



Published by
giz Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH



Indonesia case study report

Formalization of the in-house insurance scheme of the Inkopdit credit cooperative

September 2022

This paper describes the formalization process of the in-house insurance scheme called Daperma of the credit cooperative Inkopdit from 2020 to 2022. The process was made possible by contributions from the GIZ RFPI Asia program, AXA Financial Indonesia and the Inkopdit cooperative and lead to the creation, to our knowledge, of the first microinsurance broker in Indonesia with the name of PT PANDAI Insurance Brokerage and Consultant. PT PANDAI now handles an active and fully formalized portfolio of 2.4 million mandatory credit life, term-life and voluntary hospital cash insurance contracts with a combined gross premium of IDR 69 billion (US\$ 4.46M) by September 2022. The authors believe that the learnings from these endeavors can contribute to the success of similar formalization processes and a better protection of poor and vulnerable segments of the society in countries with comparable market situations.

Table of Contents

Summary	3
Acronyms	5
1. Introduction	6
2. Overview of informal insurance and the risks associated to informality.....	7
2.1 Regulatory perspective of informal insurance	7
2.2 Definition of insurance in Indonesia.....	9
3. Inkopdit and the context of Daperma formalization.....	10
3.1 History of Inkopdit	10
3.2 Implementation of the old Daperma.....	11
4. Formalization of the old Daperma.....	14
4.1 Steps of formalization of the Daperma.....	14
4.2 Milestones, processes and timelines in the formalization of the new Daperma.....	14
4.3 Formalization through partner-agent arrangement.....	16
4.4 Formalization of the old Daperma into an insurance brokerage.....	17
5. Key success factors and lessons learned	19
6. Outlook	21

For inquiries about this report, you may reach out to the following GIZ colleagues

Mr. Dante Portula dante.portula@giz.de

Dr. Alexander Jaeger alexander.jaeger@giz.de

Summary

The level of development of the insurance sector in a given country is amongst others indicated by the insurance penetration rate. Calculated as the ratio of the insurance premiums paid to the value of the gross domestic product in a particular year, the insurance penetration in Indonesia is merely at 1.6% as of end 2020, when compared to, for example, 3.7% in India, 5% in Malaysia and 17% in Chinese Taipei (OECD.Stat). However, the use of insurance through informal schemes is not captured in the measurement of insurance penetration in Indonesia since informal insurance is not in the purview of the insurance regulator, OJK (the Financial Services Authority). But insurance for low-income households in Indonesia is often made available through informal insurance activities wherein both the products and insurance providers are not regulated by the insurance regulator.

Informal or in-house insurance schemes in Indonesia are predominantly practiced in the cooperative sector. There were around 127,846 active and registered credit? cooperatives in Indonesia in 2021 which makes it one of the largest cooperative sectors worldwide. The occurrence of informal insurance schemes in Indonesia could be an indication of three situational factors: 1) there is a demand for financial risk protection among the low-income households, 2) there is no or a lack of supply of appropriate insurance products that meet the needs of the low-income households and informal enterprises from regulated insurers, and 3) there is insufficient proportionate regulation that would encourage and provide proportionate procedures for the formalization of informal insurance services.



Photo source <https://cucoindo.org/>

While informal insurance contributes to access to financial risk protection, unregulated insurance activities, at the same time, pose a potential threat to: 1) the stability of a cooperative. In case of unexpectedly high insurance payouts or even insolvency, the core business of cooperatives, which is the provision of savings and credit, might be jeopardized, 2) consumer protection. Members of the cooperative and/or members of the families who are recipients of insurance payouts may not be able to receive the promised benefits in the case of insolvency. This can be a source of dissatisfied members may result into a default of loans, and 3) a negative impact on the local insurance industry as a whole. Issues of unpaid benefits due to insolvency of informal insurance will affect the trust of the public into the overall insurance sector.

Informal insurance can take many forms that require different regulatory responses. The publication [“Focus Note 10, Informal insurance: a regulator’s perspective”](#) by Doubell Chamberlain, Hennie Bester and Christine Hougaard suggests two main reasons for informality. First, an entity may be registered with a regulatory body but continues to operate informally if regulation is not enforced. Second, regulation does not apply at all. Entities may also operate informally where there is no regulatory regime or regulation does not apply to a particular entity or product. See more details in section 2 of this report.

This case study presents the journey of the Inkopdit credit cooperative in the formalization of its 45 years old in-house insurance scheme called Daperma (a joint protection fund) in Indonesia. The GIZ RFPI Asia program and AXA Financial Indonesia joined the formalization journey through a 3-year tri-partite project on “Safe and Sustainable Microinsurance in Indonesia”. The project ended in May

2022. Inkopdit is a national network of 37 secondary, regional credit cooperatives covering 800 primary credit cooperatives. The organization has more than 3 million members in total all over Indonesia. The Daperma scheme offered two products to the cooperative members – credit life and funeral assistance. Inkopdit noticed an increase in the claims ratio of its products during the period of 2015 to 2019 and suffered significant losses in 2016 and 2017 with claim ratios above 100%. The unsustainable claims ratios triggered the discussion on formalizing the Daperma scheme into regulated services and hereby safeguarding the cooperative and its members. In addition, the size of Daperma’s operation was already very significant so that the regulator had advised Inkopdit to formalize its insurance activities at earlier instances.

A two-step approach to the formalization of the old Daperma was adopted. The first step was the formalization of insurance products through a partner-agent arrangement between AXA Indonesia and Inkopdit. The partner-agent model was an immediate solution to formalization. It provided regulated products to the members of cooperatives. The second step was the formalization of the Daperma insurance scheme by transforming it into an insurance entity that is supervised by the insurance supervisor OJK. The old Daperma was transformed into an insurance brokerage through the 100% acquisition of ownership of an existing local brokerage firm. Capacity development activities for Inkopdit and the staff of Daperma were provided by GIZ and AXA during the 3-year project. See figure 4 on page 16 for the list of major milestones of the formalization process.

After a few months of advocacy for the new Daperma, already a significant number of cooperative members had subscribed to the new Daperma which registered with OJK as PT Pialang Asuransi Nasional Daperma Indonesia or PT PANDAI Insurance Brokerage and Consultant. As of end of September 2022, PT PANDAI had a total of 2.4 million active policies in the form of mandatory credit life, voluntary term-life and hospital cash contracts with a combined gross premium of IDR 60 billion (USD 4.462M). With the transformation of the old Daperma at product level (partner-agent model) and the organizational transformation to an insurance brokerage, Inkopdit had effectively transferred the protection of the members of the credit unions to formal and regulated re/insurance companies.

The formalization journey of Daperma offers the following lessons learned: 1) The partnership composition of the project was close to ideal. There was a clear convergence of visions and interests of Inkopdit, AXA and GIZ; 2) Acquisition of an existing brokerage license made the formalization process faster and more cost efficient; 3) Formalization at the national network of cooperatives increases the likelihood of success of the process since it reaches out to a bigger number of members; 4) Targets and assumptions should be reviewed and adjusted to realities. While the massive membership network of Inkopdit offers scale of business, its decision process is slow, which is usually inherent in a cooperative set up; and 5) Capacity building is a continuous process. This was especially important on the background of the old Daperma which used to be a non-registered insurance program and needed to acquire the knowledge and skills in formal insurance activities.

