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Indonesia



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Insurance & Reinsurance

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Contents

Insurance & Reinsurance

REGULATION

- Regulatory agencies
- Formation and licensing
- Other licences, authorisations and qualifications
- Officers and directors
- Capital and surplus requirements
- Reserves
- Product regulation
- Regulatory examinations
- Investments
- Change of control
- Financing of an acquisition
- Minority interest
- Foreign ownership
- Group supervision and capital requirements
- Reinsurance agreements
- Ceded reinsurance and retention of risk
- Collateral
- Credit for reinsurance
- Insolvent and financially troubled companies
- Claim priority in insolvency
- Intermediaries

INSURANCE CLAIMS AND COVERAGE

- Third-party actions
- Late notice of claim
- Wrongful denial of claim
- Defence of claim
- Indemnity policies
- Incontestability
- Punitive damages
- Excess insurer obligations
- Self-insurance default
- Claim priority
- Allocation of payment
- Disgorgement or restitution
- Definition of occurrence
- Rescission based on misstatements

REINSURANCE DISPUTES AND ARBITRATION

Reinsurance disputes
Common dispute issues
Arbitration awards
Power of arbitrators
Appeal of arbitration awards

REINSURANCE PRINCIPLES AND PRACTICES

Obligation to follow cedent
Good faith
Facultative reinsurance and treaty reinsurance
Third-party action
Insolvent insurer
Notice and information
Allocation of underlying claim payments or settlements
Review
Reimbursement of commutation payments
Extracontractual obligations (ECOs)

UPDATES & TRENDS

Key developments

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REGULATION

Regulatory agencies

Identify the regulatory agencies responsible for regulating insurance and reinsurance companies.

The Financial Services Authority (*Otoritas Jasa Keuangan* (OJK)) is the government institution in Indonesia that is responsible for the regulatory oversight and supervision of, among others, financial services activities in the insurance sector, including insurance and reinsurance activities.

In terms of insurance business, OJK's authority applies only to insurance and reinsurance activities conducted in Indonesia. Foreign entities are not subject to OJK's supervision unless they operate in the country. To do so, they must comply with Indonesian regulations, including licensing, partnerships with local insurers, or other OJK requirements.

Law stated - 17 April 2025

Formation and licensing

What are the requirements for formation and licensing of new insurance and reinsurance companies?

| Requirements | Insurance Companies | Reinsurance Companies |
|------------------------------|--|-----------------------|
| Minimum Paid - up Capital | 1 trillion rupiahs | 2 trillion rupiahs |
| Ownership | <ul style="list-style-type: none"> Indonesian citizens and/or Indonesian legal entities that are directly or indirectly wholly owned by Indonesian citizens; or Indonesian citizens and/or Indonesian legal entities together with foreign citizens or foreign legal entities, which must be companies engaged in a similar business or parent companies with at least one subsidiary operating in a similar insurance business. | |
| Legal Form | <ul style="list-style-type: none"> Limited liability company; Cooperative; or Mutual business that existed at the time Law Number 40 of 2014 on Insurance was enacted. | |
| Foreign Ownership Limitation | Private company: maximum 80 per cent of paid - up capital, directly or indirectly. Public company: N/A | |

Licensing

A business licence is issued by OJK upon submission of the application and the relevant supporting documents, including the fit and proper test.

Law stated - 17 April 2025

Other licences, authorisations and qualifications

What licences, authorisations or qualifications are required for insurance and reinsurance companies to conduct business?

The following are the required licences and approvals:

- business license – this licence allows the company to conduct its business activities. It is issued by OJK after the company submits an application along with the necessary supporting documents; and
- fit and proper test approval – this is required for the company's key parties, including directors, commissioners, and controlling shareholders, to carry out their respective duties and responsibilities.

In addition to the above, product approval is also required before insurance products can be marketed, which is separate from the business licence. Furthermore, licensed insurance or reinsurance companies must continue to meet regulatory requirements, including capital adequacy, good corporate governance, and periodic reporting.

Law stated - 17 April 2025

Officers and directors

What are the minimum qualification requirements for officers and directors of insurance and reinsurance companies?

