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# Implementation of Corporate Governance (Case Study of Insurance Companies in Indonesia)

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***Abstract***

*The occurrence of bankruptcy in insurance companies in Indonesia shows indications of weak mitigation and not optimal implementation of corporate governance. Therefore, this conceptual paper aims to discover the types of risks in companies and the types of risks in insurance companies. The method used is qualitative. The method used is descriptive qualitative, which aims to explain certain phenomena or events in depth without measuring variables with numbers or statistics. In this conceptual paper on insurance company risk, qualitative methods aim to identify existing risks and provide views on good governance practices to deal with them. The result of this conceptual paper is that risk management is one step in mitigating companies from losses and bankruptcy, and insurance companies in Indonesia must be able to manage existing risks and apply good governance to maintain business sustainability. The implications of this conceptual paper provide information and references as well as new scientific treasures related to implementing risk management and the types of risks found in insurance companies.*

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## INTRODUCTION

In recent years, numerous insurance company defaults have harmed their clients.s. Reports indicate that the subsequent insurance providers have defaulted in Indonesia, (Hastuti, 2020):

- PT Asuransi Jiwa Kresna (Kresna Life)
  Kresna Life has defaulted on two of its insurance products. Kresna Link Investa (K-LITA) and Protecto Investa Kresna (PIK) are the two products. Referring to the Indonesian Financial Services Authority (OJK) examination for the 2019 period conducted in February 2020, the OJK found several violations committed by Kresna Life, especially in the K-LITA product. Kresna's K-Lita product,

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offering investment benefits since June 10, 2019, is relatively high, even above the average bank deposit, and some even have investment benefits per year, reaching a 9.75% fixed rate. OJK ordered Kresna Life to discontinue the K-LITA product in February 2020 in order to safeguard policyholders' interests and prevent the possibility of payment difficulties on maturing policies with greater coverage.

- PT Asuransi Jiwasraya (Persero)
  The Jiwasraya controversy spread like wildfire through the news outlets. The default was initially declared by Jiwasraya in October 2018. According to the announcement, Jiwasraya was unable to settle IDR 802 billion in customer policy claims.. The Audit Board (BPK) also released a calculation of state losses due to the Jiwasraya mega scandal case. As a result, the amount of state loss calculations calculated by the BPK reached Rp 16.81 trillion. The amount consists of stock investments of IDR 4.65 trillion and state losses due to mutual fund investments of IDR 12.16 trillion. The amount is slightly different from the initial projection of the Attorney General's Office of Rp 17 trillion.
- PT Asuransi Jiwa Bakrie Life
  The instance of default pertaining to the insurance company under the ownership of the Bakrie Group transpired in the Diamond Investa product, a unit link variant (insurance and investment). In 2008, the product defaulted as a result of the company's excessively aggressive stock market investments, which coincided with the stock market collapse precipitated by the subprime mortgage crisis in the United States, which had a worldwide impact (US). The Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK), which has now changed its name to OJK, stated that Diamond Investa's default reached Rp 500 billion. To resolve this problem, an agreement was reached that Bakrie Life would pay in installments.
- PT Asuransi Bumi Asih Jaya
  On October 18, 2013, PT Asuransi Jiwa Bumi Asih Jaya (BAJ) had its business license in the Insurance Sector revoked by OJK for failing to comply with the stipulations pertaining to financial soundness (as measured by Risk Based Capital) and the proportion of investment balance to technical reserves and claims debt.. In its journey after it was revoked, Bumi Asih Jaya has been unable to carry out its obligations, so OJK filed a bankruptcy lawsuit with the Central Jakarta Commercial Court.
- Asuransi Jiwa Bumiputera 1912
  Problems in Bumiputera are more focused on mismanagement or mismanaging the company. In January 2018, the company claimed to have experienced delays in claim payments in 1-2 months due to the lack of premiums generated by the company. At the end of 2018, the company experienced solvency problems of Rp20.72 trillion, where the assets recorded were only Rp10.279 trillion, but the company's liabilities reached Rp31 trillion.

The phenomenon of default from insurance companies shows inadequate governance and the application of risk management that is not optimal in preventing default by the insurance company. Implementing risk management has a vital role in preventing a company's bankruptcy. Therefore, in this conceptual paper, the problem formulation is about what risks exist in the company and what types exist in

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insurance companies. Therefore, this conceptual paper aims to know the risks contained in the company and the types of risks in insurance companies. The implication of this conceptual paper is to provide information and references as well as new scientific treasures related to the implementation of risk management and the types of risks contained in insurance companies so that they can be a reference for readers and further researchers.

## RESEARCH METHODS

The method used in this conceptual paper is qualitative, with a descriptive approach that aims to explain the formulation of problems related to the implementation of insurance company risk management and the risks contained in insurance companies. Qualitative methods are beneficial for understanding issues related to implementing risk management and risk in insurance companies. This is because qualitative methods with a descriptive approach aim to explore the views and experiences of practitioners, company leaders, or relevant experts (Napitupulu et al., n.d.; Oktris et al., 2022).

