

Economic Bulletin – Issue 76

When Coverage Misses the Poor: Rethinking Who Social Insurance Really Serves

- Social insurance reduces vulnerability and poverty by pooling risks and stabilizing income across the life cycle, the impact of its effectiveness will depend on broad and inclusive coverage, sustainable system design, and the ability to extend protection to low-income and informal workers.
- Cross-country evidence indicates that the effectiveness of social protection systems depends largely on how coverage is distributed across income groups. Imbalances in coverage across income groups indicate uneven distribution of social insurance benefits. In addition, strengthening coverage among lower-income groups is therefore critical as a key driver of sustained poverty reduction.
- Indonesia's social protection system shows low overall coverage, particularly among the poorest households. In contrast, coverage among higher-income groups is significantly higher, creating a clear distributional imbalance. At the same time, social assistance spending remains focused on health and consumption support, while protection for poorer households is largely limited to cash and in-kind transfers with minimal access to long-term social insurance.
- The growth of social insurance systems will depend not only on financial capacity but also on the ability to design more inclusive participation mechanisms. Expanding the participant base to include lower-income and informal workers is essential to broaden coverage and strengthen risk pooling. In this context, integration with national social registries, digital identification systems, and payment platforms becomes increasingly important to facilitate participant identification, enrollment, and contribution collection.

Ibrahim Kholilul Rohman

ibrahim.kholilul@ifg.id
Senior Research Associate /
Universitas Indonesia

Rosi Melati

rosi.melati@ifg.id
Research Associate

Nada Serpina

nada.serpina@ifg.id
Research Associate

Nabila Fakhri Nisa

nabila.fakhri@alumni.ui.ac.id
Research Assistant

Ashrina Qurrotu A'yunina

ashrinaqa18@gmail.com
Research Assistant

Nourul Kharomah

nourul.kharomah@alumni.ui.ac.id
Research Assistant

Introduction

The Role of Insurance in Reducing Vulnerability and Poverty

Insurance plays an important role in leveraging people's livelihoods by mitigating risks and reducing the uncertainty associated with unexpected shocks. Patel (2002) argues that insurance is not a peripheral financial product for low-income households but a core poverty-alleviation instrument because it directly reduces vulnerability to shocks that otherwise destroy assets and reverse development gains. He shows that while microcredit and savings help smooth predictable needs, they are structurally insufficient against high-severity, low-probability events such as illness, death, disasters, and disability, which often force poor households to liquidate productive assets and fall deeper into poverty. The paper emphasizes that insurance enables risk transfer through pooling, replacing uncertain catastrophic losses with small, predictable premium payments, thereby allowing the poor to protect working capital, maintain children's education, and continue income-generating activity. In this sense, Patel (2002) finds that microinsurance strengthens the development impact of credit and savings by stabilizing the household risk environment rather than merely expanding financial access.

At the same time, Patel (2002) finds that delivering insurance to the poor is institutionally and technically demanding, which explains why many schemes fail or remain unsustainable. Key constraints include high administrative and verification costs relative to tiny premiums, adverse selection, moral hazard, fraud risk, weak regulation, and lack of actuarial and management expertise. The paper highlights that conventional commercial insurance models tend to avoid low-income markets due to low margins and high volatility, and instead points to cooperative and mutual structures, partnerships with established insurers, and access to reinsurance and technical support as more viable pathways. Patel (2002) concludes that sustainability requires hybrid models combining community-based distribution with professional underwriting, micro-regulation, and external technical backing, implying that the future of pro-poor insurance depends as much on institutional design as on product design. This function is predominantly driven by social insurance.

Social Insurance Definition and Coverage Framework

Social insurance is defined as the core pillar of the social security system that functions to minimize risk and partially replace lost income when individuals face shocks such as illness, unemployment, disability, loss of working capacity, or old age, thereby reducing pressure on social assistance and strengthening overall social security protection. It operates through structured participation and entitlement, where coverage effectiveness is measured not only by how many people are legally eligible but by actual participation and benefit adequacy. The framework distinguishes coverage breadth, meaning how much

of the working-age and labour-force population is included, and coverage depth, meaning how sustainable and adequate the benefits and financing are, including indicators such as pension levels and fund balance. In this view, social insurance is both a rights-based and risk-pooling mechanism designed to stabilize income across the life cycle while ensuring financial sustainability and transparent governance of the insurance fund (ILO Policy Brief on Social Insurance, 2014).

Broad and well-designed social insurance systems reduce poverty by stabilizing income and protecting households from economic shocks.

McClanahan and Ruggia-Frick (2024) find that social security and social insurance reduce poverty most effectively when they are organized around life-cycle and labour-market risks rather than narrowly poverty-targeted categories. They show that programmes covering predictable contingencies such as old age, disability, sickness, maternity, and unemployment function as preventive poverty policy, because they stabilize income before shocks translate into deprivation. Their analysis stresses that although early social security systems were not originally designed with poverty reduction as the primary objective, broad and near-universal insurance coverage has consistently produced strong poverty-containment outcomes, especially for older persons and vulnerable households. The authors conclude that multi-tier, life-cycle based social insurance systems tend to achieve larger and more durable poverty impacts than fragmented, means-tested approaches alone.

Barrientos (2010) finds that countries with stronger social protection systems display lower poverty and vulnerability and higher resilience to economic and social shocks, with social insurance playing a central structural role alongside social assistance. He argues that social insurance is crucial because it pools risk and provides entitlement-based protection against income loss, thereby reducing the probability that households fall into poverty following employment, health, or demographic shocks. The report emphasizes that while social assistance directly targets current poverty, social insurance addresses risk and vulnerability, which are upstream drivers of poverty dynamics. Barrientos (2010) also notes that financing constraints are real in developing countries, but social protection should be viewed as a strategic reallocation of public expenditure rather than purely new spending, reinforcing its developmental and macro-stabilizing function.