The minimum qualification requirements for officers and directors of insurance and reinsurance companies are as follows:

- obtain approval from OJK;
- demonstrate integrity by acting in good faith, with honesty and professionalism;
- possess knowledge relevant to the company's business sector and appropriate to their position;
- act in the best interests of the company, policyholders, insured parties, participants, and/or other entitled beneficiaries;
- prioritise the interests of the company, policyholders, insured parties, participants, and/or other entitled beneficiaries over personal interests;
- make decisions based on independent and objective assessments in the best interests of the company, policyholders, insured parties, participants, and/or other entitled beneficiaries; and

- avoid any misuse of authority for personal gain that is improper or detrimental to the company.

In addition to the above, all members of the board of directors must reside in Indonesia, while only 50 per cent of the board of commissioners is required to do so.

Law stated - 17 April 2025

Capital and surplus requirements

What are the capital and surplus requirements for insurance and reinsurance companies?

Capital

Insurance companies operating in Indonesia must have a minimum paid-up capital of 1 trillion rupiahs at establishment, while reinsurance companies require 2 trillion rupiahs. Shareholders' investment and capital contributions cannot come from (1) loans, except for government-controlled entities, or (2) funds linked to money laundering, terrorism financing, weapons proliferation, or other financial crimes.

Surplus

Insurance and reinsurance companies are required to continuously maintain a solvency ratio (the difference between allowable assets and liabilities) of at least 100 per cent of the risk-based capital adequacy (the amount of funds needed to anticipate potential losses arising from deviations in the management of assets and liabilities).

Law stated - 17 April 2025

Reserves

What are the requirements with respect to reserves maintained by insurance and reinsurance companies?

The establishment of technical reserve for insurance and reinsurance companies shall consist of premium reserve, unearned premium reserve for product with maturity period of up to one year or more than one year, the terms and conditions of policy of which are renewable on every policy anniversary, investment-linked insurance product reserve, claim reserve and catastrophic reserve.

Law stated - 17 April 2025

Product regulation

What are the regulatory requirements with respect to insurance products offered for sale? Are some products regulated by multiple agencies?

Insurance products marketed in Indonesia by a fully licensed Indonesian insurance company must meet the following requirements:

- provides protection against at least one insurable risk;
- the premiums/contributions must be appropriate to the promised benefits, which are set at a level that is sufficient, not excessive and not be applied discriminatorily; and
- use clear policy wording to avoid confusion or difficulty in exercising rights.

Insurance products are generally regulated by OJK. Product approval is also required before insurance products can be marketed, which is separate from the business license

Law stated - 17 April 2025

Regulatory examinations

What are the frequency, types and scope of financial, market conduct or other periodic examinations of insurance and reinsurance companies?

The prevailing law authorises OJK to conduct on-site examination towards insurance and reinsurance companies.

OJK conducts on-site examinations periodically as well as at any time when necessary. For periodic examinations, OJK may determine a frequency of once per year. On-site examinations conducted at any time are intended to further assess the results of off-site supervision and/or investigate indications of deviations from sound non-bank financial institution practices.

The OJK conduct on-site examination on:

- shareholders or its equivalent;
- subsidiaries; and/or
- other parties conducting transactions with the company.

On-site examination aims to:

- obtain the overview of the institution's condition;
- obtain sufficient assurance regarding its soundness level; and/or
- assess compliance with applicable laws and regulations.

Law stated - 17 April 2025

Investments

What are the rules on the kinds and amounts of investments that insurance and reinsurance companies may make?

Allowable assets (assets considered in solvency ratio calculation) must be placed in the following form of investment:

-

time deposits at banks, rural bank, including deposits on call and deposits with a term of less than or equal to one month;

- certificate of deposit at the bank;
- shares listed on the stock exchange;
- corporate bonds listed on the stock exchange;
- medium term notes;
- securities issued by the Indonesia;
- securities issued by countries other than the Indonesia;
- securities issued by Bank Indonesia;
- securities issued by multinational institutions of which Indonesia is a member or shareholder;
- mutual funds;
- asset-backed securities;
- real estate investment funds in the form of collective investment contracts;
- securities transactions through repurchase agreements;
- direct participation in limited liability companies of which shares are not listed on the stock exchange;
- land, buildings with strata title, or land with buildings, for investment;
- financing through cooperation mechanisms with other parties in the form of cooperation in providing credit (executing);
- pure gold;
- policy loans;
- regional bonds; and/or
- infrastructure investment funds in the form of collective investment contracts.

