

A Chronological Review: Jiwasraya

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Abstract. In the late of 2019, Indonesian public had been shocked by the news of a mega financial scandal that involved a state-owned insurance enterprise, Jiwasraya. It raises questions, how did it happened and how well did it handled. This paper aims to highlight Jiwasraya case with chronological interpretation. Document review and financial statement analysis were used as research methods. Jiwasraya's financial reports have shown that it is not in a good state since 2015, despite showing signs of recovery in 2017, however, Jiwasraya's financial performance has been so bad that it is unable to present the 2018 and 2019 financial reports. The public accountant who audited Jiwasraya's financial statements provided an "adverse opinion" in 2017, as well as a shortage of reserves of IDR. 7.7 trillions. The Financial Services Authority has given sanctions and management has changed several times in 2018. Set of regulations have been implemented to synchronized the business activities of the insurance industry, nevertheless, severe sanctions are required for each violation.

Keywords: Insurance, Financial Report, Financial Case

1 Introduction

In 2019th, the public was shocked by the news of Jiwasraya case that was threatened with default, up to Rp. 12.4 trillion [1]–[3]. Jiwasraya case raises questions about the financial management of this state-owned insurance company, whether the same symptoms occur in other insurance companies. Even more, when the idea to anticipating Jiwasraya's bankruptcy by national budget emerged, which it will become a burden for all Indonesian people. Another question that also arises is whether the presented and audited financial statements are truly able to provide relevant information on the financial condition of the insurance company.

The asset value of Indonesian insurance industry reaches Rp. 1,366.69 trillion in 2018th, the value shows the role of the insurance industry in national economy [4]. Because the role of insurance industry, the government has established various regulations to support its operational activities and protects the rights of policyholders [5]. The government issued Regulation of the Minister of Finance of the Republic of Indonesia Number 152 / PMK.010 / 2012 concerning Governance of Insurance Companies [6] and Reinsurance Companies and Regulation of the Minister of Finance of the Republic of Indonesia Number 53 / PMK.010 / 2012 concerning Health Insurance Companies and Reinsurance Companies[7]. These two regulations are designed to ensure that insurance companies have a health financial performance. However, the Jiwasraya case shows that stricter surveillance must be put in place to prevent such incidents.

Research in insurance companies has been conducted before, including [5], [8]–[13] which all of them test the financial performance of insurance companies using various methods. These studies use different samples, but the entire time span of testing occurs before Jiwasraya case. This study will use data in the range before and when the financial case of the insurance company occurred, from 2009 to 2019. In addition, this study will examine the effectiveness of the financial ratios in providing informations to users of financial statements regarding financial conditions of insurance company. Furthermore, this study presents a chronological review of Jiwasraya case.

2 Insurance Industries Financial Indicators

Based on government regulations, each insurance company is required to report its financial reports regularly and meet the required financial ratio standards. The Insurance Company is obliged to provide all accounting records and supporting data required for the external auditor to enable the external auditor to give his opinion on the fairness, appropriateness and conformity of the Insurance Company's financial statements with the applicable auditing standards. Risk Based Capital is one of the parameters to measure the health and financial security performance of a company based on the company's capital ability to cover all losses that may be experienced by the insurance company, which of course will have a significant impact on the results of the insurance company's financial performance.

In accordance with the Decree of the Minister of Finance of the Republic of Indonesia Number 53 / PMK 010 / 2012 [7] concerning the Finance of Insurance Companies and Reinsurance Companies, that each insurance company is required to have an RBC of at least 120%, which means that the insurance company has a minimum wealth of 20% greater than the value of the company's debt including to finance any insurance risk owned by the insurance company. Moreover, The Financial Services Authority periodically monitors the ratio values of each insurance company in Indonesia. Those ratios are Premium Adequacy to Claim Paid Ratio; Premium Adequacy to Claim Paid and General Expenses Ratio; Premium and Investment Yield Adequacy to Claim Paid Ratio; Premium and Investment Yield Adequacy to Claim Paid and General Expenses Ratio; Cession Ratio; Investment to Gross Technical Reserve Ratio[14].