The ILO framework on transitions between social assistance and social insurance finds that poverty reduction is strongest where systems are integrated and allow continuous movement across protection instruments as individuals' work status changes. The report shows that contributory social insurance typically provides higher and more adequate income replacement than assistance alone and supports formalization and income stability. It argues that policy should not frame exit from assistance as exit from protection but

instead promote transition into contributory insurance through contribution subsidies, integrated administration, and aligned eligibility rules. In this model, social insurance is not only protective but also developmental, strengthening labour market attachment and long-term vulnerability reduction.

Empirical and comparative studies further confirm that employment and social insurance programmes reduce poverty risk and inequality when coverage is broad and implementation is effective. Firdausi, Putera, and Yoserizal (2023) find that employment social security schemes reduce the likelihood that workplace and income shocks generate new poverty cases by providing structured benefits and risk protection, though participation gaps among vulnerable and informal workers remain a limiting factor. Puntus et al. (2025) find that compulsory and well-designed social insurance systems reduce income gaps, social exclusion, and poverty risk while strengthening social cohesion and economic stability, provided political commitment and enforcement capacity are strong. Together, these findings support the conclusion that insurance reduces poverty not only through transfers, but through risk pooling, income smoothing, and system-wide stabilization effects. Among others, coverage ratio in social insurance is very important.

According to the OECD Development Policy Paper on social insurance coverage in Vietnam's SMEs, coverage ratio is treated as a core performance metric because the primary objective of social insurance is effective protection of the workforce against life cycle and income risks, not merely the volume of contributions collected or expenditures made. The report repeatedly evaluates system performance using participation and coverage shares of the labour force and wage earners, showing that despite relatively high statutory contribution rates, overall protection remains limited when enrolment is low. For example, it notes that only about 23% of the total labour-force and 58% of wage earners were covered, and stresses that this narrow contribution base undermines both protection outcomes and long-term financial sustainability. In this framework, coverage is a valid metric because it directly measures whether social insurance is achieving its functional purpose, extending risk protection to workers, rather than simply recording fiscal effort (OECD, 2018).

Despite the recognized poverty-reduction role of social insurance, emerging cross-country evidence shows that coverage is often unevenly distributed across income groups. In many systems, participation is significantly higher among upper-income and formal workers, while the poorest quintiles remain only marginally covered, creating a structural coverage bias. This paper therefore examines quintile-level coverage patterns and argues that regressive inclusion of risk, where the rich are systematically more insured than the poor, has become a central design challenge in contemporary social insurance systems.

Dispersion across countries analysis

This section examines global disparities in social insurance coverage and their relationship with poverty outcomes across countries. The analysis aims to provide a comparative perspective on how effectively social protection systems reach different population groups, particularly lower-income households, and to assess whether broader coverage is associated with improved welfare outcomes. By using internationally comparable indicators, the section highlights structural differences in participation patterns and distributional performance across national systems.

The analysis uses social protection coverage and poverty indicators derived from internationally harmonized datasets compiled by the World Bank. Insurance coverage variables measure the share of the population or specific target groups participating in social insurance, social protection, or social safety net programs, expressed as a percentage of the population and reported on an annual basis to ensure cross-country comparability. Poverty indicators include the poverty headcount ratio at the US\$3.00 per day threshold and the multidimensional poverty headcount ratio, both measured as the proportion of the population living below defined poverty benchmarks.

These indicators are sourced primarily from the World Bank's Atlas of Social Protection Indicators of Resilience and Equity (ASPIRE) database and the Poverty and Inequality Platform, as documented in the World Development Indicators metadata. ASPIRE compiles harmonized cross-country information based on nationally representative household surveys, enabling consistent measurement of social protection participation across countries and over time. The objective of using these datasets is to evaluate the distribution and reach of social protection systems rather than the generosity of benefits. Accordingly, coverage indicators capture program participation and beneficiary incidence, not benefit size, adequacy, or replacement rates. This makes the data particularly suitable for assessing inclusion patterns and comparing how effectively different systems reach population groups.

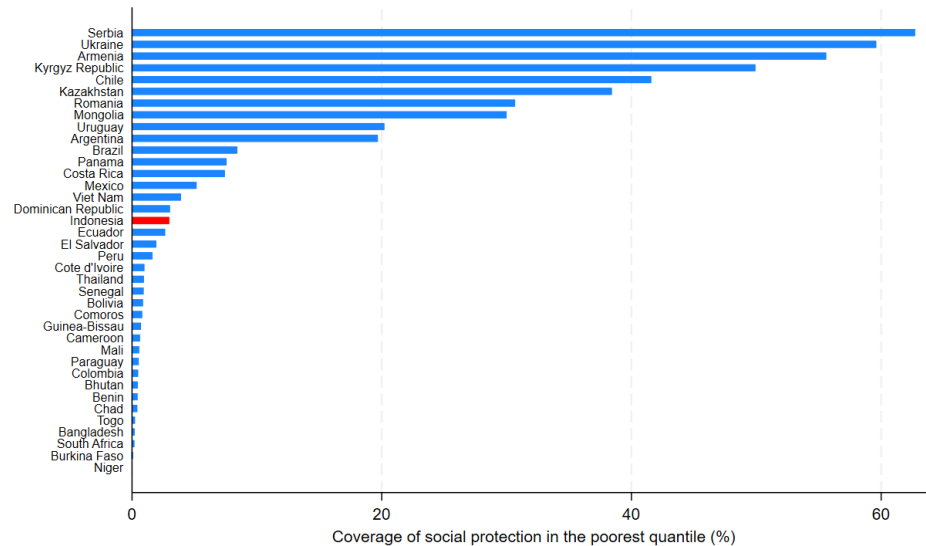
Methodologically, ASPIRE classifies programs using detailed country-level system knowledge, distinguishing between contributory and non-contributory schemes, delivery modalities (such as cash, food, near-cash, or subsidies), and targeting approaches including universal, categorical, or means-tested programs. The database relies primarily on repeated waves of national household surveys to support longitudinal analysis, while documenting methodological breaks when survey designs change.

In aggregate, these metadata characteristics imply that the indicators represent coverage-based population shares appropriate for cross-country distributional analysis. However, they should not be interpreted as direct measures of benefit adequacy or overall program generosity, but rather as indicators of how broadly social protection systems reach different segments of the population.