General conclusions for formalization are difficult as each institution and situation is different. However, we hope the successful journey of Inkopdit, AXA and GIZ can provide some helpful insights for other formalization processes in Indonesia and other countries.

Acronyms

AASI	Asosiasi Asuransi Syariah Indonesia or Indonesian Sharia Insurance Association
AAJI	Asosiasi Asuransi Jiwa Indonesia or Indonesian Life Insurance Association
AAUI	Asosiasi Asuransi Umum Indonesia or Indonesian General Insurance Association
CU	Credit Union
FGD	Focused Group Discussion
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
IDR	Indonesian Rupiah
IT	Information Technology
MAF	Mutual Assistance Fund
MEFIN	Mutual Exchange Forum on Inclusive Insurance
MIS	Management Information System
MoU	Memorandum of Understanding
OJK	Otoritas Jasa Keuangan (Financial Services Authority of Indonesia)
RFPI Asia	Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia
PT. PANDAI	PT. Pialang Asuransi Nasional Daperma Indonesia
ToT	Training of Trainers

Please note: The FX rate US\$ to Indonesian Rupiah (IDR) used in the study was: IDR 15,461 as of 10/17/2022 (<https://www.oanda.com/>)

1. Introduction

Inkopdit (Induk Koperasi Kredit) is a national network of 37 secondary, regional credit cooperatives (Puskopdits) housing more than 800 primary credit cooperatives (Kopdits). The organization has more than 3 million members in total all over Indonesia. Established in 1970, Inkopdit provides support services to Puskopdits and Kopdits such as interlending of CUs, financial training and education, monitoring and evaluation (M&E), and it hosted an in-house insurance program called Daperma.

The threats to financial and institutional sustainability of Daperma and its implications for the consumer protection of the millions of members of the credit unions (CUs), prompted GIZ RFPI Asia and Inkopdit in early 2018 to discuss about a potential formalization of the previously informal insurance services. A baseline study commissioned by GIZ in 2018 concluded that for the Daperma program there was an increasing trend in insurance claims versus the amount of premiums collected. In 2016 and 2017 in particular, Daperma incurred financial losses because of claims ratios over 100% each year. The situation for Daperma went back to a positive surplus in the succeeding years after the amount of premiums were increased and the value of benefits was restrained. In the process, Inkopdit however understood that there was also a need to professionalize and formalize the Daperma program in order to make the scheme sustainable.

This case study report aims to depict the experience of Inkopdit and the supporting institutions in the formalization process of Daperma. The study describes the aspirations, processes, outputs and lessons learned during this time. The report is meant to be communicated to a broad range of stakeholders in Indonesia and in other countries, particularly the members of the MEFIN Network¹, in order to inspire microfinance institutions, inclusive insurance providers, regulators and insurance market enablers towards addressing the challenges of informality in insurance.

In general, a two-step formalization strategy was employed during the process. The first step focused on **product formalization** wherein formal, regulated products were developed and offered through a partner-agent arrangement. The formal products substituted the in-house products of the Daperma that existed up to this point. The second step was the **transformation of the old Daperma**



*MoU signing by representatives of Inkopdit, AXA Financial Indonesia and GIZ RFPI Asia
Photo by Griselda Raisa Susanto, 2019*

program into an insurance brokerage. For this, Inkopdit acquired an active insurance brokerage license which was then used as the formal basis for the implementation of the new Daperma. As of end of September 2022, there was a total of around 2.4 million active policies on credit-life, term-life and hospital cash with the Kopdit members which were acquired through the two-step process of the formalization strategy.

The success in the formalization of Daperma is the result of a 3-year develoPPP.de² project under the title “**Safe and Sustainable Microinsurance in Indonesia**”. The partnership project was implemented from April 2019 to May 2022 jointly by

¹ The Mutual Exchange Forum on Inclusive Insurance (MEFIN) <https://mefin.org/> is a peer-to-peer network of insurance regulators and inclusive insurance champions from seven countries in Asia.

² develoPPP.de (<https://www.developpp.de/en/>) is a technical assistance programme of the German Federal Ministry for Economic Cooperation and Development (BMZ) aiming to support public private partnerships.

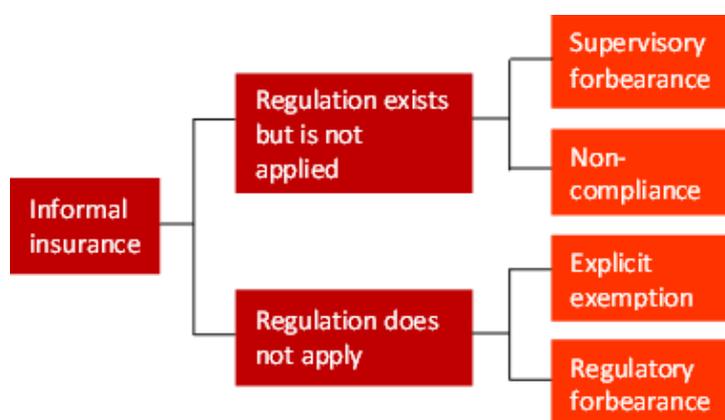
Inkopdit, AXA Financial Indonesia and GIZ through its regional program “Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia” (RFPI Asia). AXA is one of the biggest global private insurers and has a strong interest in reaching out to the low and middle-income population in emerging markets with insurance services matching their needs and realities. AXA was instrumental in implementing the first step of the formalization process. It developed and offered three inclusive insurance products to the Kopdits such as loan protection, micro term-life and micro hospital cash. AXA also provided Inkopdit with experience in administering formal insurance products. The GIZ RFPI Asia program, which initiated the project, provided expertise in inclusive insurance on the base of its long-term experience in supporting microinsurance initiatives in the MEFIN countries supported by the AXA Emerging Customers team. The GIZ team also provided technical assistance in transforming the Daperma into a formal insurance brokerage.

The develoPPP project team highly appreciates the guidance that was provided by the Otoritas Jasa Keuangan (OJK, the Financial Services Authority of Indonesia) as well the advices that were shared by the APPARINDO, the association of insurance brokerage companies in Indonesia.

2. Overview of informal insurance and the risks associated to informality

2.1 Regulatory perspective of informal insurance³

Informal insurance can take many forms that require different regulatory responses, however, developing a general definition may provide insights into why informal markets exist. To start with, the World Bank defines formal financial services as those provided by financial service providers registered with formal regulatory bodies with the purpose of providing financial services. This definition implies that there might be two reasons for informality, as illustrated in the diagram below.



Regulation exists but is not applied.

An entity may be registered with a regulatory body but continues to operate informally if regulation is not enforced. This may be because it is:

- *Nominally regulated but not supervised in practice*, either because of a lack of supervisory capacity or because the supervisor regards its activities as very low-risk. The term “supervisory forbearance” has been used to describe such cases.

