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Foreign Ownership of Insurance Companies: Indonesian Case 2012-2015*

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This paper analyzes the relationship between the level of foreign ownership and performance of insurance companies in Indonesia. We use a panel dataset of 24 insurance companies in Indonesia over the period 2012 to 2015. We find that domestic insurance companies have better performance than foreign investment recipient. It is clear that local insurance companies can compete with foreign firms. We also find that there is no significant evidence of nonlinearities between the level of foreign ownership and insurance performance in Indonesia. This comes up a result that there is no particular optimal level of foreign ownership of the life insurance sector in Indonesia. The data also suggest that the performance of insurance companies with foreign investment is not significantly better or significantly worse than domestic insurance companies.

Keywords *: Foreign Ownership, Insurance Performance, Indonesia*
JEL Code : *G18,G22*

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I. INTRODUCTION

Indonesia has taken some significant steps in improving its economic and broader social development. In the midst of weak global conditions and lows in the prices of commodity exports, Indonesia's economy as measured by Gross Domestic Product (GDP) is still strong although slowing. Public awareness of insurance and insurance penetration is also growing. While nominal GDP increased 9.5% from Rp10,542.7 trillion in 2014 to Rp11.540,8 trillion in 2015, the gross premium income of insurance industry increased by 19.5% from Rp247.29 trillion in 2014 to Rp295.56 trillion in 2015. On a per capita basis and over a longer period, expenditure in insurance increased from 0,6 million rupiahs in 2011 to reach 1,15 million rupiahs in 2015. Similarly the assets of the insurance industry also almost doubled from 2011 to 2015, reaching 853,42 trillion rupiahs. Despite this, insurance penetration remains low. For developed countries, gross premiums normally amount to about 8% of GDP. For Indonesia, despite the rapid growth, in 2015 the ratio of gross premium to GDP increased from just 2.35% to 2.56%. (Indonesian Financial Service Authority, 2015).

Based on data from Financial Sector Authority, Indonesia in 2015 has 146 insurance companies with 38 of them being joint venture companies involving both life insurance and general insurance. For reinsurance, there is still no investment from abroad. In the other hand, the most recent Insurance Act No. 40/2014 was ratified on October 2014. It left the issue of appropriate levels of foreign ownership in insurance industries to be clarified by government regulation (Peraturan Pemerintah) to cover that matter. Any new regulation will repeal the previous Government Regulations (Government Regulation No. 73 of 1992 and its amendments). Based on the Insurance Act, the Government Regulations will establish any restriction of foreign ownership in insurance companies. This may take the form of a maximum percentage of foreign ownership in insurance companies. It needs to be recognized that foreign ownership may be beneficial to Indonesia's development. Foreign direct investment is generally believed as a catalyst for economic development so that foreign ownership in insurance industries is expected to help the contribution of the insurance industries to our GDP.

Although some studies on foreign ownership of insurance have already been conducted in other countries, this is the first paper I know of which investigates what the level of foreign ownership should be. A second contribution is to see whether there are any differences in performance of insurance company in Indonesia between purely domestic insurance companies and insurance businesses that have investment from abroad. The remainder of the paper organized as follows. A first section reviews the existing literature about foreign ownership, not only general foreign ownership but also foreign ownership on insurance industries. The second section is data and research methodology. The third session is finding and discussion. And the last part concludes.

II. LITERATURE REVIEW

Globalization is almost inevitable especially in the financial sector and including the insurance Industries. The leading insurance companies which usually come from developed countries naturally try to maintain their growth and continuity by searching for additional markets. International diversification is the key for a company to survive once it outgrows its home market. This can be achieved by direct investment into another country or by an acquisition of (or merger with) an existing company in another market.

Studies generally suggest that foreign direct investment (FDI) in developing countries will increase the performance of business (Ertuna and Yamak 2011 and Doume et al, 2013). However, the picture is complicated with FDI being common into both developed and developing economies, taking a wide variety of forms, and changing over the business cycle (Nakano and Nguyen, 2013; Alfaro and Chen, 2012).

