

## Impact of New Insurance Holding Company

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PEFINDO views the appointment of PT Bahana Pembinaan Usaha Indonesia (Persero) (BPUI) as holding company for state-owned insurers — PT Asuransi Kredit Indonesia (Askrindo), PT Asuransi Jasa Indonesia (Jasindo), PT Jasa Raharja (Jasa Raharja), and PT Jaminan Kredit Indonesia (Jamkrindo) — as stipulated in PP No. 20/2020, should have neutral impact on insurers' credit profile. Though no longer maintaining *Persero* status, PEFINDO views Indonesian government is still their ultimate controlling shareholder with special rights stated in regulation, therefore their privileges as SOE will remain intact. We view their business profile, financial position, and degree of importance to government will remain unchanged under the insurance holding structure, including during COVID-19 pandemic.

### Key features of PP No. 20/2020

On March 16, 2020, government issued PP No. 20/2020, which stipulates additional state capital participation to BPUI. Government transferred all its Series B stakes to BPUI, comprising 6,610,999 shares of Askrindo, 424,999 shares of Jasindo, 8,499,999 shares of Jasa Raharja, and 7,638,732 shares of Jamkrindo. This resulted in an additional state capital participation of IDR60.6 trillion to BPUI. Although not in form of fresh capital, we consider the amount is significant and view government's control of these companies will remain through Series A *dwiwarna* shares. The shares have special rights and should indicate government's intention to maintain ultimate control over holding subsidiaries. The legal force of PP No. 20/2020 was enhanced by the issuance of KMK No. 146/KMK.06/2020. Both regulations were complemented by the signing of *Akta Inbreng*. With the transferred shares, BPUI serves as holding company for those insurers.

### Subsidiaries will resume specific missions

We view the establishment of this structure does not affect the insurers' main role which are now part of holding subsidiaries. Each company continues to carry out special mission as mandated by government.

Jasa Raharja will continue to carry out the implementation of Law No. 33/1964 and Law No. 34/1964, serving as compulsory insurance sole provider for basic protection of public transportation and traffic accident victims, which we view to be very important in emphasizing government's presence. It is mandated to improve service quality in the speed of providing compensation.

In addition to KUR guarantors, role of Askrindo and Jamkrindo is enhanced with the issuance of PP No. 23/2020 related to PEN program which specifies them to run this. Government may provide capital injections should they need additional capacity to absorb these risks.

Although Jasindo does not have particular mission like the others, we expect government to continue to encourage synergy among SOEs, one of which is through Jasindo. It has provided insurance coverage for SOEs supported by its SOE status. These factors favor its business position as the flagship state-owned general insurer and one of the largest general insurers in Indonesia.

In our view, changes in shareholder structure will not have significant impact on business activities of subsidiaries of the insurers, including PT Jasaraharja Putera, PT Jaminan Pembiayaan Askrindo Syariah, PT Penjaminan Jamkrindo Syariah, and PT Asuransi Jasindo Syariah. We view additional layer of government ownership will not reduce competitiveness of these companies. As for BPUI's existing subsidiaries – PT Bahana Securities, PT Bahana Artha Ventura, PT Bahana TCW Investment Management, and PT Graha Niaga Tata Utama – we expect them to maintain their respective functions and should optimize synergy with new subsidiaries.

**Credit profile of insurance holding subsidiaries remained stable amid COVID-19**
**Financial highlights**

in IDR billion	Jasa Raharja*	Askrindo*	Jamkrindo	Jasindo
	Dec-2019	Sep-2019	Dec-2019	Dec-2019
	(Audited)	(Unaudited)	(Audited)	(Audited)
Total assets	14,804.4	15,507.0	17,543.7	12,688.0
Total investment	13,489.8	9,205.1	10,709.0	2,053.9
Total equity	11,355.3	9,471.2	11,953.9	3,267.4
Gross written premiums	4,711.8	4,538.8	2,529.2	5,391.7
Net income	1,551.8	858.0	625.8	106.5
Latest rating	idAAA/Stable	idAA+/Stable	idAA+/Stable	idAA/Stable

\*Parent only

We expect the pandemic to have manageable impact on insurers' credit profile, supported by their respective roles for government. We consider Jasa Raharja as government's extension in serving accident victims. It is compulsory to use its services. This should offset concern over potential lower premium from declining automotive sales and public transportation utilization due to large-scale social restrictions.

The manageable impact of COVID-19 on Askrindo and Jamkrindo is supported by role in PEN and KUR programs. We anticipate they should withstand potential increasing claims at end of restructuring period, supported by very strong capitalization, including the projected capital injection specified in PP No. 23/2020.

With government expected to continue emphasizing synergy among SOEs, we project Jasindo to maintain substantial exposure of insurance coverage for SOEs. Strong partnerships with SOEs have been maintained and contributed significantly to its very strong business position.

**Insurance holding company's role in supporting Jiwasraya**

In this structure, government excluded PT Asuransi Jiwasraya (Persero) (Jiwasraya). Its troubles started in October 2018, when Jiwasraya postponed repayment of maturing saving plan product, at that time of IDR802 billion. This was due to plunge in share prices that affected Jiwasraya's investment. As a state-owned company, it was unable to monetize investment at loss as it could be considered law violation. Premium generation could not compensate underperformed investment activities. Although Jiwasraya offered principal roll-over and paid interest obligations, the case has not been settled as some policyholders are demanding full principal repayment. Number of unpaid obligations continued to snowball and, to date, the case is still being processed under State Attorney with estimated loss of IDR17 trillion.

We expect government support on Jiwasraya, as came to pass in 2008 regarding its going concern status. One of the options considered by government for Jiwasraya's resolution is transferring Jiwasraya's assets and premium portfolio to new insurance entity. The planned scheme is through bridge bank. We anticipate the planned shares acquisition of PT Jiwasraya Putra, newly-established subsidiary of Jiwasraya, by PT Taspen Life (70%) and PT Bank Tabungan Negara (Persero) Tbk (30%) is to resolve the settlement, among others. To date there has been no official statement regarding BPUI's future involvement in supporting Jiwasraya and Jiwasraya Putra, but we will continue to monitor the development, particularly if they have potential impact on credit profiles of the entities rated by PEFINDO.