Examples include cooperatives, pre-

need⁴ companies or health maintenance organizations for example in the Philippines, which were used to be registered with the Cooperative Development Authority, the Securities and Exchange Commission and the Department of Health, respectively, but were not supervised for insurance

³ The following section draws heavily upon from the publication “[Focus Note 10, Informal insurance: a regulator’s perspective](#)” which was written by Doubell Chamberlain, Hennie Bester and Christine Hougaard in 2009.

⁴ Pre-need companies are firms licensed under the Pre-need Code of the Philippines (R.A. No. 9829) that are issuing plans to provide payment or performance of future services or monetary considerations at the time of actual need. Pre-need plans include life, pension, education, interment and other plans.

purposes. The Philippine authorities, however, have corrected the situation so that beginning December 2009 and November 2015, respectively, the pre-need companies and the health maintenance organizations have been placed under the regulation and supervision of the Insurance Commission.

- *Non-compliant*, that is, the institution operates in contravention of the law by not registering formally for the purposes of providing insurance. Funeral parlours that offer self-insurance in South Africa are an example of this.⁵

Regulation does not apply. Entities may also operate informally where there is no regulatory regime or regulation does not apply to a particular entity or product. This may happen because of:

- *An explicit policy decision by the insurance regulator.* After considering the risks, a regulator may decide that products of a certain type, such as those providing only non-guaranteed benefits or benefits in kind, or products provided by an organisation of a certain kind, may fall outside the definition of “insurance” and are exempt from insurance regulation. This is for example the case for informal risk-pooling in the Philippines and South Africa, as well as cover provided by funeral parlours in Colombia⁶. Some entities, such as certain member-owned organisations, may also be exempted from registration because of their character and risk profile, or to accommodate limited regulatory capacity. Such “regulatory forbearance” applies to the market conduct regulation of burial societies in South Africa. They are, in effect, exempted from registration as intermediaries because they are classified as member-owned “group policy-holders”.

- *Explicit exemption by other organs of government.* Certain entities or products may also be excluded from insurance regulation because of policy decisions by regulatory bodies other than the insurance regulator. The cooperatives regulator may, for example, allow cooperatives to offer insurance outside the insurance regulatory framework. This can cause complications, as a consistent approach to regulating insurance risks requires the alignment of policy objectives across different branches of government.

- *By “accident” rather than by design.* Sometimes, a regulator does not regulate a certain sector for historical reasons or has yet to develop a framework. This is the case with health insurance in Uganda, which operates in a grey area in terms of the Insurance Act.

The above analysis shows that the informal market is not necessarily illegal – informal activities may simply be unregulated. However, whether or not it is technically illegal, informality is likely to pose challenges for the market, the regulators and ultimately the customers.

⁵ Reference, “Focus Note 10, Informal insurance: a regulator’s perspective”, 2009, page 2

⁶ Reference, “Focus Note 10, Informal insurance: a regulator’s perspective”, 2009, page 2

2.2 Definition of insurance in Indonesia

Chapter IV, article 8 paragraph (1) of the Law on Insurance in Indonesia (2014) on Business Licensing states that “Every Party conducting Insurance Related Business shall firstly acquire a business license from the Financial Services Authority”. The Law defines insurance as an agreement between two parties, namely the insurance company and the policy holder, which becomes the ground for the receipt of premium by the insurance company as an exchange for: a) providing compensations to the insured or policy holder due to loss, damage, incurred cost, profit loss, or legal liability towards third parties which may be suffered by the insured or policy holder due to an uncertain event; or b) providing payments on the basis of the death of the insured or a payment on the basis of the life of the insured with a benefit of which the value has been determined and/or based on the result of the fund management.



Photo source: <https://www.bing.com/>

Like in other countries, informality in insurance is most prevalent in Indonesia in the microfinance sector. There were 127,846 active and registered cooperatives in Indonesia in 2021⁷ which makes it one of the largest cooperative sectors worldwide.

Informal financial risk protection products in Indonesia are similar to microinsurance products in terms of premium limits, benefits and the target clients, who are the low-income households. The Microinsurance Grand Design⁸ of Indonesia defines microinsurance⁹ as insurance products intended for low-income segments of the society which have simple features and administrations, are easy to access, affordable and feature quick claims payouts. Low-income segments of the society are defined in Indonesia as the people with monthly income maximum of IDR 2,500,000¹⁰ (US\$162).

Microinsurance in Indonesia can be provided by insurance companies and sharia insurance companies with operating licenses from OJK as per the existing and valid regulation regarding insurance business¹¹. Sales and distribution of microinsurance can be performed by institutions other than insurance companies, i.e. microfinance institutions, cooperatives, banks, retailers, community-based organization, and non-governmental organizations. OJK regulates the distribution of insurance products by non-insurance companies. Individual sellers of microinsurance products must complete a training and receive a certification for microinsurance vendors.

The occurrence of informal insurance schemes in Indonesia could be an indication of three situations:

1) **There is demand for financial risk protection** among members the low-income segment of society. They are usually the members of community-based organizations,

⁷ Indonesia Statistic Bureau, 2021?

⁸ The microinsurance grand design is a combination of regulatory frameworks and national strategies. It was a product of a series of technical working group (TWG) meetings among OJK and all relevant insurance associations (i.e. AAUI, AAJI and AASI). The grand design was adopted on October 17, 2013.

⁹ Microinsurance Grand Design Indonesia, page 4, 2013

¹⁰ Microinsurance Grand Design Indonesia, page 4, 2013

¹¹ Microinsurance Grand Design Indonesia, page 5, 2013

2) **There is no or a lack of supply of appropriate insurance products** for the low-income and informal sectors from regulated insurers, and

3) **There is insufficient proportionate regulation** that would encourage and provide options and simpler procedures for the formalization of informal insurance services.

However, unregulated insurance activities potentially pose a threat to:

1) The **stability of the cooperative/microfinance institution (MFI)** that is managing the in-house mutual assistance fund (MAF). The core business of credit unions is the provision of savings and credit products to its members. Providing insurance products need a different set of principles and skills in managing financial risks. It needs actuarial approaches for the setting of prices and benefit limits for insurance products. It needs proper spreading of risk and reinsurance. It needs a specialized skill set to ensure that insurance core principles (ICPs) are being followed in the conduct of the insurance business. There is therefore a danger that the savings of members and credit funds of the credit unions could be used up to pay off the benefits promised by the MAF, which can be particularly threatening in case of large-scale payouts.

2) **Consumer protection.** Dissatisfied members of the credit union or their family who might not be able to receive the promised benefit due to insolvency of the MAF could create distrust towards the credit union which may lead to loan defaults.

3) A negative impact **on the local insurance industry as a whole.** Low insurance awareness is not only an issue of lack of financial literacy but also on lack of trust of the public (especially the low-income sector) in formal insurance providers. Issues of unpaid benefits due to insolvency of the MAF and other issues will affect the trust of the public to insurance and it will take a long time to win back this trust.