## RESULT AND DISCUSSION

### Risk Management Implementation

Risk management is the process of identifying, assessing, and controlling risks related to the operational activities of an organization or company (Burnaby & Hass, 2009; Fauziyyah et al., 2021; Zailani et al., 2017). Thus, the goal of risk management is to reduce risk and minimize the negative impact of unavoidable risks (Gurtu & Johny, 2021; Iqbal et al., 2015; Jihad et al., 2022; Nugroho & Kiranti, 2017). Risk management involves the process of risk identification, risk evaluation, risk management strategy development, risk management strategy implementation, and periodic risk monitoring and review. Risk management is applied in various aspects of business, including financial, operational, project, environmental, and reputational. The main objectives of risk management are to maintain business safety and continuity, improve operational efficiency, comply with applicable regulations and standards, improve reputation, improve decision-making, and increase shareholder value (Afoukane et al., 2021; Quon et al., 2012; Utami et al., 2021). Risk management is identifying, assessing, and controlling risks that may arise in an organization. Here's according to previous research Muniarty et al. (2020), Nugroho et al. (2018), Power (2004), and Settembre-Blundo et al. (2021) are several types of risk management that are generally found in companies, including:

- Financial risk management: Financial risk management involves identifying, assessing, and controlling risks that may affect a company's finncial health. Financial risk can include market, credit, liquidity, and operational risks.
- Operational risk management: Operational risk management involves identifying, assessing, and controlling risks associated with an organization's day-to-day operations. Operational risks include system failure, human error, information security, and legal and environmental risks.
- Project risk management: Project risk management involves identifying, assessing, and controlling risks associated with a particular ongoing project. Project risks can include cost, schedule, technical, and human risks.
- Environmental risk management: Environmental risk management involves identifying, assessing, and controlling risks associated with the environmental

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impact of an organization's activities. Environmental risks can include risks to human health, damage to natural habitats, and risks to protected species.

- Reputation risk management: reputation risk management involves identifying, assessing, and controlling risks related to an organization's reputation. Reputational risk can arise from the organization's actions or the external environment and can affect public perception the organization.
- Strategic risk management: strategic risk management involves identifying, assessing, and controlling risks associated with the organization's long-term goals. Strategic risks can include risks to growth, market risks, innovation risks, and financial risks.

The steps to implement risk management mentioned above, according to (Alhawari et al., 2012), (Barafort et al., 2017), and (Nugroho & Malik, 2020) at the company are as follows:

- Risk identification: The first step in implementing risk management is to identify the company's risks. Risk can stem from various factors, such as operational, financial, legal, environmental, and reputational. Risk identification must be done comprehensively and continuously.
- Risk evaluation: once the risk is identified, the next step is to evaluate the risk to determine the level of risk and its impact on the company. Risk evaluation involves assessing the likelihood of a risk occurring and its impact if it occurs.
- Develop a risk management strategy: once a risk has been evaluated, the company must develop a strategy to manage that risk. Risk management strategies can include risk reduction, risk transfer, accepting risk, or risk aversion.
- Implementation of risk management strategy: once the risk management strategy is developed, the company must implement the strategy by taking appropriate actions. This can involve the development of operational procedures, changes in policy or practice, the use of new tools and technologies, or changes in organizational structure.
- Risk monitoring and review: the final step in implementing risk management is to monitor and review risks periodically. The company must ensure that the risk management strategy is effective and can deal with emerging risks promptly.

**Types of Risks in Insurance Companies**

Insurance companies face risks that might affect their performance and financial safety. Here are some of the risks often faced by insurance companies:

- Underwriting risk: Underwriting risk is related to the risk that an insurance company may not be able to assess accurately when pricing and risk management. If underwriting risks are not appropriately managed, this can lead to financial losses for the company (Cox & Schwebach, 1992; Santomero & Babbel, 1997).
- Investment risk: the insurance company has significant investments in the investment portfolio. Investment risk is related to market volatility, interest rate fluctuations, and credit risk. If investments are not managed properly, this can result in losses in the investment portfolio (Tone et al., 2019).

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- Investment risk: the insurance company has significant investments in the investment portfolio. Investment risk is related to market volatility, interest rate fluctuations, and credit risk (Ekinci, 2016; Nasfi et al., 2022). If investments are not managed properly, this can result in losses in the investment portfolio.
- Operational risk: operational risk related to disruptions in an insurance company's operations, including system risk, reputational risk, and human error risk. Operational risks can affect a company's financial performance and reputation (Anita et al., 2023; Lewis, 2003).
- Leadership risk: leadership risk is related to failure to make the right decisions, poor policies, or improper risk management by company management (Rosen, 2003; Widodo et al., 2023). Leadership risk can lead to financial losses and damage a company's reputation.
- Natural disaster risk: insurance companies also face the risk of natural disasters, such as earthquakes, storms, and floods. The risk of natural disasters can cause significant losses and affect the finances of insurance companies (Kunreuther, 1996; Nugroho & Utami, 2022).

Good governance in the insurance industry is essential to manage risk and maintain the stability of insurance companies effectively. Imperfections in insurance governance can lead to many problems, including exposed risks. Here are some reasons why good insurance governance is necessary:

- Effective risk management: good governance helps insurers identify, assess, and manage risks better. This includes anticipating risks that may arise and having appropriate strategies in place to address those risks.
- Stable finances: good governance helps insurance companies maintain stable finances. This includes investment management, wise capital allocation, and careful financial planning.
- Customer trust: customer trust is crucial in the insurance business. Good governance helps build and maintain customer trust by guaranteeing that claims will be processed quickly and fairly.
- Regulatory compliance: the insurance industry is governed by many regulations and laws. Good governance helps insurance companies comply with all these regulations and avoid legal sanctions arising from violations.
- Conflict of interest management: there are many potential conflicts of interest in the insurance industry, especially when companies have various insurance products and investments. Good governance helps manage these conflicts of interest with transparency and high ethics.
- Business sustainability: with good governance, insurance companies can maintain long-term business sustainability. It includes succession planning, new product development, and adaptation to market changes.

## CONCLUSION

Based on the results and discussion above, the conclusions of this conceptual paper include the following:

- Implementing risk management is one step in mitigating the company from losses and bankruptcy.
- Insurance companies in Indonesia must be able to manage existing risks and implement good governance to maintain business sustainability.

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