Law stated - 17 April 2025

Change of control

What are the regulatory requirements on a change of control of insurance and reinsurance companies? Are officers, directors and controlling persons of the acquirer subject to background investigations?

Any change in ownership (ie, changes in shareholding composition, acquisitions, the addition of new shareholders), requires prior OJK approval and must be reflected in the company's business plan. An application with supporting documents must be submitted for approval. If a new controller is introduced, OJK will conduct a fit and proper test.

Additionally, OJK conduct a fit and proper test prior to the appointment of prospective key parties of the insurance and reinsurance company, including members of the board of directors, board of commissioners, sharia supervisory board, internal auditors, and actuaries.

Financing of an acquisition

What are the requirements and restrictions regarding financing of the acquisition of an insurance or reinsurance company?

Except for government-related entities, shareholder funds for investment or capital contributions must not originate from loans. Furthermore, they must not come from activities related to money laundering, terrorism financing, the proliferation of weapons of mass destruction, or other financial crimes.

Furthermore, if a change in ownership results from an increase in paid-in capital, such an increase may only be conducted in the following forms:

- cash injection;
- conversion or transfer of retained earnings;
- conversion or transfer of loans; and/or
- bonus shares.

Law stated - 17 April 2025

Minority interest

What are the regulatory requirements and restrictions on investors acquiring a minority interest in an insurance or reinsurance company?

Pursuant to OJK Regulation 23/2023, the change in shareholding composition or the addition of new shareholders, which typically occurs when investors acquire a minority interest, must first obtain prior approval from OJK.

Law stated - 17 April 2025

Foreign ownership

What are the regulatory requirements and restrictions concerning the investment in an insurance or reinsurance company by foreign citizens, companies or governments?

Foreign ownership is generally capped at 80 per cent of paid-up capital, except for publicly listed insurance companies, to which this restriction does not apply. Foreign individuals or entities may own shares in insurance or reinsurance companies in Indonesia, provided that ownership is shared with Indonesian citizens or legal entities. Additionally, the foreign entity must either be engaged in a similar line of business or serve as a parent company with a subsidiary operating in the same insurance sector.

Law stated - 17 April 2025

Group supervision and capital requirements

What is the supervisory framework for groups of companies containing an insurer or reinsurer in a holding company system? What are the enterprise risk assessment and reporting requirements for an insurer or reinsurer and its holding company? What holding company or group capital requirements exist in addition to individual legal entity capital requirements for insurers and reinsurers?

Supervisory framework

In Indonesia, a group of financial services institutions with common ownership and/or control is referred to as a financial conglomerate and is governed and supervised by the OJK.

A financial conglomerate must establish a financial holding company if it consists of at least two financial institutions from different sectors with total assets of at least 100 trillion rupiahs, or at least three financial institutions from three different sectors with total assets between 20 trillion and 100 trillion rupiahs. The holding company oversees, consolidates, and manages the conglomerate's activities.

Risk management

Financial conglomerates are required to implement comprehensive and effective integrated risk management. The implementation of integrated risk management must cover at least the following aspects:

- supervision of the board of directors and board of commissioners of the main entity (ie, the parent financial services institution of the financial conglomerate or the financial services institution designated by the controlling shareholder of the financial conglomerate);
- adequacy of integrated risk management policies, procedures, and limit setting;
- adequacy of the integrated risk identification, measurement, monitoring, and control processes, as well as the integrated risk management information system; and
- a comprehensive internal control system for the implementation of integrated risk management.

Reporting requirements

Financial holding companies must submit quarterly reports to OJK. In addition to these regular reports, the OJK has the authority to request incidental reports as necessary. If the holding company is a financial services institution, it must comply with relevant reporting requirements.

Insurance and reinsurance companies within a financial conglomerate must submit both periodic and incidental reports in line with general reporting requirements for the insurance sector.

Capital requirements for holding company and financial conglomerate

The required minimum capital amount for a financial conglomerate is calculated based on a formula set out within OJK Regulation 26/2015, with calculation components including the aggregate net equity and the aggregate regulatory capital requirements of the financial conglomerate.