In the absence of informal schemes, other institutions may not want or be able to serve this market, leaving many people without risk protection. The informal insurance activity may graduate to a formal insurance scheme. Some informal schemes may gradually become formalised over time; others may remain completely informal. One example of gradual formalisation is Indonesia's Inkopdit's Daperma, which from over 45 years developed from an in-house mutual assistance fund, ultimately becoming a registered insurance brokerage today.

3. Inkopdit and the context of Daperma formalization

3.1 History of Inkopdit

Cooperative organizations have been the main engine for financial inclusion and community development across Indonesia, especially in the semi urban and rural regions. The ILO (International Labour Organization) has described the cooperative movement in Indonesia as the largest civil society organization and a motor for social innovation which contributes significantly to the nation's rural development and employment growth (ILO, 2012). There is an estimated of 127,846 active and registered cooperatives in Indonesia in 2021 (Indonesia Statistic Bureau, 2021).

Established in 1970, Inkopdit is a national level network of credit unions (CU), which serves as umbrella organisation to Puskopdits (Credit Union Centers) across Indonesia. The Puskopdits are in turn formed by primary credit unions (CUs) from all across Indonesia. Each primary CU conducts lending and micro-financing activities for its members. As per Inkopdit's 2022 data, there are 800 CUs (Kopdits) organized under 37 Puskopdits, with total individual membership of more than 3 million. See figure 1.

Inkopdit offers the following services to the Puskopdits and the member Kopdits beyond credit and saving services:

1. Facilitating interlending amongst member CUs and Puskopdits
2. Monitoring and auditing services
3. Support for capacity building of CUs
4. Collection of membership contributions from the individual members
5. Management of Daperma program – the solidarity fund / in-house insurance scheme managed by Inkopdit . The in-house insurance scheme was transformed into an insurance brokerage firm (see in section 4)

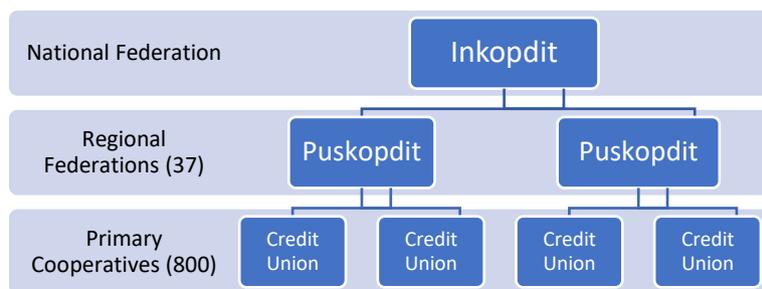


Figure 1: Structure of Inkopdit

3.2 Implementation of the old Daperma

Inkopdit has been implementing Daperma since 1977. It is a self-insured mutual benefit scheme that aims to support the unforeseen emergency needs of members of Kopdits. It was established with support from CUNA Mutual, an American mutual insurance company with roots in the cooperative movement. CUNA Mutual acted as the reinsurer of the programme until 1998. After 1998, the Daperma scheme has been a fully in-house run programme with all risks borne by Inkopdit.

Daperma products

The prior Daperma offered two kinds of insurance: credit-life (*Proteksi Pinjaman Anggota* or PPA) and funeral assistance (*Santunan Duka Anggota* or SDA). The two coverages are described below.

Credit Life (PPA)	Funeral assistance (SDA)																					
PPA is a typical credit life product, which covers the life risk associated with the loans offered by the Credit Unions. The benefits are paid in the case of death or permanent disability of the borrowing member. The extent of the coverage is based on the time of membership with the CU as well as the actual age of the members as described below.	The SDA or funeral assistance is based on the amount of savings a member has with the Credit Union. The coverage is provided based on the length of time a member has been in the CU and is available to all members between age 17 and 76 years.																					
<u>Terms and Condition</u> 1. For Members who have been associated with the partner CU for 5 years or more and have a clean record of fee payment the following administrative requirements apply: <ul style="list-style-type: none"> ▪ Age between 17 and 69 years: Loan settlement to the maximum of IDR 100,000,000 (USD 6,468) in the case of death or permanent disability ▪ Age between 70 and 76 years: Loan settlement to the maximum of IDR 	<u>Terms and Conditions</u> The SDA pay-out amount is calculated using the formula in table, below: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Type</th> <th>Age of member at the initial saving installment</th> <th>Percentage of saving as a base for assistance fund</th> </tr> </thead> <tbody> <tr> <td>I</td> <td>Up to 60 years old</td> <td>100% of total saving</td> </tr> <tr> <td>II</td> <td>61 up to 65</td> <td>75% of total saving</td> </tr> <tr> <td>III</td> <td>66 up to 69</td> <td>50% of total saving</td> </tr> <tr> <td>IV</td> <td>70 up to 71</td> <td>25% of total saving</td> </tr> <tr> <td>V</td> <td>72 up to 74</td> <td>10% of total saving</td> </tr> <tr> <td>VI</td> <td>75 up to 76</td> <td>5% of total saving</td> </tr> </tbody> </table>	Type	Age of member at the initial saving installment	Percentage of saving as a base for assistance fund	I	Up to 60 years old	100% of total saving	II	61 up to 65	75% of total saving	III	66 up to 69	50% of total saving	IV	70 up to 71	25% of total saving	V	72 up to 74	10% of total saving	VI	75 up to 76	5% of total saving
Type	Age of member at the initial saving installment	Percentage of saving as a base for assistance fund																				
I	Up to 60 years old	100% of total saving																				
II	61 up to 65	75% of total saving																				
III	66 up to 69	50% of total saving																				
IV	70 up to 71	25% of total saving																				
V	72 up to 74	10% of total saving																				
VI	75 up to 76	5% of total saving																				

<p>10,000,000 (USD 647) in the case of death or permanent disability</p> <p>2. For members with less than 5 years membership and a clean record of fee payment the following administrative requirements apply:</p> <ul style="list-style-type: none"> ▪ Age between 17 to 69 years old: Loan settlement to the maximum of IDR 50,000,000 (USD 3,234) in the case of death or permanent disability ▪ Age between 70 and 76 years old Loan settlement to the maximum of IDR 10,000,000 (USD 647) in the case of death or permanent disability 	<p>These pay-outs are capped by the following parameters:</p> <ol style="list-style-type: none"> 1. For members with more than 5 years membership a clean record of fee payment and fulfilling the administrative requirements, the total funeral assistance coverage is equal to the savings amount of the member up to a maximum limit of IDR 30,000,000 (USD 1,940) per member. 2. For members with less than 5 years membership, a clean record of fee payment and fulfilling the administrative requirements, total funeral assistance is equal to the savings amount of the member up to a maximum limit of IDR 25,000,000 (USD 1,617) per member.
<p><u>Amount of premium:</u></p> <p>The rate charged is IDR 0.65 per IDR 1000 of loan provided.</p> <p>The total premium to be paid is calculated on the base of the total balance of the loan outstanding per month for all borrowing members in the age range between 17 to 76 years old.</p> <p>Payment is made every end of the month to INKOPDIT by CU/KOPDIT based on loan information reported in latest report.</p> <p>The premium is factored into the interest rate charged to the clients.</p>	<p><u>Amount of premium:</u></p> <p>The rate charged is IDR 0.65 per IDR 1000 of savings held.</p> <p>Hence, the total premium to be paid is calculated on the total balance of savings with the CU per month for all saving members in the age range between 17 and 76 years old.</p> <p>Payment is made every end of the month to INKOPDIT by CCU/KOPDIT based on the savings information reported in latest report. The premium paid is charged by the CU from the interest rate paid to the client members on their savings.</p>

The coverage is voluntary at the CU and Puskopdit levels. However, once a CU and Puskopdit agrees to become a member of the program, the premiums are paid as described in figure 2.

