BEST'S COUNTRY RISK REPORT

Indonesia
CRT-4

August 22, 2018

Region: Asia

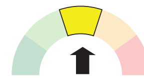
[Country Risk Criteria Procedures]

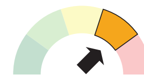
[Guide to Best's Country Risk Tiers]

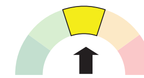
- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Indonesia has moderate levels of economic and financial system risk and a high level of political risk. The country's economy has grown steadily and robustly over the past few years, and expanded 5.1% in 2017.
- Inflation, which has been relatively stable in recent years, is projected to return to 3.5% in 2018 and moderate gradually towards 3.0% over the medium term.
- A.M. Best categorizes the majority of countries in Southeast Asia as CRT-3, CRT-4, or CRT-5. A notable exception is Singapore, a CRT-1 country.

Vital Statistics 2017		
Nominal GDP	USD bn	1015.41
Population	mil	262.0
GDP Per Capita	USD	3,876
Real GDP Growth	%	5.1
Inflation Rate	%	3.8
United Nations Estimates		
Literacy Rate	%	95.4
Urbanization	%	55.2
Dependency Ratio	%	49.2
Life Expectancy	Years	73.0
Median Age	Years	30.2
Insurance Statistics		
Insurance Regulator	Financial Services Authority (OJK)	
Premiums Written (Life)	USD mil	19,312
Premiums Written (Non-Life)	USD mil	4,649
Premiums Growth (2016 - 2017)	%	21.5
Regional Comparison		
	Country Risk Tier	
Indonesia	CRT-4	
Malaysia	CRT-3	
Philippines	CRT-4	
Papua New Guinea	CRT-5	
Thailand	CRT-3	
Vietnam	CRT-4	

Source: IMF, UN, Swiss Re, Axco and A.M. Best


Economic Risk


Political Risk


Financial System Risk

Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk

Country Risk Tier 2 (CRT-2) Low Level of Country Risk

Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk

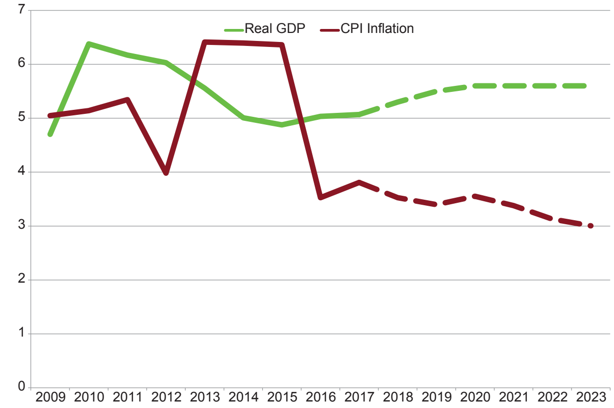
Country Risk Tier 4 (CRT-4) High Level of Country Risk

Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Southeast Asia

- Southeast Asia largely consists of the countries located north of Australia, west of New Guinea, east of India, and south of China.
- The region is particularly vulnerable to trade protectionist policies, given its reliance on exports to fuel economic growth. To diminish some of the vulnerability to external conditions, most of the region's countries are trying to implement structural changes which encourage economic diversification and capital market development. Improving infrastructure and shrinking bureaucracy would also bolster the prospects for sustainable economic growth.
- Additional headwinds for the region include political turmoil/uncertainty, poverty due to growing income inequality, endemic corruption, bureaucracy, susceptibility to natural disasters, and the volatility of capital flows and exchange rates owing to ongoing monetary policy normalization in developed countries.
- Growth in the region has been supported by improving global conditions as well as growing domestic demand and increased levels of government spending, particularly on infrastructure.

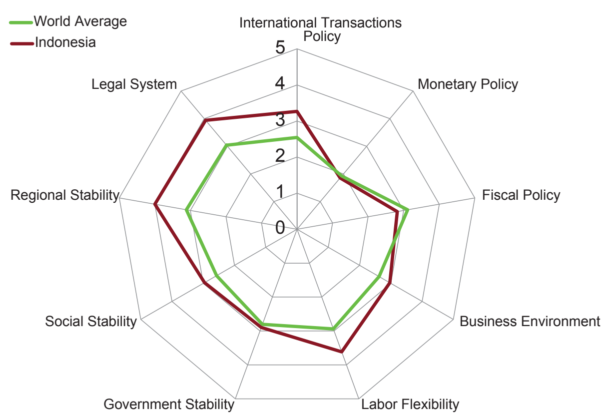
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

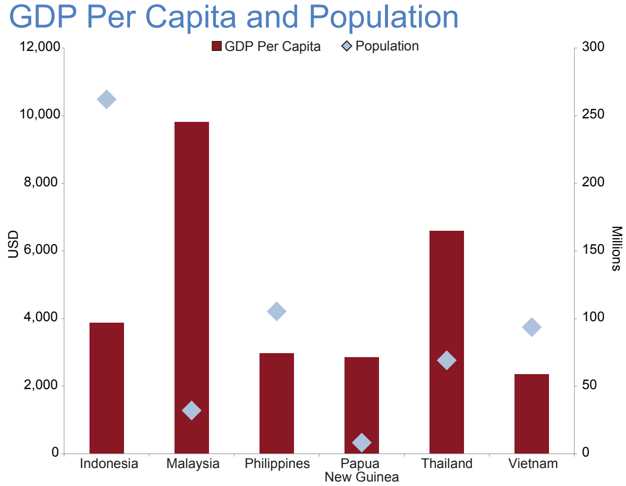
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Moderate

- Oil and gas production is Indonesia's largest industry, but growth has been hindered by inadequate investment and volatile global energy pricing and demand. Tourism has been robust and has significant development potential.
- Indonesia is the fourth most populous nation in the world, with a large and young labor force. The country has made significant progress in reducing poverty, although further efforts are needed. Infrastructure needs to be upgraded for further economic growth.
- Indonesia's commodity exports are expected to grow owing to recovering commodity prices and rising demand.
- Indonesia is a member of the WTO, ASEAN, and the G-20, and enjoys relatively few trade barriers.
- Government deficits and debt-to-GDP ratios are expected to remain stable and manageable in the coming years, reflecting the government's fiscal reform efforts.

Political Risk: High

- President Joko Widodo took office in October 2014 on a platform focused on improving the business climate and economic growth. He enjoys a parliamentary majority but faces growing internal tensions.
- The president favors domestic firms and resource nationalization. Tax obligations for the crucial mining and technology industries have been increased under his administration. A rise in interest rate risk has raised the likelihood of tax revenue shortfalls, according to the IMF.
- Contract enforcement is inefficient, and corruption in the legal system is relatively widespread. Bureaucratic inefficiency obstructs smooth business operations. The Corruption Perception Index ranks Indonesia 96 out of 190 countries.
- Protests are based mostly on labor disputes or religious grounds. They are more common in major cities and can be large scale but are largely peaceful.

Financial System Risk: Moderate

- The Financial Services Authority of Indonesia (OJK) regulates the insurance industry and is responsible for supervising the entire financial services sector.
- Indonesia's solvency measures have weakened, and the currency is sensitive to changes in investor sentiment. Indonesia is dependent on foreign capital inflows.
- The Basel III framework has been implemented in the financial sector, leading to an improvement in financial sector supervision. A stronger focus on certain weak spots of the financial system and areas of the economy with high volatility potential is recommended.
- The banking system appears resilient and is capitalized well enough to withstand severe shocks. Asset quality is expected to improve, and systemic risk appears minimal.