia.

Modernization of the life insurance business in Indonesia was started just about ten years after the declaration of independence. In 1955, Bumiputera Mutual Life Insurance Company sent three gentlemen to study the life insurance science in a university in the United States of America. They were sent to learn various aspects of the life insurance science and management, especially actuarial science and its application in real life business. It can be recorded as the historical milestone to the life insurance business development in Indonesia. In the decade of nineteen sixties, the life insurance industry in this country was started to be managed more conceptually and more professionally.

Why did Bumiputera 1912 send their staff to the United States? Consideration that was taken for sending them to the United States was that the United States of America was an Industrialized country which has some sources of sciences and technology. As the proof of this statement, we know that in the United States of America, an association named LOMA (Life Office

Management Association) was established in 1924. This organization has been a reliable partner and invaluable resource for the life insurance industry since its establishment. This organization has proven its professionalism in helping its members stay ahead of the competition, improve their own management and operation, through quality services, training, courses, and education. It was the main consideration of sending employees to study in the United States of America.

After returning home, those three gentlemen started to provide their contribution to the life insurance industry. One of them was then assigned by the Indonesian Government to be the Director General of Internal Monetary Affairs under the supervision of the Ministry of Finance. Up to the decade of nineteen seventies, there were not more than twelve life insurance companies in Indonesia, and at the decade of nineteen eighties the number of life insurance companies running here increased steadily. At the end of 1983, there were about 20 domestic life insurance companies operating, but the

competition has not been sharp yet at the times, and all these life insurance companies still run their organization conventionally. Most of those companies measured their successful in running their organization simply by comparing their operation results achieved during a certain year to the achievement at the preceding year.

Besides the above stated program, some life insurance companies in Indonesia also sent some of their employees to Japan for carrying out similar mission, that is to learn or to deepen the life insurance science and its application. Two life insurance companies in Japan could be noted as the most important contributor for the development of life insurance business in Indonesia. These two life insurance companies are Dai Ichi Life Company and Kyoei Life Insurance Company

Kyoei Life Insurance Company through its training foundation named the oriental Life Insurance Cultural Development (OLICD) Center provides opportunities to all life insurance development in this country are seminars or courses conducted by Munich Reinsurance

ance companies around the world, especially in Asian region, to send their staff or employees to attend the is called as "Oriental Life Insurance Seminar or OLIS" which is usually conducted at least twice a year, in spring and summer seasons, and the materials discussed during the course are various aspects of the life insurance management especially the recent life insurance business practices implemented in Japan and the result they obtained.

Dai Ichi Life Insurance Company with its foundation named FALIA or Foundation for the Advancement of Life and Insurance Around the world also provides opportunities to all life insurance companies around the world to attend courses or seminar conducted by this foundation are actuarial course and computer course.

Some managers or employees of life insurance companies in Indonesia get unforgettable benefits from attending courses or seminars conducted by the above two life insurance companies. I guess it is necessary to be noted that all participants of the above courses or seminars

are sponsored partly by the above companies.

Another unforgettable program that provides important contribution to the life insurance development in this country are seminars or courses conducted by Munich Reinsurance Reinsurance Company, Zurich. These two companies also provide sponsorship to the participants several courses, such as, medical risk selection course and reinsurance course.

In order to continue developing knowledge that we obtained from courses or seminars which are conducted in Japan, it has been established an organization called OLIS Alumni of Indonesia. The members of this organization is now more than 250 alumni, and they usually conduct alumni seminar at least once a year by inviting speaker(s) from Japan to speak about the recent development of the life insurance business and management in Japan.