A 2015 World Bank Policy Research Working Paper 7437 "The Impact of Investment Policy in a Changing Global Economy: A Review of the Literature" summarizes the research. Its conclusion is as follows.

> *Evidence shows that foreign direct investment can provide many benefits to host countries, including productivity improvements, better jobs, and knowledge transfer. Further, it can serve as a vehicle for transformation of domestic production and better integration with global value chains. Nonetheless, these benefits are not automatic. Investment policies are required to maximize the potential gains of foreign direct investment. One challenge is that there are different kinds of foreign direct investment, and each may have different economic, social, and environmental impacts.*

The important point is that FDI can be good for Indonesia but that investment policies are required to maximize the potential gains for Indonesia.

The literature on insurance is clear on one point: that higher levels of insurance are correlated with higher levels of economic growth. A Latin American study (Concha and Taborda, 2014), for example, finds that a 1% increase in insurance use is associated with a rise in economic growth ranging from 0.17% to 0.44%. In another broad survey Carson, Chen and Outreville (2014) present results which "suggest that developing countries with higher foreign direct investment tend to have higher life insurance penetration."

Insurance as a catalyst according to several researchers. Haiss and Sumegi (2008), analyzing the influence of insurance premium income, both from life and non-life insurance, and a total net investment of insurance companies to economic growth in 29 European countries in the period 1992 - 2005. The results show that life insurance had a positive impact on economic growth in 15 EU countries, Switzerland, Norway and Iceland, while the non-life insurance has a greater impact in Central and Eastern Europe. Arena (2008) also mention sa significant and positive impact of insurance to economic growth in 56 countries (developed countries and developing countries) in the period 1976-2004.

Ye et al. (2009) also stated that FDI associated with not only socio-economic and market structure influence factor, but also political stability, government effectiveness, regulatory quality and control of corruption. So, the government also plays a significant role to bring in investment.

Insurance may be an industry in which foreign participation is particularly welcome since it allows the diversification of risk between countries to the advantage of both. Indonesian insurance companies may also benefit from diversifying out of the country. Reinsurance provides an alternative way of diversifying risk internationally. Schoenmaker et al. (2007) argue that the insurance industry in developed countries such as the OECD will generally seek an international orientation. He points out that 55% of the business of large insurance groups in Europe is held abroad – cross-border insurance is typical for developed countries. This allowed the companies to pool risks and to centralize risk management activities.

Some authors find a level of foreign ownership above which the benefits start to diminish. Work such as Ferris et al. (2005), Gurbuz and Aybarz (2010), and Greenaway et al. (2014)

strengthen the view that the benefits of foreign ownership has a critical level and decrease if we add investment from abroad above that level. Azzam et al. 2013 find that in some cases, return on asset, return on equity, and debt-equity ratio also shows that foreign ownership will be improved with foreign participation up to a certain level. These papers suggest that there is a pattern of relationship between foreign ownership and performance of a company is inverse U-shaped.

Another researcher, Nasution (2016), stated that foreign ownership in insurance industries in Asia and Asean countries could be divided into four groups. Those are; countries with 0% foreign ownership, countries with foreign ownership less than 50%, countries with foreign ownership more than 50%, and countries with 100% foreign ownership. He also proposed that Indonesia have to limit investment from abroad in insurance industries and that it should be low. The government has to set the highest level of foreign ownership below 50%.

III. DATA AND RESEARCH METHODOLOGY

Our findings are expected to contribute to our understanding the benefits of foreign ownership in Indonesia's insurance industry, so the government and insurance industry itself will have a better basis for considering the issue.

