

June 25, 2014

Dr. Muliaman D. Hadad  
Chairman  
Otoritas Jasa Keuangan (OJK)  
Menara Radius Prawiro Lantai 2  
Kompleks Perkantoran Bank Indonesia  
Jl. M.H. Thamrin No 2, Jakarta Pusat  
Jakarta, Indonesia

Dear Chairman Muliaman:

Our organizations are the leading business associations in each of our countries, and represent companies of all sizes, across the full range of industry sectors. Our members have a substantial investment presence in Indonesia, and a long-term commitment to your country.

It is in that spirit that we write. In letters dated December 2, 2013, the Indonesian Financial Services Authority (OJK), asked insurance companies in Indonesia to submit plans to the OJK showing how they would reduce cessions of reinsurance going offshore, and increase those onshore. Indonesia's current account deficit was cited as the reason for the request.

We share Indonesia's goal of developing a healthy and vibrant insurance industry. Insurance is vital to mobilizing the vast amounts of long-term capital that will be essential to Indonesia as it seeks to build up infrastructure in support of long-term economic growth. The participation of internationally active reinsurers fosters significant transfer of industry knowledge and expertise, and thus strengthens the domestic insurance market. There are a number of ways to encourage the development of the industry, and we are keen to work with the Government of Indonesia in that effort. However, the direction proposed in the letters is inconsistent with the goal of developing the Indonesian insurance market.

First, a reduction in offshore cessions of reinsurance would hurt the Indonesian economy. Reinsurance transactions go offshore because the same reinsurance is not available onshore. Rather than going onshore, many such transactions would simply not occur. Indonesian consumers would have less availability of insurance because insurance companies in Indonesia would have less capacity and fewer products to offer. Moreover, reinsurance exists in order to spread and diversify risk, including by protecting assets through funds that are not in the same geographic region as the asset being protected. Forcing a greater share of reinsurance to be procured locally increases risk.

Secondly, the letters create uncertainty about the rules for conducting business in Indonesia. The OJK characterizes the letters as "moral suasion," meaning they have no

legally binding authority. However, when a regulator tells a regulated entity that it should do something, the regulated entity, which needs the cooperation of its regulator to smoothly conduct its business, feels strongly pressured to comply. This type of administrative guidance cannot be challenged in the courts or legislature, and negates those institutions' roles in creating and enforcing laws and regulations. Such actions undermine confidence in the rule of law, and the investment environment suffers as a result.

Lastly, the letters are at odds with Indonesia's commitments in the General Agreement on Trade in Services in the World Trade Organization, in which Indonesia has taken on a binding commitment not to discriminate against the offshore providers of reinsurance services. The letters therefore create further uncertainty, and undermine investor confidence that Indonesia will adhere to its international trade obligations.

We stand ready to work with the Government of Indonesia in developing a regulatory framework that will promote the growth of this important industry, and thereby advance Indonesia's economic development objectives. We look forward to engaging in a substantive and meaningful dialogue on this important topic.

We are grateful for your attention to this matter.

Sincerely,

AmCham Indonesia  
Australian Chambers of Commerce and Industry  
BUSINESSEUROPE  
Canadian Chamber of Commerce  
Canadian Services Coalition  
Coalition of Services Industries (U.S.)  
European Services Forum  
U.S. Chamber of Commerce