OJK Regulation 30/2024 recognises two types of financial holding companies: operating and non-operating. A non-operating financial holding company controls the financial conglomerate without engaging in financial services, while an operating financial holding company does both.

In terms of capital requirements, non-operating financial holding company is required to have paid-up capital at least equal to the nominal value of the shares it invested in the financial conglomerate members, while an operating financial holding company is subject to the minimum capital requirements applicable to the relevant financial services sector in which it operates.

Law stated - 17 April 2025

Reinsurance agreements

What are the regulatory requirements with respect to reinsurance agreements between insurance and reinsurance companies domiciled in your jurisdiction?

The prevailing law mandates insurance companies to obtain reinsurance support through a written reinsurance agreement.

The reinsurance agreement must not contain provisions that guarantee specific profits for the reinsurer. Additionally, the agreement must stipulate that, in the event of liquidation of either the insurance or reinsurance company, the rights and obligations arising from the reinsurance transaction shall remain binding until the liquidation process of one or both parties is completed.

Law stated - 17 April 2025

Ceded reinsurance and retention of risk

What requirements and restrictions govern the amount of ceded reinsurance and retention of risk by insurers?

[OJK Circular Letter Number 31/SEOJK.05/2015 of 2015 on Self-Retention Limit, Amount of Reinsurance Support, and Reinsurance/Retrocession Program Report](#) (OJK CL 31/2015) provide guidelines for insurers and reinsurers on minimum retention and domestic reinsurance placement. The minimum retention stipulation sets the self-retention limit required for insurance or reinsurance companies based on their line of business.

Law stated - 17 April 2025

Collateral

What are the collateral requirements for reinsurers in a reinsurance transaction?

There are no specific collateral requirements for reinsurers according to the prevailing Indonesian laws. However, reinsurance companies are required to maintain a statutory security fund in the amount of at least 20 per cent of their minimum paid-up capital.

Law stated - 17 April 2025

Credit for reinsurance

What are the regulatory requirements for cedents to obtain credit for reinsurance on their financial statements?

There are no specific regulatory requirements for cedents to obtain credit according to the prevailing Indonesian laws.

Law stated - 17 April 2025

Insolvent and financially troubled companies

What laws govern insolvent or financially troubled insurance and reinsurance companies?

The insolvent or financially troubled insurance and reinsurance companies are governed by:

- [Law No. 40 of 2014](#) on Insurance as lastly amended by [Law No. 4 of 2023](#) (Insurance Law);
- [Law No. 37 of 2004](#) on Bankruptcy and Suspension of Debt Payment Obligations as partially revoked by [Law No. 4 of 2023](#);
- [OJK Regulation No. 28/POJK.05/2015 of 2015](#) on Dissolution, Liquidation, and Bankruptcy of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies, and Sharia Reinsurance Companies as lastly amended by [OJK Regulation No. 38 of 2024](#);
- [OJK Regulation No. 71/POJK.05/2016 of 2016](#) on The Financial Soundness of Insurance and Reinsurance Companies, as lastly partially revoked by OJK [Regulation No. 22 of 2024](#); and
- [OJK Regulation No. 17/POJK.05/2017 of 2017](#) Procedures and Guidelines for the Imposition of Administrative Sanctions in the Insurance Sector and the Blocking of Assets of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies and Sharia Reinsurance Companies as lastly amended by [OJK Regulation No. 37 of 2024](#).

Law stated - 17 April 2025

Claim priority in insolvency

What is the priority of claims (insurance and otherwise) against an insurance or reinsurance company in an insolvency proceeding?

In the event of bankruptcy or liquidation of an insurance or reinsurance company, the priority of claims is as follows: (1) the rights of policyholders, insured or other parties who are entitled to the insurance benefits; (2) any other third parties shall there any excess of the insurance fund.

Law stated - 17 April 2025

Intermediaries

What are the licensing requirements for intermediaries representing insurance and reinsurance companies?

Pursuant to OJK Regulation No. 24 of 2023 on Business Licensing and Institutional Aspects of Insurance Brokerage Company, Reinsurance Brokerage Company, and Insurance Loss Appraisal Company (OJK Regulation 24/2023), insurance brokers, reinsurance brokers, and loss appraisers must obtain a business licence from OJK.