All the data is extracted from the company concerned's annual reports. Our aim is to provide an analysis of the relationship between foreign ownership and the performance of the Insurance industries. The life insurance businesses in Indonesia is a reasonable sample for a number of reasons. The assets of life insurance companies dominate, being 44.3% of total assets of the insurance industry and having the highest proportion of gross claims. For 2015, general insurance and reinsurance were 16,8% and social insurance 37,9%. The investment in insurance industry also dominated by life insurance which in 2015 is 47,8% or 327,68 trillion rupiahs from the total of 686,12 trillion rupiahs. It would be possible to do a larger study, covering the industry more generally and a longer period, but we expect any significant information to be revealed from the sample we have used.

A panel of data from 2012 to 2015 for the 24 life insurance companies in Indonesia are used in this study. There is 55 life insurance businesses in Indonesia, but we can not retrieve all of the financial statement from Indonesian Financial Service Authority sites. After going to each of its companies sites, we dropped firms that did not have complete financial statements. The 24 life insurance companies already reflect the life insurance industry in Indonesia. The total assets of the sample are 83% of the life insurance assets in Indonesia. It means the sample also dominate the market of the life insurance company.

All of the variables in the empirical model were gathered from each financial report, including the information about ownership. From that information, we can see where the major investors came from, abroad or domestic. The level of foreign ownership for each company available in that financial reports as well. The performance of each is shown by Return on Asset and by Return on Sales of Premium. We also add some control variables: The firm size which measured by the logarithm of its total assets, leverage which defines as the ratio of total liabilities to total assets, and collateral which define as the ratio of fixed assets to total assets.

We will replicate the research methodology of Greenaway et al. (2014) which calculates the level of foreign ownership which appears to get the best performance amongst Chinese insurers. Our proxy of performance as dependent variable will be either Return on Asset (ROA) or Return on Sales of Premium (ROS). The independent variable of main interest is the level of foreign

ownership in insurance industries. We measured it as the percentage of share from the owner which come from abroad, as shown in the annual financial report.

To see the effect of foreign ownership on company's performance, we categorize the insurance companies to four group based on the level of foreign ownership. Those are; insurance companies with no foreign ownership(34.37% of our sample), insurance companies with positive foreign ownership but below 50% (8,3% of our sample), insurance companies with 50% foreign ownership to 99% (54.17% of our sample), and 100% of foreign ownership (3.12% of our sample). We also use a number of other control variables like assets as firm size, collateral, and leverage.

We will use the modified research methodology from Greenaway et al.(2014). This is a two-stage strategy: first looking at linear relationships between different levels of foreign ownership and performance, and then looking to see if the underlying relationship is non-linear.

The first equation is helping us to see the effect of foreign ownership on company's performance. The authors estimate the following equation:

$$PERF_{it} = a_0 + a_1\,PERF_{i(t-1)} + a_2\,\text{Minority foreign}_{it} + a_3\,\text{Majority foreign}_{it} + a_4\,\text{All foreign}_{it} + a_5\,\text{Size}_{it} + a_6\,\text{Leverage}_{it} + a_7\,\text{Collateral}_{it} + e_{it} \quad (1)$$

In that equation, i and t indicate firms and time. PERFit shows the performance indicators for each entity in a particular year. I use both the return on equity and return on sales of premium as alternative performance indicators. Foreign ownership is shown by the level of ownership owned by an investor from abroad. I also create four dummy variable from foreign ownership level those are minority foreignit , majority foreignit , and all foreignit . The minority foreignit is equal to 1 if the share of foreign ownership is above 0% up to 50%, and 0 otherwise; majority foreignit is equal to 1 if the share is greater than or equal to 50% but lower than 100%, and 0 otherwise; and all foreignit is equal to 1 if the firm is 100% foreign owned, and 0 otherwise. The omitted category is a dummy equal to 1 for purely domestic firms, and 0 otherwise. This means the results should be interpreted as being changes relative to the situation of firms with no foreign ownership at all.