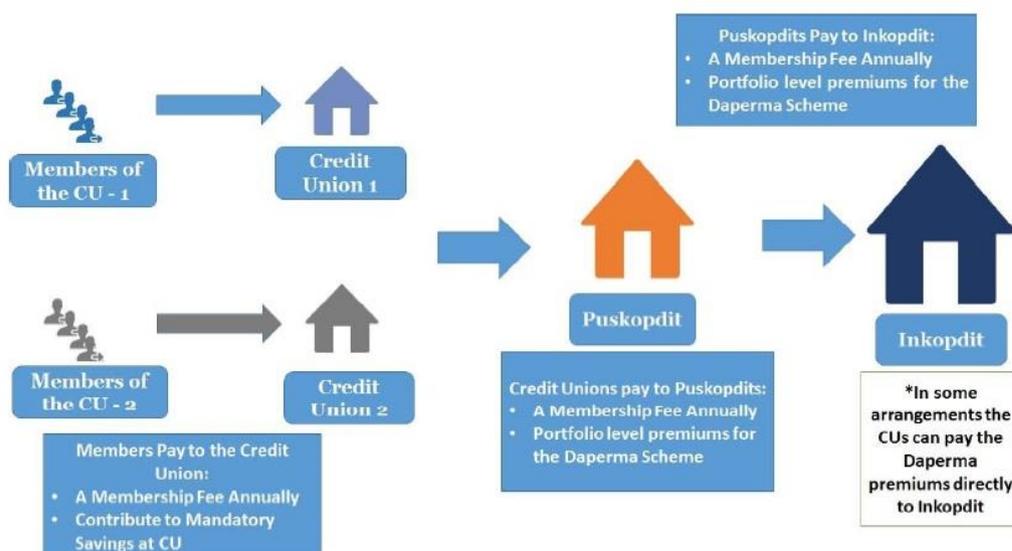


Figure 2: Process flow of the old Daperma

CU members of Daperma are required to pay a monthly fee with a copy of the bank transfer sheet sent to Inkopdit at the latest on the 15th of each preceding month. Member Credit Unions or Puskopdits are also required to send a monthly data report which includes:

- Monthly Financial and Statistical Report
- Daperma Fee Calculation Report
- Membership Cancellation List
- Loan Disbursement List
- Saving and Loan Balance Sheet

No other products were available in the old Daperma other than the PPA and SDA. Other financial protection needs of the Kopdits included health and agriculture related-risks. But these were not covered in the past mainly because they were too complex for Inkopdit to design and administer.

Management of the old Daperma

The old Daperma was managed by six (6) full time staff (see figure 3) under the supervision of the management board of Inkopdit. All staff have educational background in

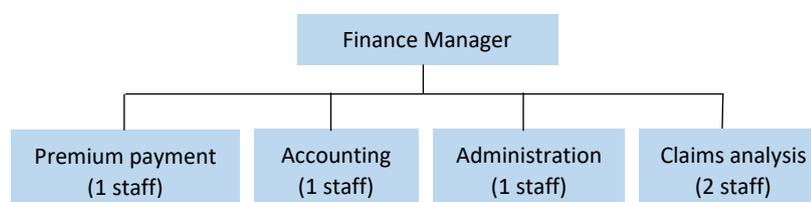


Figure 3: Management structure of the old Daperma

accounting but not in insurance. All staff were working in their respective roles in the Daperma for over 10 years already, except for the claims staff who were performing its roles for 2 to 6 years. During the 45 years of implementation of the old Daperma since 1977, this in-house insurance scheme of Inkopdit grew significantly. The number of insurance policies reached around 3 million in 2019. A financial review conducted by GIZ for the period 2015-2019 showed that the accumulated reserved fund of Daperma grew from IDR 60.1Billion (USD3.887M) in 2015 to IDR 78.3Billion (USD5.064M) in 2019. However, there was an increasing trend of unsustainable claims ratio, especially in years 2016 and 2017 when the claims ratio were over 100%. The increasing claims ratio was the main trigger for the decision to formalize the Daperma.

A baseline study commissioned by GIZ concluded that Inkopdit is aware of the systemic risk posed by the self-insurance being followed by the Daperma. In the case of a catastrophic event - In the absence of reinsurance - the Daperma would not have been able to meet the claims that would have to be made in such a scenario. This would not only adversely affect Inkopdit, but it would also seriously challenge the core lending business of the CUs and Puskopdits, creating serious existential risks.

The study, however, was also found that Daperma is highly valued by the members. A failure of the scheme would cause a significant reputational damage to Inkopdit and Puskopdits. A lot of members who may have paid premiums for long time would be left without any coverage and this would cause serious client protection issues that would not have been good for the reputation of Inkopdit.

The baseline study further concluded that:

1. The premiums being charged by Daperma scheme are not actuarially determined and the programme will continue to lose money in the medium to long run if continuing this way.
2. 50% of all membership under Inkopdit are not participating in Daperma
3. There is a limited use of technology in the operation of Daperma. All operations are conducted manually. There is no automated Management Information System (MIS)
4. Limited insurance know-how and technical capacities of Inkopdit staff

- Existing Daperma coverages are very limited and do not cover all the insurance needs that the members have

4. Formalization of the old Daperma

To help address the threats to Daperma’s sustainability, Inkopdit, AXA Financial Indonesia and GIZ signed a Memorandum of Understanding (MoU) on April 10, 2019 to implement a tri-partite cooperation project entitled “Safe and Sustainable Microinsurance in Indonesia”. The 3-year project ended on May 15, 2022.

The project provided technical assistance from the side of GIZ through its RFPI Asia program (Regulatory Framework of Pro-poor Insurance Markets in Asia). The RFPI team has a broad and deep experience in supporting microfinancing and microinsurance initiatives in developing countries and emerging economies. AXA, participated in the partnership after being approached by GIZ, given its experience in the emerging market. The company supported Inkopdit in the product development and its distribution to the Kopdits. Inkopdit was chosen as partner of the project since it is one of the biggest networks of cooperatives in Indonesia and had a in-house insurance scheme.