OJK Regulation 23/2023 also requires insurance and reinsurance companies to appoint full-time experts with relevant professional certifications. Additionally, OJK Regulation 69/2016 mandates that agents be registered with OJK and hold an agency certificate based on their line of business.

Law stated - 17 April 2025

INSURANCE CLAIMS AND COVERAGE

Third-party actions

Can a third party bring a direct action against an insurer for coverage?

Generally, a third party is not permitted to file a direct claim against an insurer for coverage. The third party can only file a claim against the insured with whom it has a legal relationship, either through a contract or as a result of a tortious action.

However, in specific types of insurance coverage, such as vessel wreck removal insurance, the third party (in this case, the relevant government institution) is allowed to directly file a claim against the insurer for any costs incurred in removing a vessel wreck, in accordance with the principles outlined in the Nairobi Wreck Convention, which has been ratified by the Indonesian government.

Law stated - 17 April 2025

Late notice of claim

Can an insurer deny coverage based on late notice of claim without demonstrating prejudice?

Due to the lack of clarity in the implied terms of Indonesian law regarding insurance, the court often adopts a formalistic approach, where the insurer can deny coverage solely based on the late notice of a claim, regardless of whether the delay causes any harm to the insurer. The late notice of a claim would most likely be considered a default under the insurance policy if the policy explicitly requires the insured to submit a notice within a specified time frame after the occurrence of the risk.

Law stated - 17 April 2025

Wrongful denial of claim

Is an insurer subject to extra-contractual exposure for wrongful denial of a claim?

A wrongful denial of a claim would be regarded as a default under the insurance policy, particularly if the claim is legitimate or if the refusal was made in bad faith by the insurer. However, the insured may need to assert their rights by initiating legal proceedings against the insurer.

Law stated - 17 April 2025

Defence of claim

What triggers a liability insurer's duty to defend a claim?

In Indonesia, a liability insurer's duty to defend a claim is not mandated by law, but is instead determined by the specific terms and conditions of the insurance policy. The insurer's obligation to provide a defence, including covering defence costs, depends on the provisions outlined in the policy.

Law stated - 17 April 2025

Indemnity policies

For indemnity policies, what triggers the insurer's payment obligations?

Indonesian law does not specifically sets out provisions regarding the events or risks that trigger the insurer's payment obligation under indemnity policies. The insurer's payment obligation in such cases is determined by the terms set forth in the policy. However, these provisions must align with the general principle of indemnity, which states that the insurer must compensate the insured for actual loss, not for profit, and the payment cannot exceed the insured's financial interest.

Law stated - 17 April 2025

Incontestability

Is there a period beyond which a life insurer cannot contest coverage based on misrepresentation in the application?

Indonesian law does not provide a specific period beyond which a life insurer cannot contest coverage based on misrepresentation in the application. Several case laws indicate that a life insurer are able to contest coverage based on misrepresentation until the time the risk occurs.

Law stated - 17 April 2025

Punitive damages Are punitive damages insurable?

Although Indonesian law does not explicitly address whether punitive damages are insurable, they may be treated as an excess under an insurance policy if not specifically covered. This is because Indonesian law typically requires insurers to cover only the actual loss of the insured, and punitive damages do not fall under the category of actual losses.

Law stated - 17 April 2025

Excess insurer obligations What is the obligation of an excess insurer to 'drop down and defend', and pay a claim, if the primary insurer is insolvent or its coverage is otherwise unavailable without full exhaustion of primary limits?

Under Indonesian law, there is no specific obligation for an excess insurer to 'drop down and defend.' Generally, when an insured takes out insurance policies with two different insurers for the same insured object, both insurers are jointly and severally liable to cover all losses related to that object, provided that the total actual losses are settled and the insurers do not profit from both policies.

Law stated - 17 April 2025

Self-insurance default What is an insurer's obligation if the policy provides that the insured has a self-insured retention or deductible and is insolvent and unable to pay it?

The insurer would only be obliged to pay for the coverage minus the deductible, in case the insured is insolvent and unable to pay the deductible. There will be no difference in the insurer's obligations in this case regardless of whether the insured is able to provide the self-insured retention or deductible.