Limited social protection coverage among the poorest households reflects gaps in targeting accuracy and enrolment capacity

The analysis evaluates how effectively social protection systems reach the poorest 20 percent of the population across countries (Exhibit 1). Rather than emphasizing total social spending, the assessment focuses on targeting efficiency, namely the degree to which safety net programs benefit those most in need. The indicator therefore provides a proxy for the effectiveness of translating public resources into tangible protection for vulnerable groups.

Exhibit 1. Coverage of social protection in the poorest quintile (%), 2022



Sources: World Bank

The chart shows substantial cross-country dispersion. A small group of countries, such as Serbia and Ukraine reach more than 60 percent of their poorest quintile. Others cluster in the 30–50 percent range, while many remain below 10 percent. At the lower end of the distribution, coverage falls into the low single digits. Indonesia is positioned near this bottom tier, with coverage of roughly 3 percent of the poorest quintile.

The wide variation cannot be explained by income levels alone. Countries with comparable development profiles display markedly different outcomes. This suggests that institutional factors, such as the quality of social registries, integration of beneficiary databases, and the efficiency of enrolment and payment systems, play a decisive role. In this sense, bottom-quintile coverage reflects state capacity in targeting and delivery, not merely fiscal effort.

Indonesia's low coverage indicates that exclusion error is the dominant constraint. The issue is not necessarily the absence of programs, but the limited ability of the system to identify, register, and onboard poor households into formal protection schemes. Weak registry interoperability and fragmented enrolment channels reduce the effective reach of social protection to those who need it most.

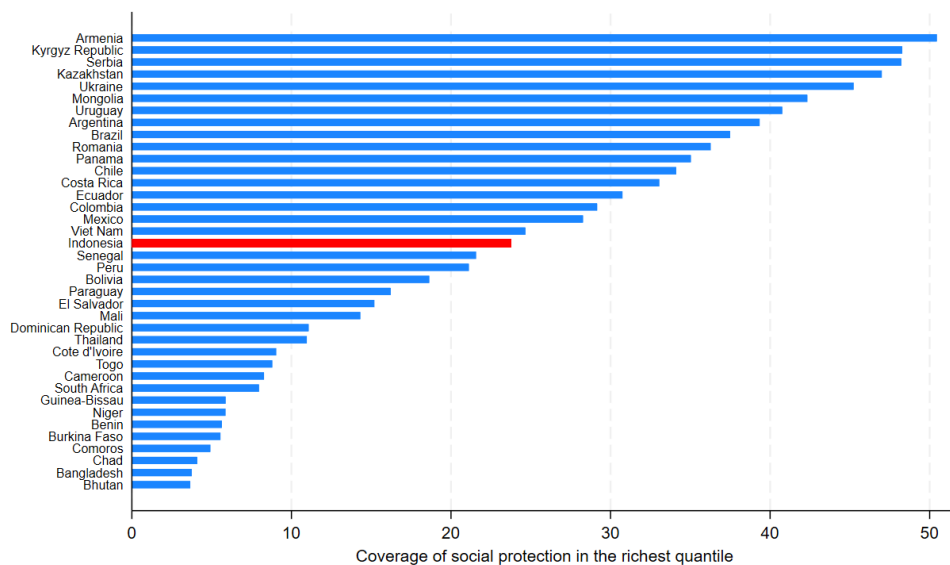
The broader insight is clear, effective poverty protection depends less on budget size and more on targeting architecture. Countries that combine strong

administrative systems with integrated data platforms are able to convert spending into high bottom-quintile coverage. For countries at the lower end of the distribution, key reforms focus on improving beneficiary data systems, simplifying enrolment processes, and strengthening delivery mechanisms to reach intended recipients more effectively. Without such institutional upgrades, incremental increases in spending are unlikely to translate into meaningful gains in coverage for the poorest.

Coverage among the richest quintile reveals whether social protection systems are genuinely universal or structurally biased toward formal and higher-income groups.

Shifting the analytical lens from the poorest quintile to the richest 20 percent changes the interpretation in an important way. Higher coverage at this end of the income distribution does not necessarily indicate successful pro-poor targeting but rather reflects the extent to which social protection programs also reach higher-income groups. The analysis therefore aims to assess whether elevated coverage levels stem from universal system design or from targeting weaknesses that allow benefits to accrue disproportionately to wealthier populations.

Exhibit 2. Coverage of social protection in the richest quintile (%), 2022



Sources: World Bank

The chart reveals wide cross-country variation. In countries such as Armenia and Kyrgyz Republic, coverage of the richest quintile approaches or exceeds 45–50 percent. Others cluster between 20–40 percent, while a smaller group remains below 10 percent. Indonesia is positioned in the mid-range, with coverage of roughly one-quarter of the richest quintile. This means that approximately one in four individuals in the top income group receives at least one form of social protection benefit.

Interpretation at this end of the distribution differs from that of the poorest quintile. High coverage among the richest can indicate either a universal system or weak targeting. Where coverage is high at the top but limited at the bottom,

the pattern signals distributional imbalance. A well targeted pro-poor system would ideally show high coverage of the poorest (say 40%–60%) and much lower coverage of the richest (say below 20%). In such cases, program participation is more closely linked to formal employment status or administrative registration than to economic vulnerability, resulting in inclusion error.