Entering the decade of nineteen nineties, competition among life insurance companies in Indonesia became sharper and sharper. This condition was more stimulated by the government policy to pro-

vide more opportunity to the foreign insurance companies to run their business in Indonesia. Early 1992, the Ministry of Finance of the Republic of Indonesia issued a new government decree on insurance business acknowledged as "Law No.2/1992". This decree was aimed to regulate the insurance business practices in Indonesia. After this decree was declared, the number of life insurance companies in Indonesia increase significantly, especially joint venture life insurance companies. According to the report issued by the Insurance Council of Indonesia recently, at the beginning of the year of 1996 the number of life insurance companies operating in Indonesia that are registered as the members of the council are 56 companies, and almost 30 percent of those companies are joint venture companies. This figure reflects that Indonesia can be considered as potential market for life insurance business. One of major considerations that is taken by most foreign partners for opening partnership in Indonesia is the number of population. Based on the recent report, population of Indonesia is now 200 millions. The second major

consideration is the Indonesian economy that proves stability for several years.

Now, let us talk about the life insurance business practices in Indonesia. Until the end of the decade of nineteen sixties, all life insurance companies in Indonesia were run as they managed other types of business. They just collected premium as the company's revenue, and they paid all expenses related to the business. They have not mastered how to manage the life insurance business, especially how to manage the premium reserve and to develop the fund they had collected.

In the decade of nineteen seventies, several life insurance companies here tried to modernize their management by improving their capabilities. They also started to build computer installation around the year of 1972. They started to utilize their computers by computerizing the proces of their policy holders data, and the main objective of the modernization carried-out was to improve their customer service quality by speeding up the process of submitting policies to the policy holders. By pro-

viding better service to the costumers, they expected to get better results.

Back to the discussion on the life insurance business in Indonesia, I guess it is necessary for us to review the history of the life insurance business development as we discussed before. According to my observation, since the decade of nineteen sixties the life insurance business practices in Indonesia are started to be coloured by the life insurance practices in the United States of America and Japan. This is logical, because most managers who are working for life insurance companies in Indonesia learn the life insurance business and its management from those two countries.

In 1986, The Insurance Council of Indonesia (Dewan Asuransi Indonesia) established an organization named AAMAI (Assosiasi Ahli Manajemen Asuransi Indonesia) or association of the insurance management expert of Indonesia. Further, this organization is also known as The Indonesian Insurance Institute. This organization was aimed to improve the qualification standard possessed by all individuals working for insurance in-

dustry, including life and non-life insurance companies, and insurance brokers. In running its function, this organization conducts examinations twice a year (life) and four times a year (non-life) for individuals who want to get professional degrees, those are AAAIJ, AAIJ, AAAIK, and AAIK. AAAIJ and AAAIK are professional degrees that are equivalent to associate in life insurance and associate in non life insurance respectively. Other two degrees stated above are professional degrees equivalent to fellow society in life and non life insurance respectively. All examinations conducted for obtaining these local professional degrees in life insurance are based on reading materials issued by LOMA, USA. Some of participants of this AAMAI program also write examinations conducted by LOMA in order to

get professional degrees conferred by this international organization. By telling this reality, we can conclude that most individuals possessing degrees in life insurance field in Indonesia think like other life insurance experts from other more advanced countries, especially USA. And hence, according to my opinion, the life insurance business practices in this country are not different to other industrialized countries, but we have to be aware that we still have to improve several aspects, such as, research and development (R & D), optimization of the use of modern and sophisticated technology, and also HRD (Human Resources Development). These are very crucial aspects that requires our special attention. In order to anticipate the situation that we will face in the coming free trade era, it is absolutely a must

that we have to improve and develop the qualification and quality possessed by our own human resources continuously.

Finally, I would like to mention that as apart of financial services industry, the life insurance business in Indonesia is still challenging to be developed profoundly, and arrival of foreign partners could be the viewed as a positive thing for the life of life insurance business in the future. By joint venturing, we can get benefits to develop the life insurance technology for accelerating the growth of our business in Indonesia, and on the contrary, our foreign partners can get other benefits from our existence.

This is just my opinion that based on my observation and experience, and I strongly expect that this article will be beneficial for all readers.