Law stated - 17 April 2025

Claim priority

What is the order of priority for payment when there are multiple claims under the same policy?

Under Indonesian insurance laws, the order of priority for payment when multiple claims arise under the same policy is not regulated. This depends on terms and conditions specified within the insurance policy.

However, according to articles 252 and 253 of the Indonesian Commercial Code (KUHD), the principle of indemnity ensures that the insured is compensated only to the extent of their actual loss and no second cover on goods which have been insured for their full value is permissible the same time.

Law stated - 17 April 2025

Allocation of payment

How are payments allocated among multiple policies triggered by the same claim?

The allocation of payments is primarily governed by the principle of contribution under article 277 of KUHD. This principle ensures that insurers sharing the same risk contribute proportionally to indemnify the insured, thereby preventing the insured from profiting beyond the actual loss. If the first policy fully covers the insured value, subsequent insurers are released from liability. However, if the first policy does not fully cover the value, subsequent insurers are responsible for the remaining amount.

Law stated - 17 April 2025

Disgorgement or restitution

Are disgorgement or restitution claims insurable losses?

Under Indonesian insurance laws, there is no explicit regulatory prohibition against insuring claims related to disgorgement or restitution. Whether such claims are insurable depends on the terms and conditions specified within the insurance policy.

Law stated - 17 April 2025

Definition of occurrence

How do courts determine whether a single event resulting in multiple injuries or claims constitutes more than one occurrence under an insurance policy?

In Indonesian insurance practice, determining whether a single event resulting in multiple injuries or claims constitutes more than one occurrence under an insurance policy primarily depends on the policy's specific wording and the inclusion of clauses such as the 72 Hours Clause that has been stipulated in the Indonesian Earthquake Insurance Standard Policy(-

Polis Standar Asuransi Gempa Bumi Indonesia). This clause is commonly applied in policies covering catastrophic events such as earthquakes, floods or storms.

Law stated - 17 April 2025

Rescission based on misstatements

Under what circumstances can misstatements in the application be the basis for rescission?

Pursuant to article 251 of the KUHD, insurers possessed the authority to unilaterally rescind an insurance policy if the insured provided false information or concealed material facts, regardless of intent.

That said, pursuant to the Constitutional Court's decision in Case No. 83/PUU-XXII/2024 dated 3 January 2025, this article is conditionally unconstitutional unless interpreted to require that the cancellation of an insurance policy due to material non-disclosure must be based on mutual agreement between the insurer and the insured, or on a court decision. This ruling emphasises that unilateral rescission by the insurer is no longer permissible; instead, any disputes regarding misstatements must be resolved through mutual consent or judicial intervention. However, if both parties waive article 1266 of the Indonesian Civil Code, which states the provision of a court decision requirement for termination of contract due to a breach, the termination of the insurance policy for incomplete or false disclosures (regardless of the insurers' intent) might be deemed valid.

Law stated - 17 April 2025

REINSURANCE DISPUTES AND ARBITRATION

Reinsurance disputes

Are formal reinsurance disputes common, or do insurers and reinsurers tend to prefer business solutions for their disputes without formal proceedings?

Formal reinsurance disputes are relatively uncommon in this jurisdiction, as insurers and reinsurers typically favour resolving disagreements through business negotiations and alternative dispute resolution mechanisms. Nevertheless, certain insurance and reinsurance claims – particularly those exceeding 1 billion rupiahs – have been brought before the courts.

Indonesian authority provides alternative dispute resolution forum for insurance and reinsurance dispute via the Alternative Dispute Settlement Institution in the Financial Service Sector (*Lembaga Alternatif Penyelesaian Sengketa Sektor Jasa Keuangan* (LAPS SJK)). According to OJK Regulation No. 61/POJK.07/2020, LAPS SJK is responsible for providing integrated dispute resolution services within the financial services sector, including reinsurance disputes. Furthermore, article 11 of the same regulation mandates that financial services business actors must be members of LAPS SJK, making it the designated body for alternative dispute resolution in reinsurance matters.

Law stated - 17 April 2025

Common dispute issues

What are the most common issues that arise in reinsurance disputes?