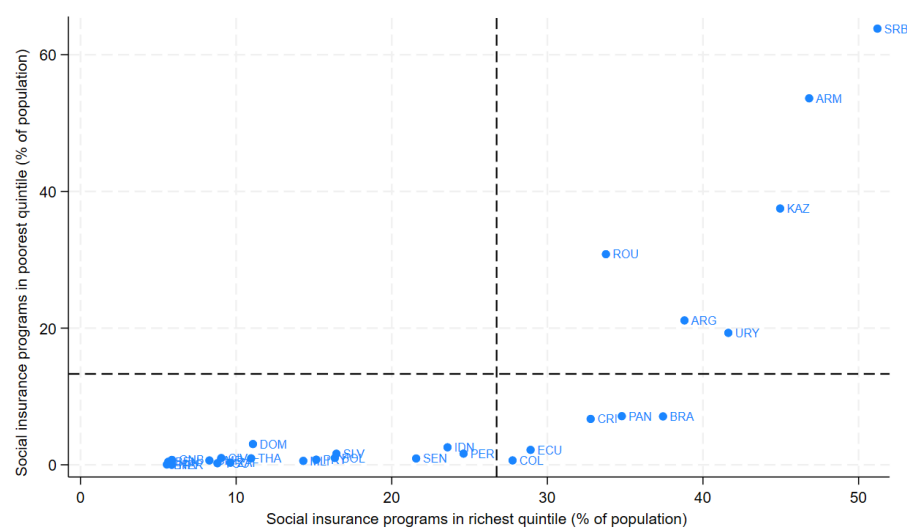
Indonesia’s position suggests that participation remains significantly associated with formal labour market attachment. When compared with coverage levels among the poorest quintile, the gap indicates that higher-income individuals are substantially more likely to be covered than lower-income groups. This asymmetry reflects a structural bias in enrolment channels rather than a purely fiscal issue.

The broader insight is that membership architecture determines whether a system is pro-poor or skewed toward formal workers. Expanding overall coverage without recalibrating targeting rules may reinforce existing imbalances. For countries in the mid-coverage range, improving beneficiary filtering, integrating social registries, and differentiating poverty-targeted programs from contributory schemes are essential to prevent regressive incidence and ensure that social protection systems align with vulnerability rather than formality.

Imbalances in coverage across income groups indicate uneven distribution of social insurance benefits

The analysis combines the two preceding dimensions into a single targeting diagnostic using a scatter plot framework (Exhibit 3). Coverage among the richest quintile is plotted on the horizontal axis, while coverage among the poorest quintile appears on the vertical axis, with each observation representing a country. The axes span roughly 0–50 percent and 0–65 percent, respectively. Midpoint crosshair lines provide reference thresholds that distinguish between comparatively low and high levels of coverage along each dimension.

Exhibit 3. Social insurance programs in richest and poorest quintile (% of population), 2022



Sources: World Bank

The scatter plot reveals four broad patterns across countries. Countries located in the upper-left quadrant demonstrate progressive systems, characterized by relatively high coverage among poorer households and lower coverage among richer groups. Conversely, countries in the lower-right quadrant exhibit regressive patterns, where participation is significantly higher among wealthier individuals. Countries positioned in the upper-right quadrant reflect more universal systems, where both poorer and richer groups achieve high coverage levels, indicating broad-based inclusion across income groups. Meanwhile, several countries cluster near the lower-left quadrant, indicating limited coverage for both groups and suggesting early-stage or underdeveloped social insurance systems.

The general implication is that distributional balance is the critical factor in evaluating system effectiveness. A system can expand in size yet remain regressive if enrolment structures primarily follow formal employment status or administrative registration. As a result, the ratio between coverage of the richest and poorest quintiles becomes a key indicator of whether benefits are aligned with economic vulnerability.

Indonesia appears in the lower-left portion of the chart, with low coverage for both income groups but still slightly higher participation among the richest quintiles. This positioning indicates that social insurance enrolment remains limited overall while also showing early signs of distributional imbalance. Higher-income individuals are still more likely to participate, reflecting stronger access through formal labour market channels.

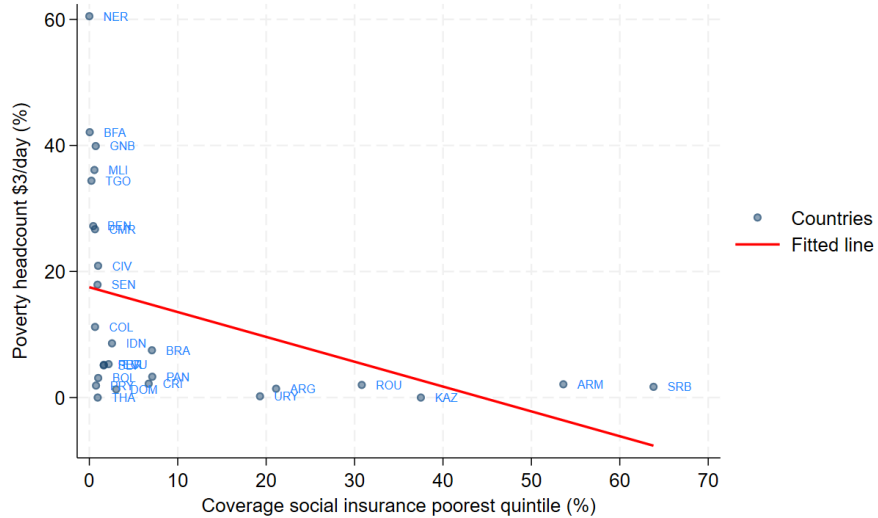
The broader insight is that expanding social insurance programs alone does not guarantee equitable protection. Effective systems require enrolment architectures that prioritize vulnerable populations (poorest quintile). That reform efforts should prioritize increasing coverage for the poorest quintile through subsidized enrolment, automatic inclusion of informal workers, and contribution support linked to social registries, rather than simply expanding the overall size of the program. For Indonesia, the implication is that improving beneficiary targeting and broadening access for informal and lower-income workers will be essential to ensure that future program expansion translates into more progressive and inclusive coverage.

Expanding social insurance coverage among the poorest households is a key driver of sustained poverty reduction

The analysis examines the relationship between social insurance coverage among the poorest quintile, shown on the horizontal axis, and the poverty headcount ratio at the US\$3 per day threshold on the vertical axis (Exhibit 4). Coverage levels range from near zero to approximately 65 percent, while poverty rates vary from close to zero up to around 60 percent. The fitted trend line slopes clearly downward, indicating a strong negative association in which countries that achieve broader coverage among their poorest 20 percent tend to exhibit substantially lower levels of extreme poverty. Although this

relationship does not establish causality, the steep gradient suggests that the association is economically meaningful rather than coincidental.