4.1 Steps of formalization of the Daperma

A 2-step approach to the formalization of the Daperma was adopted. The first step was the formalization of insurance products through a partner-agent arrangement between AXA and Inkopdit. This was a comparatively quick way to provide safe and sustainable insurance products. The second step was the formalization of the Daperma insurance scheme by transforming it into an insurance entity that is supervised by the OJK. In between the first and second steps is the crucial process of building the capacities of Inkopdit in managing a regulated insurance entity. See figure 3.

The partner-agent model aimed to develop products which would substitute the in-house products of the Daperma with the AXA products. This is the first stage of formalization, i.e. having insurance products that are actuarially sound and safe. The second stage of formalization was the transition of the old Daperma into a licensed insurance entity. When the insurance entity is already operational, the partner-agent model arrangement was thought to be shifted from Inkopdit to the new Daperma.

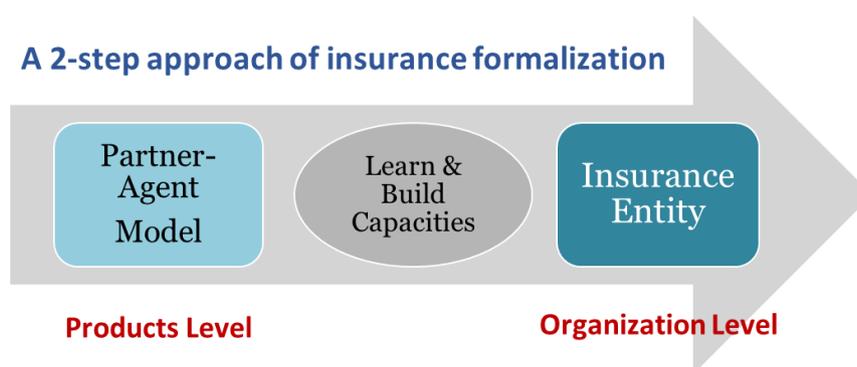


Figure 3: Two-step approach of insurance formalization

4.2 Milestones, processes and timelines in the formalization of the new Daperma

More than one year was spent on preparatory discussions in order to establish a solid understanding of the intersection of interests among the three parties (e.g. Inkopdit, GIZ and AXA). It led to the

decision to create a joint project for three years (April 2019-May 2022) with the goal to contribute to delivering 'safe and sustainable microinsurance' in Indonesia.

The first year of the project, that started in April 2019, was spent largely on setting up the formalities of the project such as the memorandum of understanding, the steering structure and the project management team. Then, four batches of training of trainers (ToT) on microinsurance were carried out in four strategic locations in the country. The trainings provided knowledge about microinsurance and trainings facilitation skills to 200 officers and staff of the Inkopdit network.

During the second year of the project, 2020, the first step of formalization which is the partner-agent model was started. AXA conducted a series of focused group discussions which resulted into three products developed (credit-life, micro term life and micro hospital cash), see figure 5. A partner-agent agreement was signed between AXA and Inkopdit. Then, the promotion of the products – which were aimed to replace the in-house products of the old Daperma – was conducted by AXA at the Puskopdit and Kopdit levels. Beginning of the second quarter of 2020, the socialization shifted to virtual/online formats due to the COVID-19 mobility restrictions, which delayed the project milestones delivery. Parallel to the implementation of the partner-agent model, GIZ engaged the management board of Inkopdit into a series of meetings which assessed its options in the formalization process (see figure 6). The board decided to pursue the path of insurance brokerage considering the limited human resource capacities at Inkopdit and its preference for ownership and control of the insurance services.

The third year of the project was the longest part of the journey towards formalization, which entailed transforming the old Daperma into regulated insurance entity. Inkopdit followed the advice of OJK to go for an acquisition of an existing license instead of applying for a new brokerage license. The Association of Insurance Brokerage of Indonesia (APPARINDO) was consulted for the profile of the companies that were open for acquisition. GIZ commissioned a local law firm that conducted legal due diligence. In addition, an accounting firm was commissioned which conducted a financial and tax due diligence of the chosen candidate for acquisition. Inkopdit brought local experts on board who provided support in putting together a long list of licensing requirements for submission to the regulator. The proposed commissioners and directors of the new Daperma then went through a fit-and-proper test from the regulator and completed these tests successfully. In a next step, Inkopdit entered a co-brokering agreement with another insurance broker which helped them shape the package of first products of the new Daperma. Intensive promotion of the new Daperma to the members of the credit unions was carried out, amongst others, in the board meetings of Puskopdits and Kopdits and during the annual general membership meetings of the CUs. A new technology-based management information system (MIS) was created which enabled the new Daperma to communicate and offer the products to the credit unions more efficiently. Then in April 2022, Inkopdit received the formal letter of approval from the regulator to operate its new Daperma under the registered name PT. PANDAI insurance broker and consultant¹².

Figure 4 below provides a list of major milestones during the formalization process of the Daperma scheme.

¹² The word „pandai“ means accomplished, brilliant or clever in Bahasa Indonesia.