Common reinsurance disputes often centre around whether a payment made by the insurer to the insured is considered a payment for risks covered under the policy or if it constitutes an ex-gratia payment driven by commercial considerations. Errors in assessment by the insurer frequently lead to disputes regarding whether the loss falls outside the scope of the reinsurance contract or if the insurer was never legally liable in the first place. It is well-established that an ex-gratia payment made by the insurer is not regarded as covered under a reinsurance policy, even if the policy does not explicitly address this issue.

Law stated - 17 April 2025

Arbitration awards

Do reinsurance arbitration awards typically include the reasoning for the decision?

Yes, under Indonesian law, reinsurance arbitration awards typically include the reasoning for the decision.

Law stated - 17 April 2025

Power of arbitrators

What powers do reinsurance arbitrators have over non-parties to the arbitration agreement?

Reinsurance arbitrators, like general arbitrators, do not possess any specific authority over non-parties to the arbitration agreement. Their powers are typically limited to the parties involved in the reinsurance policy with an arbitration agreement/clause.

Law stated - 17 April 2025

Appeal of arbitration awards

Can parties to reinsurance arbitrations seek to vacate, modify or confirm arbitration awards through the judicial system? What level of deference does the judiciary give to arbitral awards?

Pursuant to [Law No. 30 of 1999 on Arbitration and Alternative Dispute Resolution \(the Arbitration Law\)](#), arbitral award is a final award and thus, no appeal, cassation or reconsideration may be filed with very limited scope for court intervention. However, parties may submit an annulment petition to the district court if such award is alleged to contain the following:

- letter or document which was submitted in the proceeding, after the award has been rendered, is admitted to be false or declared as false;

- after the award has been rendered, it is found that there is a decisive document which was buried by the opposing party; or
- the award is rendered based on fraud which was done with one of the parties who is related with the proceeding.

Law stated - 17 April 2025

REINSURANCE PRINCIPLES AND PRACTICES

Obligation to follow cedent

Does a reinsurer have an obligation to follow its cedent's underwriting fortunes and claims payments or settlements in the absence of an express contractual provision? Where such an obligation exists, what is the scope of the obligation, and what defences are available to a reinsurer?

There is no specific provision under Indonesian Law that requires the reinsurer to follow its cedent underwriting fortunes and claims payments or settlement in the absence of an express contractual provision. Due to formalistic approach adopted in Indonesian insurance practice, the reinsurer obligation is limited to the terms stipulated under the insurance contract.

Law stated - 17 April 2025

Good faith

Is a duty of utmost good faith implied in reinsurance agreements? If so, please describe that duty in comparison to the duty of good faith applicable to other commercial agreements.

The principle of utmost good faith is usually present in the agreement, although it is not always explicitly stated. However, even if it is not included, it is a fundamental principle required by article 251 of the Indonesian Commercial Code (KUHD).

Utmost good faith requires the parties, especially the insured parties, to disclose all information, as every piece of information may affect the risk assessment and, ultimately, the price or terms of the agreement. Any incorrect or false notifications, or concealment of facts will render the agreement void, even if such notifications or concealment is unintentional or in good faith. However, this utmost good faith principle was recently redefined by the Indonesian Constitutional Court by ruling on Case No. 83/PUU-XXII/2024. Based on the ruling, cancellation of agreement by virtue of the failure to abide by utmost good faith is only permissible with the mutual agreement of both insurer and insured or based on a final court decision.

Law stated - 17 April 2025

Facultative reinsurance and treaty reinsurance

Is there a different set of laws for facultative reinsurance and treaty reinsurance?

Facultative reinsurance and treaty reinsurance are governed under the same regulatory framework in Indonesia, with different regulatory treatment applicable to each.

Law stated - 17 April 2025

Third-party action

Can a policyholder or non-signatory to a reinsurance agreement bring a direct action against a reinsurer for coverage?

A policyholder or non-signatory to a reinsurance agreement can bring a direct action against a reinsurer for coverage, but this will be possible only if there is a 'cut-through clause' in the reinsurance agreement. A 'cut-through clause' usually allows a third party, such as the policyholder or other parties, to directly bring a claim to the reinsurer, bypassing the cedent provided that certain conditions under the reinsurance agreement are met.

Law stated - 17 April 2025

Insolvent insurer

What is the obligation of a reinsurer to pay a policyholder's claim where the insurer is insolvent and cannot pay?