Exhibit 4. Relationship between social insurance coverage among the poorest quintile and the poverty headcount (%), 2022



Sources:

The scatter plot shows a clear negative relationship between the two variables. Countries with higher coverage of social insurance among the poorest 20 percent tend to record significantly lower poverty headcount ratios. Countries positioned on the right side of the chart, such as Serbia and Armenia, combine broad coverage with relatively low poverty levels, while countries with minimal coverage cluster at the upper-left area with substantially higher poverty rates.

This pattern highlights the structural role of social protection in stabilizing household income and preventing downward economic mobility. Broad coverage among vulnerable populations (poorest quintile) allows social insurance to function not only as a redistributive tool but also as a preventive mechanism that mitigates income shocks, reduces long-term vulnerability, and supports more durable poverty reduction. Countries with integrated, life-cycle-based protection systems tend to experience stronger and more sustained impacts.

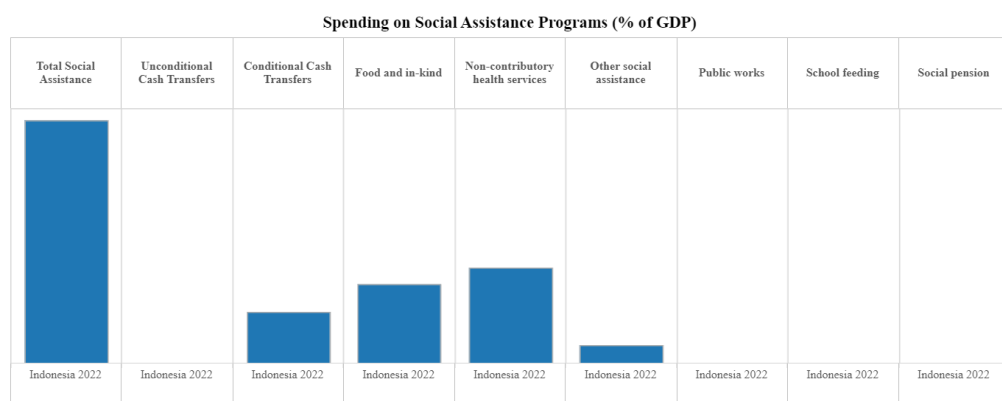
Indonesia appears in the mid-to-lower section of the distribution, with relatively moderate poverty levels but still limited social insurance coverage among the poorest quintiles. This positioning suggests that while poverty levels are not among the highest globally, the protective role of social insurance remains underutilized for lower-income groups.

A more moderate interpretation is that expanding social insurance coverage among poorer households can contribute to long-term poverty reduction. For Indonesia, improving access for informal and lower-income workers may help strengthen the poverty-mitigation role of the social protection system, gradually shifting it from mainly short-term support toward a more preventive and inclusive approach.

Indonesia’s social assistance spending is concentrated on health and consumption support, with limited allocation to employment-oriented programs

The analysis presents the composition of Indonesia’s social assistance spending as a share of GDP in 2022, disaggregated by program type. The objective is to assess how public resources are allocated across different forms of social assistance and what this distribution implies for the functional role of social protection within the broader welfare system. Total social assistance spending amounts to roughly 1 percent of GDP. However, the allocation is highly concentrated, with the majority of resources directed toward a limited number of programs rather than distributed evenly across a diverse set of policy instruments.

Exhibit 5. Spending on social assistance programs (% of GDP), Indonesia



Sources: World Bank

First, the largest components are non-contributory health services and food and in-kind support, each absorbing a visibly larger share than other categories. Non-contributory health spending appears at roughly about one third of total social assistance outlays, indicating that Indonesia’s social assistance architecture is strongly health anchored. Food and in-kind programs are the next major block, suggesting continued reliance on commodity or goods-based support rather than purely monetary transfers. This structure implies that vulnerability protection is being delivered significantly through service access and consumption support, not only income replacement.

Second, conditional cash transfers form a meaningful but clearly smaller tier, at roughly a few tenths of a percentage of GDP, while unconditional cash transfers are near zero in this snapshot. That pattern indicates policy preference toward conditional and program-linked transfers rather than universal or unconditional cash schemes. It also suggests that behavioural or human-capital linked assistance remains more prominent than broad cash floor instruments. From a targeting perspective, conditional transfers are typically more poverty-focused but administratively heavier, which can affect coverage speed and scale.

Third, several instruments are negligible or absent in spending terms in this year’s composition, including public works, school feeding, and social pensions,

each registering near zero shares of GDP in the chart. This is analytically important because it means Indonesia's social assistance mix is not heavily oriented toward labour-intensive countercyclical programs, nutrition-linked school support, or categorical old-age social pensions on the assistance side. Instead, old-age protection is likely being carried more by contributory pension and social insurance mechanisms rather than tax-financed social pensions. Overall, the spending profile indicates a health-focused and targeted-transfer model rather than a broad cash-transfer or public-works model. The implication for broader insurance and social insurance analysis is significant because assistance spending is concentrated in health and conditional programs and remains modest relative to GDP, the expansion of social insurance, especially life and health risk coverage, becomes structurally important to close protection gaps. In Indonesia's case, this composition reinforces the conclusion that protection depth will depend not only on enlarging assistance budgets but on strengthening contributory and semi-contributory insurance layers to complement a relatively focused assistance base.

Coverage for the poorest households is dominated by cash and in-kind assistance, while participation in long-term social insurance remains extremely limited

The analysis reports coverage of Social Protection and Labor (SPL) programs among Indonesia's poorest quintile in 2022, disaggregated by program type and by rural–urban location (Exhibit 6). The objective is to assess which types of programs most effectively reach low-income households and to better understand the functional role of the social protection system in supporting vulnerable populations.