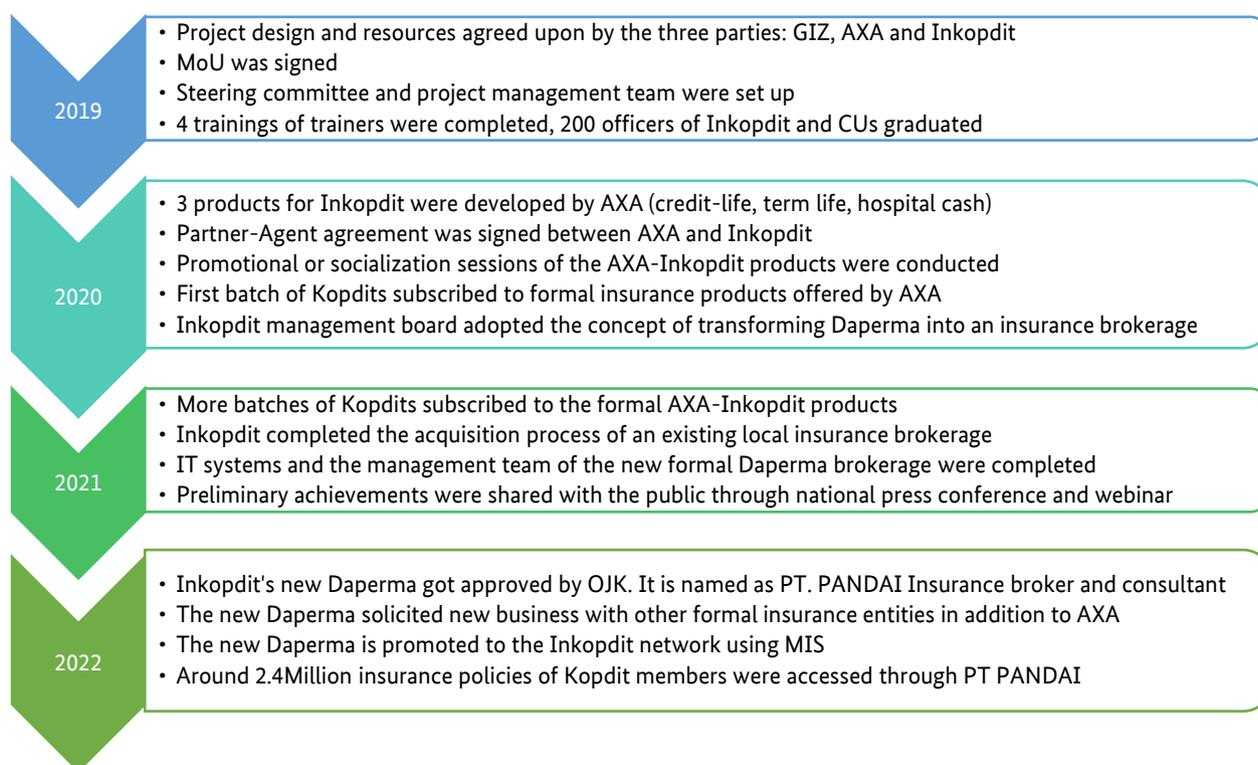


Figure 4: Milestones of Daperma formalization

4.3 Formalization through partner-agent arrangement

Product development was initiated by AXA in 2019. A series of Focused Group Discussions (FGDs) with clients of Inkopdit were conducted to generate ideas for product development by AXA in three regions (Bandung, Bali and Maumere).

The preference of the members (see figure 5) for product benefits provided the basis to AXA in calculating the premium rates based on sound insurance principles. The following table describes the product features of the new offering.

AXA Enhanced Credit Life (Life Insurance for Borrowers)	AXA Sahabat Sehat (Health Insurance)	AXA Sahabat Jiwa (Life Insurance for Member and Family)
Protection for life and/or disability	Protection for hospitalization (from a minimum of 2 nights of hospitalization)	Life protection for families (up to 4 family members) for any cause of death
Protecting outstanding loan up to IDR 200 million (USD 13,470)	Claim benefit of IDR 400,000 (USD26) or IDR 800,000 (USD52) for stroke, cancer or heart attack Claims up to 12 times/year possible	Claim benefits up to IDR 5 million (USD 323)/family member
Additional funeral benefits for members of the family	Premium IDR 50,000 (USD 3) /person/year	Premium IDR 50,000 (USD 3)/ person/year
Simpler and faster claims payment		

Figure 5: AXA-Inkopdit product features

The subscription of the new products was voluntary. Therefore, AXA needed to conduct extensive awareness raising activities with each Puskopdit to convince its member Kopdits to shift from the Daperma in-house products to the new products developed by AXA. Convincing the Kopdits of the slightly higher premium price (compared to its in-house products) but with bigger amounts of benefits offer of AXA products was not easy. Some Kopdits, however, were so price sensitive that they wanted to just stay with the generous (but not actuarially sound) old Daperma products. Additional challenges were the force majeure of the COVID-19 pandemic that forced the AXA team to conduct awareness raising activities online which they felt was less effective in reaching out to the members.

A number of improvements were brought by AXA to Inkopdit at institutional, system and product level to be compliant with insurance regulations:

- The AXA team produced three product variants with higher premiums to pay and some limitations in coverage (i.e. age limit and type of illnesses).
- Calculation of premiums and limits of benefits of the insurance products in order to comply with OJK regulations and to ensure viability of the products.
- Claims were processed faster as they use more efficient claims administration and communication channel
- Increased Inkopdit members' knowledge and skills on insurance through capacity building brought by AXA to Inkopdit.
- Daperma staff learned from the M&E system of AXA in keeping track of the insurance accounts

From 37 Puskopdits, 2 Puskopdits and 26 Kopdits initially participated in the AXA-Inkopdit products which in course protected 19,700 families in 2021. During the beginning of 2022, the Kopdits have then already started shifting to the products solicited by PT. PANDAI from other insurance providers.

4.4 Formalization of the old Daperma into an insurance brokerage

The approval of the Daperma formalization in the general membership meeting of Inkopdit in December 2019 and the creation of a formalization committee in September 2020 were key in the formalization process. But before this happened, the management board of Inkopdit did a series of meetings and issued several board resolutions to communicate the intention of the formalization, its processes and the work plan.

GIZ supported Inkopdit in assessing its options considering its financial capacity, human resource capability, the type of insurance entities and Inkopdit's ownership preference of the entity. Also considered in the options were the extent of requirements that are needed for the registration and regulations of OJK and from other government agencies concerned with credit unions and tax regulations. All these detailed issues were new to Inkopdit.

Figure 6 illustrates the options that were developed. In the end, the insurance brokerage option was chosen. The main considerations for choosing this option were Inkopdit's limited human resource capacities to manage a formal insurance company and its preference for full ownership of the entity. A joint venture by Inkopdit and an insurance entity could had been an ideal solution to increase the insurance expertise of Inkopdit in a short time. However, Inkopdit chose to have an entity that is fully owned and controlled by the credit unions.

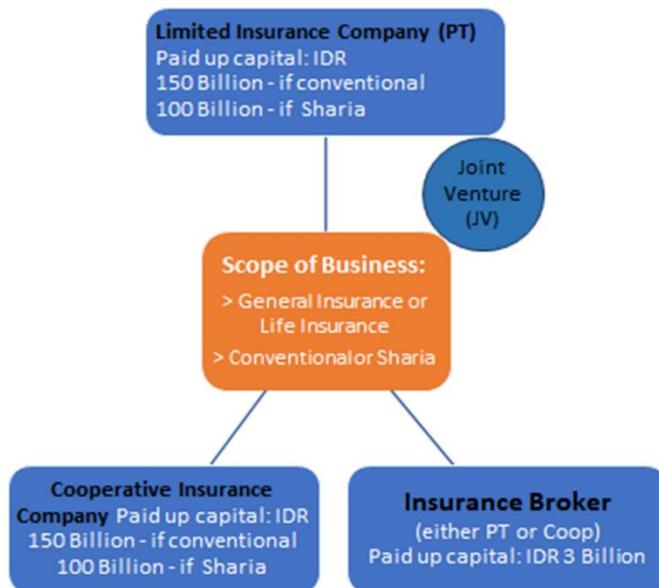


Figure 6: Options for insurance business and ownership

Following the advice of OJK to go for an acquisition rather than applying for a new insurance brokerage license, the Inkopdit's formalization team entered into a journey of a company acquisition process following the rules of OJK. An internal financial review of Daperma was conducted. Legal and financial due diligence of the candidate company for acquisition was pursued. An ownership and management structure of insurance brokerage (the new Daperma) was created and the appointed officers of the brokerage company were trained to comply with the rigorous process of fit and proper test by OJK.

The development of a product portfolio for PT. PANDAI was simultaneously pursued. Inkopdit's learnings from the partner-agent arrangement with AXA was useful. In addition, Inkopdit acquired external expertise by entering a co-broking arrangement with another local brokerage company. The arrangement ensured that the transition process of formalization would not leave any Kopdit member unprotected. In April 2022, Inkopdit received the formal approval from OJK for its insurance brokerage.