I also follow Greenaway (2014) by adding control variables – for size, leverage, and collateral. Size is measured by the logarithm of total assets of each company, and the hypothesis is that larger asset bases should increase the performance of enterprises. Leverage, taken as the ratio of total liabilities to total assets, is ambiguous. On the other hand, collateral which defines as the ratio of fixed assets to total assets should be increasing the performance as well. In order to determine an appropriate model for a panel data, firstly we describe data carefully by producing summary statistics. After that, we regress it using pooled ordinary least squares.

To add more understanding of the optimum level of investment from abroad, Greenaway et al.(2014) adds a second equation as follows:

$$PERF_{it} = a_0 + a_1\,PERF_{i(t-1)} + a_2\,\text{Foreigncap}_{it} + a_3\,\text{Foreigncap}^2_{it} + a_4\,\text{Size}_{it} + a_5\,\text{Leverage}_{it} + a_6\,\text{Collateral}_{it} + e_{it} \quad (2)$$

In the second equation, Foreigncapit and Foreigncap2it are included to account for possible non-linearity between Foreigncapit and PERFit. If the level of significancies is high, then there is a

non-linearity relationship between those two. From regression, we can also capture the relationship between foreign ownership and performance whether it is U-shaped or inverted U-shaped. If the Foreigncap have a positive coefficient but the foreigncap2 have a negative coefficient then the relationship between foreign ownership and performance is an inverted U-shaped, vice versa.

The final data consists of 96 observations from the 24 companies over four years. The descriptive statistic are presented in Table 1.

Table 1 : Descriptive Statistcs

Variable	Mean	Standard Deviation	Minimum	Maximum
ROA $_{it}$	.015	.069	-.558	.113
ROS $_{it}$	-.373	4.338	-42.379	.737
Size $_{it}$	6.574	.612	5.458	7.842
Leverage $_{it}$	.692	.235	.067	.949
Collateral $_{it}$	.012	.0181	.0004	.139
Pure Domestic $_{it}$	.343	.477	0	1
Minority Foreign $_{it}$	.083	.277	0	1
Majority Foreign $_{it}$	.541	.500	0	1
All Foreign $_{it}$	.031	.174	0	1
Foreign Cap $_{it}$	.555	.434	0	1

IV. FINDINGS

Greenaway et al. (2014) run the second equation to know whether there is a non-linear relationship between the level of foreign ownership and the performance of insurance company's performance. My estimates for insurance companies in Indonesia are presented in Table 2.

The sign on the parameters for Foreigncap and Foreigncap2 is a positive and negative respectively for both of the performance measures. This indicates that there is a possibility of a U-Shape relationship between the level of foreign ownership and insurance performance but the levels of significance are low. The overall fit of the equation is quite poor. This means there is no real evidence of significant non-linearities which is quite different from the evidence from China.

The key findings from these results are:

- There is no particular optimal level of foreign ownership of the life insurance sector in Indonesia.
- The data also suggest that the performance of insurance companies with foreign investment is not significantly better or significantly worse than domestic insurance companies.

Thes finding contradicts the previous conclusion from Ferris et al. (2005), Gurbuz and Aybarz (2010), Azzam et al. (2013), and Greenaway et al. (2014) which was that foreign ownership would have a positive impact, even though it was expected to decline in the future. This result may be caused by the different industry sample that we take, in this case, insurance industries. It is possible that a larger or longer sample, or more sophisticated statistical method, may produce a different result.

Instead of looking for a nonlinear relationship between performance and foreign ownership, we then followed Greenaway et al. (2014) and broke the sample of firms down by the level of foreign ownership in each. These results are presented in Table 3 where the base case is represented by purely domestic firms.