Exhibit 6. Coverage of social protection and labour programs in poorest quintile (%), Indonesia

Coverage of SPL Programs in Poorest Quintile (%)			
Program Type	Country	Year	Coverage (%)
Contributory Pensions -rural	Indonesia	2022	1.2
Contributory Pensions -urban	Indonesia	2022	2.8
Other Social Insurance -rural	Indonesia	2022	1.1
Other Social Insurance -urban	Indonesia	2022	3.0
Active Labor Market -rural	Indonesia	2022	11.3
Active Labor Market -urban	Indonesia	2022	12.9
Passive Labor Market -rural	Indonesia	2022	
Passive Labor Market -urban	Indonesia	2022	
Cash Transfer -rural	Indonesia	2022	50.9
Cash Transfer -urban	Indonesia	2022	42.8
Conditional Cash Transfer -rural	Indonesia	2022	32.8
Conditional Cash Transfer -urban	Indonesia	2022	26.3
Social Pensions -rural	Indonesia	2022	1.6
Social Pensions -urban	Indonesia	2022	1.9
In-Kind -rural	Indonesia	2022	40.2
In-Kind -urban	Indonesia	2022	36.1
Fee Waivers -urban	Indonesia	2022	16.2
Other Social Assistance -rural	Indonesia	2022	19.0
Other Social Assistance -urban	Indonesia	2022	19.0
Fee Waivers -rural	Indonesia	2022	11.0

Sources: World Bank

The central pattern is clear. The coverage of the poorest is driven overwhelmingly by cash transfers and in-kind assistance, while contributory pensions and social insurance reach only a very small fraction of poor

households. The distribution is therefore assistance-heavy and insurance-light at the bottom of the income ladder.

The strongest reach comes from cash transfers, with coverage of roughly 50.9% of the poorest quintile in rural areas and 42.8% in urban areas. Within this, conditional cash transfers alone cover about 32.8% of the rural poor and 26.3% of the urban poor, indicating that programmatic, condition-linked support is a major delivery channel to low-income groups. In-kind programs also show broad penetration, reaching around 40.2% of the rural poor and 36.1% of the urban poor. This confirms that Indonesia's pro-poor protection model relies heavily on transfer and goods-based instruments, which function as immediate consumption support and human-capital protection tools rather than long-horizon risk pooling.

The middle tier of coverage is provided by active labour market programs and fee waivers. Active labour market measures reach roughly 11%–13% of the poorest quintile (about 11.3% rural and 12.9% urban), while fee waivers reach about 11% in rural and 16.2% in urban populations. The “other social assistance” programs cover about 19% in both rural and urban groups. This layer suggests some labour-market and access-cost support is present, but it is clearly secondary compared with direct transfers and in-kind aid. Notably, passive labour market programs appear negligible or absent in coverage for the poorest quintile in this snapshot.

By contrast, contributory and insurance-based instruments show minimal penetration among the poorest. Contributory pensions cover only about 1.2% of the rural poor and 2.8% of the urban poor, while other social insurance reaches roughly 1.1% rural and 3% urban. Social pensions (non-contributory old-age assistance) are also very small, at around 1.6%–1.9% coverage. This gap is structurally important. It means that for the bottom quintile, protection is delivered mainly through tax-financed assistance, not contributory risk-pooling schemes. From a system-design perspective, Indonesia's SPL architecture for the poorest is therefore short-horizon and consumption-smoothing oriented, with limited integration into pension and insurance pillars. The policy and industry implication is that expanding inclusive insurance and contributory-lite or subsidized schemes is the key lever if protection for the poorest is to shift from episodic support toward durable risk coverage.

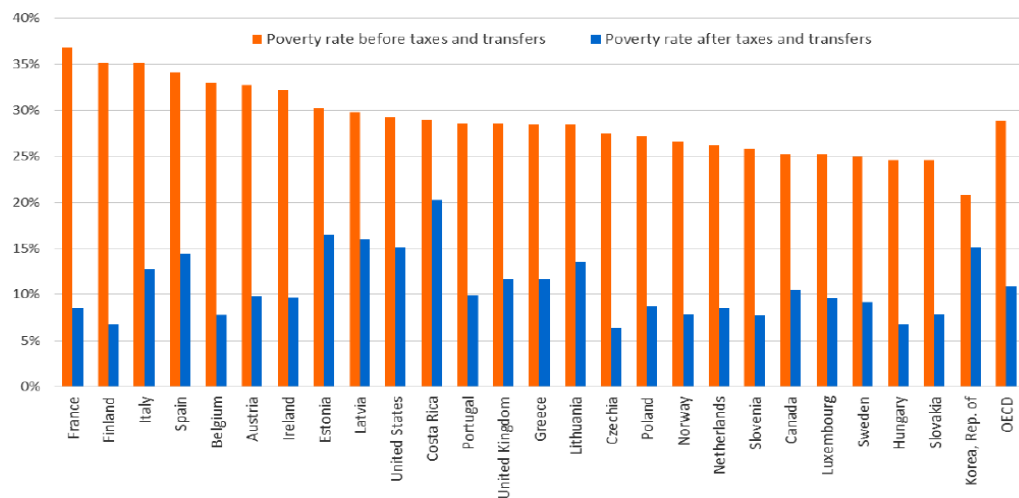
Implication for the insurance and pension funds industry

Global acceptance of social protection as a key tool for poverty reduction reflects the important role of social protection programs in stabilizing household welfare and reducing vulnerability to shocks. Social protection systems, through instruments such as cash transfers, pensions, health insurance, unemployment benefits, and other social assistance programs provide income support and help households during periods of economic shock. Beyond short-term relief, these mechanisms also contribute to long-term poverty reduction by protecting

productive assets, enabling continued investment in education and health, and strengthening overall economic resilience.

In general, according to the International Labour Organization (ILO), there is a strong and positive relationship between levels of investment in social protection expenditure (excluding health) and poverty reduction. Evidence from the Organisation for Economic Co-operation and Development (OECD) further demonstrates the redistributive impact of taxes and social transfers. On average, relative poverty rates in OECD countries are about 62% lower after taxes and transfers are applied. The effect is particularly pronounced in Finland, where the poverty rate declines from around 35% before redistribution to only 6.7% afterward. These findings underscore how comprehensive social protection systems, supported by redistributive fiscal policies, can substantially reduce inequality and strengthen economic resilience. (Exhibit 7).