PT. PANDAI developed an information technology (IT) application. This was an innovation shifting from manual old Daperma system using paper-based transaction and records, to an IT-based system that is able to reach all member credit unions across Indonesia.

After a few months of advocacy for the new Daperma in 2022, Inkopdit had already reached a significant number of its members subscribing to PT. PANDAI. As of end of March 2022, the new Daperma had total active policies of 2.4 million mandatory credit life and voluntary term-life and hospital cash with a combined gross premium of IDR 69 billion (USD 4.46M). With the transformation of the old Daperma at the product level (partner-agent model) and the transformation to an insurance brokerage, Inkopdit had effectively transferred the financial risk of protecting the credit unions to the formal and regulated re/insurance companies. This made the provision of insurance more sustainable.

5. Key success factors and lessons learned

The implementation of the 2-step approach of formalization was successful. It enabled access of members of the credit unions to formal insurance products through an AXA-Inkopdit partner-agent arrangement and through the new insurance brokerage of Inkopdit. Key success factors and lessons in the implementation of formalization are described below.

This final section of this case study is supplemented by a summary of selected **key points for regulation in the context of informal insurance activities** (see box)

1. The partnership composition of the project was ideal

There was a clear convergence of visions and interests of Inkopdit, AXA and GIZ. Inkopdit saw the urgent need to formalize because of the threats to the financial and institutional sustainability of Daperma. But they lacked knowledge on how to do it. AXA was determined to grow its portfolio for low and middle income target groups in the emerging market. GIZ was concerned about consumer protection and financial stability of rural finance. GIZ and AXA have a broad experience in supporting the implementation of successful microinsurance projects in different countries. The combined expertise of AXA and GIZ, and the strong leadership of the management board of Inkopdit, enabled to successfully implement the two-step formalization process.

2. Acquisition of an existing brokerage license made the formalization process shorter

Mergers and acquisition of businesses is a common practice in the marketplace. It enables synergies and it helps in strengthening and consolidating the market. Inkopdit understood this as a shorter route to building its business. To support the acquisition process, it conducted a solid internal review of financial and HR capacities for the Daperma. And it implemented legal and financial due diligence of the candidate company for acquisition.

Key points for regulation in the context of informal insurance activities

The content of this box is borrowed from the publication [Focus Note 10, Informal insurance: a regulator's perspective](#) by Doubell Chamberlain, Hennie Bester and Christine Hougaard

- ✓ *Unnecessary regulatory barriers undermine formalization and market entry.* The barriers may be due to limited capacity of supervisors to effectively supervise the sector.
- ✓ *Create a path for formalization.* An insurance regulatory framework should provide formalization options for those informal organizations that are able to grow into formal insurance providers.
- ✓ *Sound corporate governance allows the regulator to leverage non-traditional institutional types, facilitating formalization.* Weak governance in a particular category of institution means that a more intense regulatory effort is required to ensure compliance. This is particularly relevant for member-based entities such as financial cooperatives.
- ✓ *Support will be required.* This may include extending amnesties or grace periods; capacity-building support, including the training of owners and managers; initiating consolidation activities; and partnering informal operators with formal underwriters.
- ✓ *Different entities require different responses.* In designing approaches to regulation, regulators should take care to understand all components of the informal market. This will make it possible to tailor the level of regulatory effort to the nature of the risk.
- ✓ *Enforcement coalitions to enhance capacity.* A supportive regulatory framework will not promote formalization on its own – it must be backed up by an enforcement effort which makes it costly not to comply.
- ✓ *Market mechanisms may support formalization.* Market-based organizations such as microfinance rating agencies, which tend to reduce the ratings of microfinance institutions with self-insured insurance portfolios, and dedicated microinsurance support institutions can play an important role in formalizing informal insurance operations.

3. Formalization at the national network level of cooperatives increases the viability of formalization

Insurance, especially microinsurance, needs strong outreach in order to be viable. Therefore, aiming the formalization at the national network of cooperatives where there is a bigger number of potential members makes the formalization effort become more viable. The challenge, however, is the need for long and persistent process of communication and advocacy across the sub-national chapters and leaders of the network as already mentioned in the prior paragraph. However, having sufficient scale of informality that will be formalized makes it also attractive to receive support from the regulator and market enabling stakeholders.

4. Targets and assumptions should be reviewed and adjusted to realities

While the management board of Inkopdit (especially the Chairman) was highly committed to pursue the formalization of Daperma, it was not easy to crack the mindset of leaders of Puskopdits and Kopdits who got used for many years to the old in-house insurance scheme. The Kopdits were very price sensitive which resulted into lack of buy-in to the AXA products. Moreover, the claims ratios of the AXA products were extremely high (above 100%) so that adjustment of pricing was not a pleasant topic to discuss. The high target number for the AXA products sold was built on the assumption that the Inkopdit network has a huge membership, and that bringing the products to the members would be easy because of the well-established structure of the Inkopdit network. However, the decentralized decision making needed at each Puskodit and Kopdit made it costly to promote the products. Each Kopdit needed to be targeted for promotion activities. In addition, restrictions due to the COVID situation made AXA to shift to online promotion.



*Launching of PT. PANDAI insurance brokerage
Photo by PT. PANDAI, 2022*

5. Capacity building is a continuous process

The co-brokerage arrangement of Inkopdit with a local brokerage company while the new Daperma was being built up was a good strategy. Inkopdit was able to immediately acquire external expertise in setting up the new Daperma. It has also accelerated the onboarding of Kopdit members to brokerage company probably because of better product offers from other insurance providers. However, the IT technology of brokerage should be enhanced further in order to handle the administration of insurance at Puskopdits and Kopdits levels more efficiently.

6. Outlook

Inkopdit will continue to increase the management capacity of PT. PANDAI. New staff members who have knowledge and experience in insurance were hired. The staff of the old Daperma who are committed to provide services to the members of Inkopdit had been integrated in the Daperma brokerage and will be provided with more trainings. More Puskopdits will be encouraged to join as shareholders customers of Daperma brokerage in order to strengthen the ownership, responsibilities and benefit-sharing of the company.

AXA will finalize and wrap up its business relationship with Inkopdit and need to establish business relationship with PT. PANDAI. It needs to redesign its products to ensure its viability and explore other products outside loans to make its offering differentiated and more attractive, namely towards weather index insurance or micro SME business interruption.

GIZ will continue to share and communicate this case study to inspire insurance stakeholders and inclusive insurance market enablers. Various knowledge management platforms will be used such as the homepage of the MEFIN Network and Access to Insurance Initiative (A2ii), as well as webinars and national and international conferences on inclusive insurance.

General conclusions for formalization are difficult as each institution and situation is different. We nevertheless hope that the successful journey of Inkopdit, AXA and GIZ can provide some helpful insights for Indonesia and other countries and institution on the processes of formalizing insurance services for the ultimate benefit of vulnerable citizens.