Table 2: The Empirical Result of Second Equation

Variable	ROA	ROS
Lagged Dependent Variable	.061 (.102)	-.100 (.104)
Foreign Cap	-.130 (.083)	-2.310 (5.670)
Foreign Cap2	.080 (.084)	.263 (5.831)
Log Asset	.041 (.012)***	.844 (.810)
Leverage	.043 (.032)	5.452 (2.282)**
Collateral	-.654 (.371)*	-34.360 (25.293)
Const	-.244 (.075)***	-8.151 (4.866)
R2	0.284	0.127
Adj. R2	0.236	0.069
N	96	96
Turning Point	-	-

Note: Standard errors in parenthesis; statistical significant ce:*<0.1; **<.05 ; ***<.01

Again the overall fit of the equation is not strong. What does stand out however is that the group of firms with majority foreign ownership, but less than 100% ownership, have performed worse than all the other firms. This is shown by the negative coefficient and high level of significance in majority foreign ownership dummy variable.

Table 3 : The Empirical Result of First Equation

Variable	ROA	ROS
Lagged Dependent Variable	.045 (.102)	-.117 (.104)
Minority Foreign	-.013 (.024)	.568 (1.698)
Majority Foreign	-.055 (.016)***	-2.015 (1.027)*
Completely Foreign	-.030 (.038)	-.046 (2.653)
Log Asset	.040 (.012)***	.728 (.815)
Leverage	.056 (.030)*	6.037 (2.171)***
Collateral	-.662 (.369)*	-33.353 (25.162)
Const	-.247 (.074)***	-7.916 (4.852)
R2	0.299	0.145
Adj. R2	0.243	0.077
N	96	96

Note: Standard errors in parenthesis; statistical significant ce:*<0.1; **<.05 ; ***<.01

The lagged dependent variable is not significant in either equation which suggests that past performance is not a good predictor of future performance. From the control variables, we can see

that firm size (assets) influences the level of performance, as expected: larger firms do better, size is associated with performance of insurance companies. Leverage has a positive and significant relationship with both of our performance variables. We take this to mean that there is no evidence of debt overhang., and insurance companies in Indonesia have succeeded in using its debt to increase the value of their company. Moreover, it is also suspected that they use debt wisely which results in increasing their performance as well. Also, higher added on collateral also make its performance going lower which indicating a relative prevalence of tangible assets structure may hamper performance.

V. DISCUSSION

5.1. Benefits from foreign participation

Indonesia is likely to benefit from foreign participation in its insurance sector for four main reasons, those are: (i) the inflow of foreign capital, (ii) the investment of insurance reserves into the Indonesian economy, (iii) helping people and businesses manage their risks better, and (iv)the transfer of skills, knowledge and best practice into the local insurance market.

Our empirical results suggest that some foreign owned insurance firms have worse performance than firms which are completely domestic. It is not clear why this should be the case. Most studies find that foreign firms bring advanced techniques and risk managmeent approaches which should help them outperform donestic firms. It may be that the Indonesian makret is difficult for foreign firms to penetrate. The effect however is to suggest that Indonesian insurers seem completely capable of competing with foreign firms.

But Indonesia does need foreign investment. Based on Medium Term Development Plan 2015-2019 arranged by National Development Planning Agency (Bappenas), Indonesia has a desire to enter the part of high-income countries in 2030. To do so, Indonesia need to have an economic growth rate of 7-8% per year. Massive investment is required to build infrastructures such as roads, sea transports, and power plants. Bappenas suggests that in the period 2015-2019, Indonesia will require investment in infrastructure more than 5,000 trillion rupiahs. The government through the national and regional budgets are only able to finance it by 50%, while the rest of it expected from the state-owned enterprises and the private sector, including insurance industries. Foreign direct investment will have to pay a part in funding Indonesian infrastructure.

The nature of the insurance business, which accumulates funds progressively, to pay out for example on life policies, means that insurance companies are long-term patient investors. The growth of insurance is thus likely to be an important source of investment in the Indonesian economy.

In addition to these macroeconomic benefits, insurance industries also as an excellent instrument to protect the Indonesian citizen from risks. A higher level of insurance is a social advantage, whether to manage natural disaster risks or simply commodity price fluctuations. By allowing a higher level of foreign participation in insurance, Indonesians will have access to a greater volume of insurance more quickly than if it relied on local companies alone. There is unmet demand for insurance and the supply is likely to be forthcoming since Indonesia with a population of 250 million is one of the attractive insurance markets.

