



Submission to the Government of Canada on its Consultation on a Possible Comprehensive Economic Partnership Agreement with Indonesia

CANADIAN LIFE AND HEALTH INSURANCE ASSOCIATION
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The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its views to the Government of Canada on a possible comprehensive economic partnership agreement with Indonesia.

The CLHIA is a voluntary association with member companies which account for 99 per cent of Canada's life and health insurance business. The life and health insurance industry plays a key role in the Canadian economy, by employing nearly 160,000 Canadians and by providing an important source of stable capital for the federal government through investments and tax contributions.



\$8.3 billion in tax contributions

- \$1.5 billion in corporate income tax
- \$1.3 billion in payroll and other taxes
- \$1.6 billion in premium tax
- \$3.9 billion in retail sales and payroll taxes collected



Investing in Canada

- \$950 billion in total invested assets
- 92% held in long-term investments

Canadian life and health insurers are trusted around the globe and are active in over 20 countries with 3 Canadian companies being among the 15 largest in the world.



Canadian insurers have had a presence in Indonesia since 1985 and have built up significant operations in the country. Insurers sell a wide range of life and health insurance products within the country.

Given the international operations of the industry and, in particular, the industry's presence in Indonesia, we would support the Canadian government's desire to enter into a comprehensive economic partnership agreement with the country.

The Indonesian economy has significant growth potential for investors. The country has the 4th largest population in the world with massive demographic growth expected given the size of its

young population. The country is strategically located, has abundant natural resources and is one of the world's biggest commodity exporters. Going forward, we expect industries such as health care, infrastructure, retail, financial services, e-commerce and the digital economy to grow in importance in Indonesia.

We would also like to take this opportunity to reiterate our continuing support for the Canadian government's efforts to negotiate a free trade agreement (FTA) with the Association of Southeast Asian Nations (ASEAN). We believe that entering into an FTA with the fast-growing economies of this region would be beneficial for many Canadian companies, including the life and health insurance sector. We encourage the Canadian government to continue to pursue an agreement with ASEAN in parallel to its negotiation with the Indonesian government.

Much of the gains of any FTA or partnership agreement will depend on the depth and breadth of the commitments made in such an agreement. For instance, we ask that Canadian negotiators be mindful of the need to promote a level playing field for Canadian life insurance companies so that they are able to compete on a fair and equitable basis across all markets.

The Indonesian government has recently taken steps to further open its market to foreign investment. We support these efforts, and would encourage the government to move further in that direction for industries such as insurance. This would also be an important area to address in any Canada-Indonesia free trade agreement.

Another issue of particular importance for our industry is a trend that has seen an increasing number of countries introduce legislation restricting cross-border data flows. The movement of data quickly and securely within and across markets is standard business practice for many international companies, and it actually enhances the resilience and security of data. The insurance sector is a highly competitive and information-driven industry. Canadian life and health insurers rely on the secure and uninterrupted flow of data across borders to provide core products and services to customers and manage risks.

In 2019, the Indonesian government issued a regulation (GR 71) that relaxed some of the data localization provisions in Indonesia, which was then followed up by more detailed regulations from the Financial Services Authority (OJK). While our members welcomed this change, the requirements in the regulation on grandfathering offshore data are too rigid and complex and continue to present a barrier. For instance, several requirements mandate companies to commit to OJK's supervisory authority by allowing access for examination, submitting a separate scope of work on Indonesian regulatory compliance, and submitting a statement ensuring OJK's effective supervision. We believe that any partnership agreement should address these barriers and allow for the unimpeded free flow of data.

In addition, the CLHIA has concerns with reinsurance in Indonesia. In 2015, Indonesia's Financial Services Authority's ("OJK") non-banking office issued letters to insurers operating in Indonesia requesting that they transition their reinsurance programs from cross-border to domestic. Under

such a requirement, traditional life insurers would face 100% mandatory cessions to domestic reinsurers.

However, since that time, Indonesia has offered relief to professional reinsurers and primary companies from markets with “bilateral agreements” to have access to 100% of the traditional life business by the end of 2020. While we support this movement, these agreements are completed on a case-by-case national basis, conditional on the conclusion of a bilateral agreement. We encourage the OJK to pursue those agreements, including with Canada, and release a list forthwith to allow for the new regulation to come into effect.

Finally, last year, Indonesia released a new regulation that would exclude endowment insurance from being a non-taxed item. This type of insurance is one of the most popular insurance products on the market. This change would mean that benefit payments can be taxed up to 30% depending on an individual’s income level and consumers will be subject to double taxation on both the premium and the insurance benefit. We believe that as part of any economic partnership agreement, Indonesia should be encouraged to reverse this decision to tax endowment insurance.

We would like to take this opportunity to thank you for your consideration of the views of the Canadian life and health insurance industry. Should you have questions regarding any of our comments, you may contact Susan Murray, Vice-President, Government Relations and Policy by phone at 613-691-6002 or by email at smurray@clhia.ca.