



OJK Circular Letter on Insurance Product Distribution Channels

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Insurance companies and their distribution partners, including banks, multi-finance companies, and digital platforms, should take note of a new circular letter issued by Indonesia's Financial Services Authority on the marketing of insurance products.

On 2 October 2020, Indonesia's Financial Services Authority (*Otoritas Jasa Keuangan* or **OJK**) issued Circular Letter No. 19/SEOJK.05/2020 on distribution channels for insurance products (**Circular Letter 5/2020**).

Circular Letter 5/2020 provides more guidelines for insurance companies and their distribution partners on the marketing of insurance products, and on how they may use electronic systems and channels such as social

media. While the circular letter provides guidelines on various types of distribution channels, it is particularly helpful in giving more clarity on the requirements that are applicable to cooperation with non-bank business entities. Prior to this, there had been lack of express guidance from OJK on such type of cooperation. Although a draft circular letter on such type of cooperation was made available by OJK in 2018, it was never finalised.

While Circular Letter 5/2020 is intended for insurance companies, in practice, distribution partners including banks, multi-finance companies and digital platforms that partner with insurance companies will all need to ensure compliance.

We set out in this article some of the key issues covered by Circular Letter 5/2020.



When did it come into effect?

2 October 2020, but businesses are given 12 months to adjust their existing activities and cooperation arrangements.



What are the permitted distribution channels?

1. Direct marketing by insurance companies
2. Insurance agents
3. Banks (*bancassurance* arrangement)
4. Non-bank business entities



Written agreements

- Circular Letter 5/2020 requires a written agreement between the insurance company and its insurance agents and distribution partners (both banks and non-banks).
- There must be an Indonesian language version of the agreement. If there is a foreign language version, the Indonesian language version will prevail.



Marketing kits

In marketing insurance products, parties may only use the marketing kit and product information summary prepared or approved by the insurance company.



Use of electronic systems

- Parties that market insurance products using electronic systems must obtain an electronic system registration certificate from the competent authority (currently the Ministry of Communication and Informatics).
- If an electronic system is used for insurance product applications, issuance of insurance policies or premium payments, then 24-hour customer service must be available.
- If the electronic system is managed by a party other than the insurance company, it must include a link to the insurance company's electronic system.
- Circular Letter 5/2020 anticipates that OJK or the insurance industry association may develop an information sharing platform for reporting violations of the code of ethics, among other things.



Additional guidelines on cooperation with non-bank business entities

- Cooperation can only take the form of reference model cooperation, where the distribution partner may only provide a pre-approved marketing kit to prospective policyholders and must not assist with the acceptance or claim process, rather than a joint distribution or product integration model.
- Since non-bank business entities can only use a reference model, they are not expected to take an active marketing role. If they do, they will be considered corporate agencies or insurance brokers – activities requiring a specific business license.
- Non-bank business entities must offer customers a choice of at least two insurance companies if insurance is a pre-requisite to obtain their product or service.
- Insurance companies intending to cooperate with non-bank business entities for marketing using the latter's electronic systems must obtain prior approval from OJK.



More guidelines for corporate agencies

- Any entity that hires insurance agents must be registered with OJK and must *not* cooperate with any other insurance company in the same line of business (eg, life insurance), among other things. This was not previously expressly regulated, but is consistent with our recent experience in incorporating an insurance corporate agency.
- An agency member-get-member scheme is permitted within certain parameters. For example, the aggregate acquisition costs should not exceed the estimates reported to OJK.



Consumer protection and data privacy

Circular Letter 5/2020 emphasises the requirement to comply with applicable consumer protection and data protection laws and regulations, including the requirement to inform customers in writing of any data privacy breach.



Compliance with other regulations and guidelines

Insurance companies and their partners must also comply with other applicable regulations and guidelines, such as:

- OJK circular letters on *bancassurance* arrangements and micro-insurance products;
- OJK regulations on consumer protection for financial institutions;
- OJK and industry association decrees and guidelines on acquisition costs;
- government and ministerial regulations on electronic systems.

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