The fourth source of advantage to Indonesia from foreign participation in the industry arises from the spill-over of skills from foreign firms to domestic ones. This is a well-know benefit of

foreign investment and one which Indonesia needs to make sure it reaps the benefits of. The impact on wages is generally positive: "Evidence points to a positive link between FDI and higher wages paid by multinational companies. Although the magnitude of observed differences varies, a large number of empirical studies find that foreign affiliates pay higher wages relative to domestic firms (Heyman, Sjöholm, and Tingvall 2007, and Hijzen and others 2013)." (World Bank 2015).

5.2. Costs and risks from increased foreign participation

FDI gives some benefit to the host country to utilize those investment as much as possible. As the World Bank comments "for practical purposes the relevant question is not whether FDI is good or not, but rather, what key policies are needed to maximize its positive effects for development. "

On the other hand, investment in Indonesia will be useless if we can not manage it well. We should not forget the purpose of FDI purely as catalyst for economic growth (OECD, 2002). We must be able to replicate the various sources of input, including work culture and the technology they introduce to us. Investment into Indonesia will be futile if technology transfer is not taking place. To do so, we have to catch up in replicating the knowledge and expertise. Increasing human resource capability is the key to solving the problem. If we can not catch up, there will be no continuation of development of human capital and business infrastructure as well as increasing value added of Indonesian economy.

Replication of the knowledge and expertise is an important thing. A success replication will lead us to promote economic growth, going concern of development, and increasing the capability of local human resources. In the events of FDI withdrawal investments, we already get prepared.

The World Bank view is that each potential entry should be studied. In general it suggests that foreign firms which are looking to grow in the local market have the largest spillovers. In order to grow they need to integrate into the local economy, making use of local inputs and assisting market deepening activities. This contrast with entrants which are looking for lower costs or access to resources. Discussion with Australian Treasury officials also supported a case by case approach.

5.3. Balancing costs and benefits

5.3.1 Indonesian society suffers from underinsurance

SwissRe in 2015 released the data about insurance penetration in emerging market finding insurance penetration in Indonesia still below 3%. Compared with other countries in ASEAN, Indonesia still below Philiphines, Malaysia and Thailand. This indicating that Indonesian citizen still have limited awareness in insurance. At the same time, this also as evidence that there is an market for insurance industries. With more and more people are buying insurance, they will be better prepared to deal with unforeseen events. Insurance also help them smoothing their consumption.

The underinsurance in part reflects low incomes. People in developing countries, such as Indonesia, feel the premiums are still expensive. Feyen et al. (2011) examines the important factors that influence the use of general insurance in ninety developed and developing countries, to find results that per capita income is a key driver for the consumption of general insurance, in addition to other factors, such as institutional structure and variable market structure.

Both foreign and domestic investors are required to support the development of the insurance industry in making the ultimate goal such as affordable insurance premium and increase the insurance penetration in Indonesian society.

5.3.2 Higher amounts of FDI are likely to be attracted to the insurance industry

According to Bappenas (2015), the center of economic world will shift from America-Europe region to Asia-pacific region. By 2019, it is estimated that the contribution of developed countries to World GDP shrinking to 56.2% from 65,9% in 2010. On the other hand, the contribution of developing countries will continue to rise to 43.8% from 34,1% in 2010. As a consequence, there will be a flow of investment from developed countries to developing countries, one of them is Indonesia. The main factors that affect the flow of foreign capital into developing countries are its significant market potential, economic growth, as well as the comparative advantages owned by developing countries, such as the availability of natural resources as raw materials and labor force as a factor production.

