RBC in Indonesia

Upcoming changes and comparison against capital regimes across Asia

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Introduction

The Indonesian Financial Services Authority (OJK) is developing a new risk-based capital (RBC) framework that is intended to be more aligned with IFRS 17 accounting standards. We believe the OJK is looking to finalise the framework in 2026, with phased implementation in 2027.

This new RBC framework is expected to replace the existing minimum risk-based capital (MRBC) regime set out in Circular Letters No. 24/SEOJK.05/2017 and No. 25/SEOJK.05/2017.

As part of this process, the OJK has already taken initial steps by conducting a Quantitative Impact Study (QIS) for selected industry players. This exercise is intended to assess the potential impact of the proposed framework on insurers and to provide an early indication of how the new capital requirements may apply in practice. News reports also indicate that OJK is continuing to refine and finalise the new RBC framework through discussions with independent consultants, benchmarking against international practices and coordination with key industry stakeholders. This suggests that the development of the new regime remains ongoing, with further calibration and consultation being undertaken before the framework is finalised and implemented.

This e-alert sets out an analysis of the new RBC framework based on our understanding of the requirements derived from discussions with industry players and presentations at the Persatuan Aktuaris Indonesia conference in June 2026.

Key changes communicated by the OJK

- Available capital: The intent is to base this on the adjusted IFRS 17/PSAK 117 balance sheet, replacing the existing definition of the statutory balance sheet. Contractual service margin (CSM) is excluded from the available capital under the core solvency calculation but is included in the available capital under the overall solvency calculation.
- Capital tiers: The existing single tier regime is to be replaced with multi-tiers: Tier 1 Unlimited,Tier 1 Limited and Tier 2.
- Insurance risk: Updated from a factor-based approach to a stress-based approach, with the introduction of diversification benefits. The risk adjustment (RA) is excluded from the liability calculation and consequently forms part of available capital. Correspondingly, the required capital is determined based on the difference between stressed liabilities and best estimate liabilities (BELs).
- Interest rate risk: Using a stress-based approach, replacing the existing factor-based approach.
- Market risk (equity and other assets): Updates to some risk factors, the majority of which reflect increases.
- Operational risk: A factor-based approach on total assets, instead of expenses, deferred acquisition costs and unit funds.

- Minimum RBC ratio: No change, except that the OJK may require a higher internal target RBC ratio for systemically important players.
- Additional stress testing and Own Risk and Solvency Assessment (ORSA) requirements.

The stress factors have mostly increased compared to the existing basis. This will likely result in an increase in the required capital despite the introduction of diversification benefits, and consequently will lead to a reduction in the capital adequacy ratio (CAR) for most life insurers.

Across the region

The comparison below provides a high-level overview of Indonesia's existing and proposed draft capital regime alongside those of Singapore, Hong Kong and Malaysia.

FIGURE 1: CAPITAL REGIMES

	INSURANCE REGULATORY/GOVERNING BODY	CAPITAL REGIME/APPROACH
Indonesia (existing and proposed)	Indonesia Financial Services Authority (OJK)	RBC (to be replaced with new RBC)
Hong Kong	Hong Kong Insurance Authority (IA)	RBC
Singapore	Monetary Authority of Singapore (MAS)	RBC2
Malaysia	Bank Negara Malaysia (BNM)	RBC (to be replaced with RBC2)

Figure 2 sets out the liability valuation basis for RBC purposes.

FIGURE 2: LIABILITY VALUATION BASIS

	INDONESIA (EXISTING AND PROPOSED)	HONG KONG	SINGAPORE	MALAYSIA (RBC1)
Definition of risk-free rate	Government bond yield	Government bond yield for USD, swap for HKD	Government bond yield	Government bond yield
Illiquidity premium	Allowed	Matching adjustment with additional long-term adjustment to equity and property under segregated participating/ universal life portfolios	Allowance for illiquidity premium or matching adjustment	N/A Regulator is consulting on future changes, including volatility adjustment and matching adjustment for RBC2
Liquid market point	N/A	HKD: 15 years USD: 30 years	SGD: 20 years USD: 30 years	MYR: 15 years
Ultimate forward rate	N/A	HKD: 3.8% USD: 3.8%	SGD: 3.8% USD: 3.8%	Same level as at LLP
Interpolation/ extrapolation	N/A	Smith-Wilson method	Smith-Wilson method	Based on forward rate; expected to adopt Smith-Wilson method in draft RBC2

Similar to other markets, Indonesia uses government bond yields as the basis for the risk-free rate. However, while other countries set out more detailed rules on key valuation parameters such as the liquid market point, ultimate forward rate, and interpolation or extrapolation methodology, these elements do not appear to be explicitly defined in the Indonesian framework.

Indonesia does allow for an illiquidity premium, which aligns it more closely with Hong Kong and Singapore, both of which also permit adjustments for illiquidity or matching adjustment in some form. However, the treatment in Hong Kong and Singapore appears more developed and structured, with clearer articulation of the circumstances in which such adjustments may apply. By contrast, Malaysia does not appear to allow an illiquidity premium in its current RBC, but it does provide a more clearly specified yield curve framework through the use of a liquid market point and an ultimate forward rate. It is noted that the regulator in Malaysia is exploring the allowance of matching adjustments and volatility adjustments in the upcoming Malaysian RBC2.