There is no statutory obligation for a reinsurer to pay a policyholder's claim in the event of the insurer's insolvency. However, the reinsurer may have a contractual obligation if the reinsurance agreement includes a 'cut-through clause,' which allows the policyholder to bring a direct claim against the reinsurer when the insurer is insolvent and unable to pay. Accordingly, the reinsurer's obligation depends on the specific terms of the reinsurance agreement.

Law stated - 17 April 2025

Notice and information

What type of notice and information must a cedent typically provide its reinsurer with respect to an underlying claim? If the cedent fails to provide timely or sufficient notice, what remedies are available to a reinsurer and how does the language of a reinsurance contract affect the availability of such remedies?

There is no statutory provision specifying the type of notice and information a cedent must provide to a reinsurer, as this is generally governed by the terms of the reinsurance agreement.

If the cedent fails to provide proper or timely notice, the reinsurer may have the right to deny or reduce its liability, especially if the reinsurance agreement specifies strict notice requirements. The reinsurer might also request a claim review and, if the delay caused

prejudice, it could argue for a reduction in liability. The contract language plays a key role in determining the available remedies, including dispute resolution processes and any limitations on the reinsurer's obligations.

Law stated - 17 April 2025

Allocation of underlying claim payments or settlements

Where an underlying loss or claim provides for payment under multiple underlying reinsured policies, how does the reinsured allocate its claims or settlement payments among those policies? Do the reinsured's allocations to the underlying policies have to be mirrored in its allocations to the applicable reinsurance agreements?

Similar to the payment under multiple underlying insurance policies, the allocation of payments is primarily governed by the principle of contribution under article 277 of KUHD. This principle ensures that reinsurers sharing the same risk contribute proportionally to indemnify the insured, thereby preventing the insured from profiting beyond the actual loss. If the first policy fully covers the reinsured value, subsequent insurers are released from liability. However, if the first policy does not fully cover the value, subsequent insurers are responsible for the remaining amount.

Law stated - 17 April 2025

Review

What type of review does the governing law afford reinsurers with respect to a cedent's claims handling, and settlement and allocation decisions?

The type of review is primarily governed by the terms of the reinsurance agreement. Generally, reinsurers are expected to follow the cedent's decisions, provided they are made in good faith and are reasonable. This principle is often encapsulated in follow the fortunes or follow the settlements clauses in reinsurance agreements. However, these decisions are not entirely beyond scrutiny, as reinsurers may review and challenge the cedent's determinations if they believe the actions were unreasonable or made in bad faith, subject to the specific provisions of the reinsurance agreement.

Law stated - 17 April 2025

Reimbursement of commutation payments

What type of obligation does a reinsurer have to reimburse a cedent for commutation payments made to the cedent's policyholders? Must a reinsurer indemnify its cedent for 'incurred but not reported' claims?

The concept of commutation payments is not commonly used in Indonesian insurance practice, as most insurance and reinsurance policies require that an actual loss covered under the policy occur before the insurer's obligation arises, which also triggers the

reinsurer's obligation to provide coverage. As a result, there is no specific Indonesian law addressing the reimbursement of commutation payments.

Law stated - 17 April 2025

Extracontractual obligations (ECOs)

What is the obligation of a reinsurer to reimburse a cedent for ECOs?

Due to the formalistic approach prevalent in Indonesia's insurance business practice, a reinsurer's obligation is confined to the explicit terms and conditions of the reinsurance policy, with no extracontractual responsibilities.

Law stated - 17 April 2025

UPDATES & TRENDS

Key developments

Are there any emerging trends or hot topics in insurance and reinsurance regulation in your jurisdiction?

One of the key developments in Indonesia's insurance and reinsurance regulation is the Roadmap for the Development and Strengthening of the Indonesia Insurance Industry 2023-2027, published by the Financial Services Authority. This roadmap was developed with input from industry associations and stakeholders, focusing on four main pillars: resilience and competitiveness, ecosystem development, digital transformation, and regulatory reinforcement. It is structured into three phases: foundation strengthening, consolidation, and growth. The roadmap aims to enhance industry integrity, consumer protection, and efficiency while supporting national economic growth.

Law stated - 17 April 2025