By understanding its opportunity, Indonesia should be able to take advantage of the FDI flows which will occur. Rapid inward FDI provides a range of opportunities most importantly as a catalyst for economic development. It will increase the efficiency of the Indonesian economy, raising productivity and broadening the range of goods and services which might be exported.

Moreover, FDI will also affect the capacity building of human resources. Work culture from home countries usually spreads through everyday activities. Where substantial levels of foreign ownership are allowed, foreign entities will bring their work practices and business culture to Indonesia. There will be some adaptation of local conditions, but the Indonesian subsidiary will normally adopt business practices from the foreign investor. The improved performance of the firms with foreign investment wil spill-over to other Indonesian firms as employees move between companies.

Managerial expertise also becomes another benefit from foreign direct investment. The incoming of expertise in certain field in host countries also helps entities to rise and compete with other. Surely it need support from other party including good quality of human resources. Managerial expertise is an expensive thing. Acquired by some foreign owner will make us have another capability to hire and make them contribute to increasing our performance. Last but not least, transfer technology also become a thing that expected from entities in host countries. In the information era nowadays, the technology also plays important role to winning the opportunities.

Another benefit from larger insurance sector is its contribution to economic growth.Insurance is a simple business. The business is simple because as long as they succeed in manage the proceeds from incoming premiums and claims that will occur in the future, the company will always going concern. The insurance business which ensures a constant flow of funds from the payment of insurance premiums of the participants make insurance company able to collect enormous funds. That fund is very likely to become a source of fund for financing infrastructure in Indonesia. On the other hand, massive infrastructure projects that also need protection from the insurance program. It is not only general insurance for the infrastructure itself but also life insurance for the workers who build the infrastructure projects. So it feels like a win-win solution.

5.3.3 Managing the opportunity

From the previous sections, we understand that more insurance would be good for Indonesia that increased foreign investment is likely to be attracted to Indonesia's insurance sector. Together these suggest allowing a high level of foreign particpation.

This should only be allowed through if there are policies to ensure that there are strong spill-overs to the domestic industry. The key steps would seem to be:

- Encourage investment by firms which want to grow in the Indonesian market because they are most likely to integrate best into domestic supply chains;
- Allow them to have controlling stakes (>50%) in the Indonesian business because that way they are most likely to bring their most up-to-date technologies and practices to Indonesia which will both make the industry more efficient and train Indonesian in world's best practice
- Force them to employ mainly local staff – limiting the expats involved – because Indonesian nationals are more likely to move to other Indonesian firms and transfer their skills to local companies.

5.3.4 Competition from Indonesian insurers

Our evidence is clear. Indonesian insurers are able to generate a return on assets and on the sale of premiums which is better than that achieved by foreign firms. There is little need to worry about Indonesian firms not being able to compete effectively.

If we can engineer additional spillover from foreign firms to Indonesian ones, the performance of local firms should increase even more. As the benefits spillover to Indonesian firms, they will become still more competitive and the Indonesian share of the insurance market is expected to grow. This stronger competition will make it hard for the foreign firms to make and excess profits.

VI. CONCLUSION

The important empirical insight from this paper is that domestic insurance companies have better performance than ones with significant foreign investment, at least as good as the others. It is clear that local insurance companies are able to compete very effectively with foreign firms.

It is not clear though that local insurers can grow quickly enough to met the nation's need. More insurance would be good for Indonesia, and this is most likely to require high levels of foreign participation in the short to medium term.

The case for FDI in the insurance industry is that foreign investment is a necessity as a catalyst in economic development and a contribution to Indonesia's investment needs. FDI in the Indonesian insurance sector can provide very significant benefits for Indonesia with little cost. By carefully designing its foreign ownership policy Indonesia can maximize the spillover benefits while knowing that the local firms are very competitive with ousiders.

It will be important to design policies for the sector which lead to a rapid spillover of the skills and knowledge of foreign entities to individual Indonesian workers. In the medium term this upskilling of the indonesian workforce will create a thriving domestic industry, one perfectly capable of competing with foreign firms.

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