Figure 3 compares the key features of RBC regimes across the region.

FIGURE 3: COMPARISON TABLE ACROSS ASIA

	INDONESIA (EXISTING)	INDONESIA (PROPOSED)	HONG KONG	SINGAPORE	MALAYSIA (RBC1)
Capital tiers	Single tier	Tier 1 Unlimited, Tier 1 Limited and Tier 2	Tier 1, Limited Tier 1 and Tier 2	Tier 1, Tier 2 regulatory adjustments	Tier 1 and Tier 2
Allowance for discretionary benefits & management decision	Not explicitly mentioned	Not explicitly mentioned	Allowed	Not allowed, but there is allowance for future non-guaranteed bonuses	Not allowed, but there is allowance for future non-guaranteed bonuses for participating life business (additional management actions being explored in RBC2)
Yield curve construction	No explicit guidance	No explicit guidance	Three-segment approach with matching adjustment	Three-segment approach with illiquidity premium and matching adjustment	Based on forward rate (exploring matching adjustment and volatility adjustment in upcoming RBC2)
Stress-based/ factor-based	Stress, but some asset-side risks are factor-based	Stress, but some asset-side risks are factor-based	Stress	Stress	Stress
Diversification	No	Yes (only between insurance risks)	Yes	Yes	No (may be introduced in RBC2)
Allowance of negative reserve	No	No	Yes	Floor to zero at policy level, but recognises negative reserve as an increase to financial resources	Yes, but floored to zero at fund level (with potential further recognition of negative reserves as capital available in upcoming RBC2)
Time value of options and guarantee	Not explicit	Not explicit, but will be part of IFRS 17 liability	Stochastic/ deterministic	Not explicit	Stochastic or deterministic proxy
Regulatory intervention points	100% of capital requirement at entity level	Minimum CAR of 100% and internal CAR of 120% (higher for systematically important insurers), but no details on regulatory intervention points yet	A restoration plan may need to be provided and executed if the capital falls below the 100% of prescribed capital requirement	Two intervention levels, first one at 100% of capital requirement at entity and fund level	Two intervention levels in RBC1: (i) Individual target CAR (>130%) (ii) 130% CAR at entity level

With the updates, Indonesia’s capital regime is moving towards alignment with the Hong Kong, Singapore and Malaysia frameworks. It has introduced a three-tier capital approach and includes allowance for diversification risk. It is also moving towards a stress-based approach. However, we note that it is the only regime that is considering alignment of the solvency framework with the IFRS 17 balance sheet, which has certain implications. The inclusion of the CSM in the capital balance sheet may penalise companies which have historically written more profitable business. There are also company-specific IFRS 17 methodology differences, such as how attributable expenses are allocated, which would lead to lower available capital for companies which have a higher attributable expense ratio.

The proposed framework is also less explicitly developed in some of the technical areas, with no clear guidance on yield curve construction, discretionary benefits and management actions, or the time value of options and guarantees. In addition, Indonesia prohibits negative reserves. For unit-linked products, this can overstate liabilities and make solvency appear understated, as IFRS 17/PSAK 117 may otherwise produce negative liabilities reflecting future fees and margins.

While Indonesia's proposed approach to risk calculation is broadly stress-based, some asset-side risks are still factor-based, making it somewhat less consistent than the other markets, which are more clearly stress-based. There is also no explicit guidance to apply asset stress scenarios to liabilities on a look-through basis. The diversification benefits also only apply between insurance risks, and there is no allowance for diversification between asset and insurance risks.

So far there have been no details provided on the changes (if any) to the regulatory intervention framework, with intervention triggered at 100% of the capital requirement at the entity level on the existing basis, compared with more layered arrangements observed in Malaysia, Singapore and Hong Kong.

Overall, the new draft RBC regulations aim to address inconsistencies between the IFRS 17/PSAK 117 balance sheets and the statutory balance sheets and take steps to modernise and partially align the existing regime with regional capital regimes. A notable gap that has yet to be addressed is the treatment of products with discretionary benefits, though these products are not prevalent in Indonesia and the product landscape remains less sophisticated than the other markets included in this comparison. It is also worth noting that the framework does not appear to recognise certain management actions, particularly in relation to universal life crediting rates and repricing for medical business, whereas a number of other markets have been moving towards greater recognition of such actions within their solvency frameworks.

Next steps

Changes introduced under the new RBC framework could have implications for the product and investment landscape in Indonesia, potentially affecting product design, pricing, capital efficiency, asset allocation and overall risk management practices across the insurance industry. Such developments may also influence insurers' strategic priorities, including the balance between growth, profitability and capital optimisation. Milliman has supported insurers across the region and globally through transitions in solvency frameworks, including work related to interpreting the new framework and its implications, actuarial modelling enhancements, capital management and product strategy.

For further information on the potential implications of these developments, or to discuss how Milliman may assist your organisation in preparing for and responding to the changes, please contact the authors of this paper or your usual Milliman consultants.

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