Exhibit 7. Relative poverty rate (50% of median) in selection of OECD countries before and after taxes and transfers (2021)



Sources: OECD Stat (2021)

The cross-country evidence from the previous chapter also reveals a consistent numeric pattern, when social insurance coverage among the poorest quintile rises into the 30%–60% range, extreme poverty collapses toward low single digits; when coverage remains in low single digits, poverty risk stays structurally high. At the same time, several systems show richest-quintile coverage at 25%–50% while poorest coverage remains below 10%, indicating contributory insurance is still heavily tilted toward formal and higher-income workers.

This has three direct implications for the insurance and pension funds industry. First, the future growth of social insurance systems is not only about accumulating funds or assets, but also about designing systems that can include more people. Traditional contributory models that rely on payroll deductions and formal employment tend to concentrate on coverage among higher-income workers, because they are more likely to have stable formal jobs.

As a result, lower-income and informal workers remain largely excluded. In the future, the expansion of premiums and contributions will increasingly depend on subsidized schemes, hybrid financing models, and micro-contribution mechanisms that allow informal and low-income workers to participate. In this context, the design of insurance products and contribution systems becomes as important as distribution channels in expanding coverage.

Second, the quality of risk pooling improves when the participant base becomes broader and includes lower-income groups. When social insurance mainly covers formal workers with higher incomes, the risk pool becomes too narrow and more vulnerable to shocks affecting the formal labor market, such as wage fluctuations or employment downturns. A narrow participant base can therefore weaken the stability of contributions and the resilience of the system. By expanding participation to include lower-income and informal workers, especially with partial support from the government, can diversify the risk pool and make contribution flows more stable, thereby strengthening the long-term sustainability of pension and insurance funds.

Third, strong data and registry integration system is becoming essential infrastructure for the industry. For insurers and pension administrators, the ability to connect with national social registries system, digital identification systems, and payment platforms is increasingly important for reaching and enrolling participants. Institutions that can effectively use integrated databases and automated eligibility systems will be better positioned to expand coverage and reach new insured populations

The next phase of industry relevance will be determined less by balance sheet size alone and more by how effectively protection systems expand real coverage across vulnerable populations. For the insurance and pension funds industry, this shifts the strategic frontier from pure premium growth and asset accumulation toward inclusion, risk pooling depth, and protection reach. This conclusion is especially salient for Indonesia, where the latest industry data show that the life insurance sector remains financially strong but structurally challenged in new customer acquisition and product mix, indicating that future growth cannot rely solely on traditional upper and middle-income segments. In Indonesia's life insurance segment specifically, industry performance shows a combination of capital strength and distribution strain. The report documents that life insurance Risk Based Capital stands at around 487%, far above the regulatory minimum, and post-tax profit reached about Rp8.3 trillion, supported largely by a sharp rise in investment income rather than premium expansion. At the same time, premium income is described as structurally stagnant, with new business premiums still contracting while growth is carried mainly by renewal premiums. Distribution channels that historically drive inclusion, especially bancassurance and agency, show year on year decline, while only direct marketing records strong growth. This pattern implies that solvency is not

the binding constraint, but coverage expansion and new risk onboarding are.

The IFG Progress Insurance quarterly report also highlights a structural shift in product composition away from unit linked products toward more traditional protection products, alongside elevated loss ratios in health insurance product , particularly individual health where loss ratios are reported at extremely high levels.¹ . This trend reflects growing pressure on underwriting performance, driven by factors such as medical inflation, behavior related to medical such as over treatment, higher utilization rates, and fraudulent which have contributed to the deterioration of underwriting margins. At the same time, the industry’s gradual transition toward protection-based products is consistent with broader efforts to expand insurance coverage and strengthen the role of insurance as part of the social protection system.

From a social insurance and pension perspective, this environment favors simpler, protection oriented, longer duration products and pooled risk structures rather than complex investment linked contracts. It also suggests that sustainable expansion toward lower income and informal segments will require tighter underwriting discipline, benefit design control, and cost-efficient distribution technology rather than product complexity.

Taken together, the implication for Indonesia’s insurance and pension funds industry is clear. The sector is financially resilient, but coverage expansion is not yet structurally embedded in its growth model. With strong capital buffers and adequate RBC ratios in the insurance sector, alongside generally adequate funded ratios in pension funds and stable investment portfolios dominated by bonds, the industry has the balance sheet capacity to support broader protection inclusion. However, without innovation in distribution channels, contribution design, and mass market product architecture, coverage will remain concentrated on existing customer tiers. The strategic opportunity is therefore not merely to grow premiums, but to convert financial strength into broader protection reach, aligning industry growth with social insurance coverage expansion and long-term pension security objectives.

Conclusion

In summary, social insurance plays an important role in poverty reduction. It protects households from income shocks through risk pooling and income replacement over the life cycle. Its impact is greatest when coverage is broad, integrated with social assistance, and aligned with labour-market and life-cycle risks. Under these conditions, social protection systems function as preventive mechanisms rather than merely compensatory ones. However, institutional

¹ IFG Progress Insurance Quarterly Report Q3 2025

constraints and low participation especially among poor and informal workers often limit effectiveness. Expanding inclusive coverage and strengthening institutional design are therefore essential to achieving sustained protective and stabilizing outcomes.

Understanding the role of social insurance in poverty reduction also requires examining who is actually covered by existing systems. Cross-country evidence indicates that the effectiveness of social protection systems depends largely on how coverage is distributed across income groups. Imbalances in coverage across income groups indicate uneven distribution of social insurance benefits. In addition, strengthening coverage among lower-income groups is therefore critical and is a key driver of sustained poverty reduction. Cross-country evidence reveals substantial gaps in reaching the poorest groups, driven more by targeting quality and institutional capacity than by national income levels. In Indonesia, very low coverage among the poorest alongside much higher coverage among the richest underscores that the main challenge lies in targeting design and social registry systems rather than fiscal constraints alone.

Indonesia's social protection system shows low overall coverage, particularly among the poorest households. In contrast, coverage among higher-income groups is significantly higher, creating a clear distributional imbalance. At the same time, social assistance spending remains focused on health and consumption support, while protection for poorer households is largely limited to cash and in-kind transfers with minimal access to long-term social insurance.


Overall, the evolving landscape suggests that the future relevance of the insurance and pension funds industry will increasingly depend on its ability to expand protection to low-income and informal workers, rather than relying solely on premium growth in the formal sector. This calls for a strategic shift toward simpler protection-oriented products, flexible or subsidized contribution schemes, and strong integration with social registries and digital infrastructure. In Indonesia, while the industry's capital strength provides a solid foundation, its long-term strategic value will depend on how effectively it translates financial resilience into broader and more inclusive protection coverage.

References

- Barrientos, A. (2010). Social protection and poverty (Social Policy and Development Programme Paper No. 42). United Nations Research Institute for Social Development.
- Firdausi, F. A., Putera, R. E., & Yoserizal. (2023). The effectiveness of employment social security as an effort to reduce poverty risk. Journal article.
- International Labour Organization. (2014). Social insurance: Enhancing social security right for everyone (Policy Brief, Vol. 3). ILO / Institute of Labour Science and Social Affairs.
- International Labour Organization. (2021). Facilitating transition between social assistance and social insurance. ILO.
- McClanahan, S., & Ruggia-Frick, T. (2024). Social security and poverty reduction: Evidence and policy implications. International Social Security Association.
- OECD. (2018). Increasing social insurance coverage in Viet Nam's SMEs (OECD Development Policy Papers No. 13). OECD Publishing. <https://doi.org/10.1787/ec14725e-en>
- Patel, F. (2002). Insurance and poverty alleviation. MicroSave / development policy paper.
- Puntus, S., et al. (2025). Social security as a mechanism to minimize poverty and inequality. European comparative study paper.

PT. Bahana Pembinaan Usaha Indonesia (Persero)


Gedung Graha CIMB Niaga, 18th Floor
 Jl. Jendral Sudirman Kav. 58
 RT.5/RW.3, Senayan, Kebayoran Baru
 Kota Jakarta Selatan, DKI Jakarta 12190

 (+62) 021 2505080

 Indonesia Financial Group

 PT. Bahana Pembinaan Usaha Indonesia – Persero

 @indonesiafinancialgroup

 @ifg_id

Disclaimer

This study is prepared solely for research, educational, and public policy discussion purposes. All analyses, evaluations, interpretations of data, and conclusions presented herein constitute research work prepared by an IFG employee as part of IFG's research activities, based on data and information available at the time of writing.

This publication expressly does not constitute, either directly or indirectly, a basis for making investment decisions, financial transactions, business judgments, or any other economic actions by any individual, institution, or entity. No part of this document should be interpreted as investment advice, a solicitation to buy, sell, or hold any financial instrument, or as professional guidance in financial, legal, or tax matters. This document does not constitute a prospectus or other offering document. The information contained in this document is general in nature and should not be construed as advice, given it has been prepared without taking into account the objectives, financial situation, or needs of any particular person. This publication is prepared by an IFG employee using data, information, and materials owned by or available to IFG. The views and analysis expressed herein are presented in the author's professional capacity as an IFG employee for research and knowledge-sharing purposes, and do not necessarily constitute or represent IFG's official views, institutional positions, understandings, or policy stances, unless explicitly stated otherwise. IFG and the author hereby explicitly disclaims any and all liability for financial losses, damages, legal claims, or other consequences arising, whether directly or indirectly, from the use of this publication as a reference for decision-making purposes. Any reliance placed on the contents of this study is strictly at the reader's own risk. Any statements made herein speak only as of the date they are made, IFG and the author assumes no duty to, and does not undertake to, update those statements in the event of any changes to data, information, market conditions, regulations, or other circumstances in the future. All data and references used in this study are derived from publicly available sources, official publications, and secondary materials deemed credible at the time of writing. However, the IFG and the author makes no representations or warranties, whether express or implied, regarding the accuracy, completeness, or continued validity of such information, and shall not be liable for any damages arising from any person's reliance on this information.

Indonesia Financial Group (IFG)

Indonesia Financial Group (IFG) adalah BUMN Holding Perasuransian dan Penjaminan yang beranggotakan PT Asuransi Kerugian Jasa Raharja, PT Jaminan Kredit Indonesia (Jamkrindo), PT Asuransi Kredit Indonesia (Askrindo), PT Jasa Asuransi Indonesia (Jasindo), PT Bahana Sekuritas, PT Bahana TCW Investment Management, PT Bahana Artha Ventura, PT Bahana Kapital Investa, PT Graha Niaga Tata Utama, dan PT Asuransi Jiwa IFG. IFG merupakan holding yang dibentuk untuk berperan dalam pembangunan nasional melalui pengembangan industri keuangan lengkap dan inovatif melalui layanan investasi, perasuransian dan penjaminan. IFG berkomitmen menghadirkan perubahan di bidang keuangan khususnya asuransi, investasi, dan penjaminan yang akuntabel, prudent, dan transparan dengan tata kelola perusahaan yang baik dan penuh integritas. Semangat kolaboratif dengan tata kelola perusahaan yang transparan menjadi landasan IFG dalam bergerak untuk menjadi penyedia jasa asuransi, penjaminan, investasi yang terdepan, terpercaya, dan terintegrasi. IFG adalah masa depan industri keuangan di Indonesia. Saatnya maju bersama IFG sebagai motor penggerak ekosistem yang inklusif dan berkelanjutan.

Indonesia Financial Group (IFG) Progress

The Indonesia Financial Group (IFG) Progress adalah sebuah Think Tank terkemuka yang didirikan oleh Indonesia Financial Group sebagai sumber penghasil pemikiran-pemikiran progresif untuk pemangku kebijakan, akademisi, maupun pelaku industri dalam memajukan industri jasa Keuangan.