Premium adequacy to claim paid ratio is calculated by total premium divided by total claim paid. This ratio shows the adequacy of premium received by insurance companies to cover claim payment at the same period. Premium adequacy to claim paid and general expenses ratio is calculated by total premium divided by total claim and expenses paid. This ratio shows the adequacy of premium received by insurance companies to cover claim payment and operational expenses, such as general expenses, administration expenses and marketing expense at the same period. Premium and investment yield adequacy to claim paid ratio is calculated by total premium and investment yield divided by total claim paid. This ratio shows adequacy of premium and investment yield received by insurance companies to cover claim payment at the same period. Premium and investment yield adequacy to claim paid and general expenses ratio is calculated by total premium and investment yield divided by total claim paid and general expenses. This ratio shows adequacy of premium and investment yield received by insurance companies to cover claim payment and operational expenses, such as general expenses, administration expenses and marketing expenses at the same period. Cession ratio is calculated by total reinsurance premium divided by total gross premium. This ratio shows how much premium from general insurance transfer to reinsurance

companies. And investment to gross technical reserve ratio which calculated by total investment divided by total technical reserve. This ratio shows the endurance of companies investment to cover liability to the policy holder. Liability to policy holder shows in technical reserve.

Instead to using those ratios above, this research emphasizing on using most common ratios namely liquidity ratio, profitability ratio and risk based capital. In addition we used asset, liability, income and equity information to describe Jiwasraya case. This was done to get an overview of the Jiwasraya case using only the simplest method so that it was easier to understand.

3 Jiwasraya's Brief History

Founded on December 31st, 1859 with Notary Deed of William Hendry Herklots Number 185, Jiwasraya was originally named Nederlandsch Indiesche Levensverzekering en Liffrente Maatschappij van (NILLMIJ) as the first life insurance company in Indonesia, or the Dutch East Indies at that time. Then in 1960 it was changed to PT Djiwa Sedjahtera Insurance Corporation as a nationalized Dutch-owned company. Then it changed its name to the Djiwa Djasa Prosperous State Insurance Company in 1965. One year later, it again changed its name to Djiwasraja Insurance Company. Then in 1984 it became the Jiwasraya Insurance Company (Persero)[15].

Jiwasraya is engaged in life insurance The Financial Services Authority defined life insurance business is Aabusiness conducting the risk transfer services and provides payment toward the policy holder, the insured, or other parties entitled in the event of the death or life of the insured, or other payments to the policy holder, the insured, or other parties entitled in a specific time as set in the agreement, the amount of which has been stipulated and/or based on the result of the fund management.

4 Jiwasraya Financial Problems Chronology

Jiwasraya financial indicators include asset, income, liability, equity and RBC value from 2009th to 2019th are presented in table1. At first glance, Jiwasraya's financial condition looks normal until 2018, but the real problems have emerged in the early 2000s. Jiwasraya has shown signs of a deficit in equity since 2004th. The company reported smaller reserves than it should have, insolvency reaching Rp 2.769 trillion. This problem continued, in 2006 the financial statements showed that Jiwasraya's equity value was negative Rp. 3.29 trillion because its assets were much smaller than liabilities. Therefore, the Supreme Audit Agency provided a disclaimer opinion for Jiwasraya's financial statements in 2006 and 2007 because the presentation of the reserve information could not be trusted.

Table 1. Jiwasraya's Financial Indicators (in billion rupiahs)

Year	Asset	Income	Liability	Equity
2009	5,463.47	356.07	4,663.86	799.61
2010	7,234.42	204.47	6,230.22	1,004.20
2011	8,002.45	391.11	6,606.60	1,395.85
2012	9,296.59	268.19	7,648.42	1,648.17
2013	17,037.23	457.24	15,245.75	1,791.48
2014	20,788.15	669.21	18,370.19	2,417.95

Year	Asset	Income	Liability	Equity
2015	25,608.24	1066.41	22,200.94	3,407.30
2016	38,635.06	1706.32	33,193.63	5,441.43
2017	45,689.65	360.31	40,081.43	5,608.88
2018	36,230.00	(15,890)	47,030.00	(10,200.00)
2019	25,680.00	(13,740)	49,600.00	(23,920.00)

The equity deficit faced by Jiwasraya was widened, in 2008 and 2009 the deficit value was Rp. 5.7 trillion and Rp. 6.3 trillion each. In 2009, reinsurance were implemented as a short-term rescue step for Jiwasraya. At the time, The Ministry of State-Owned Enterprises has asked the Jiwasraya board of directors to take a concrete and comprehensive way out, so that Jiwasraya's problems can be resolved.

In 2011, Jiwasraya has shown signs of recovery with an equity value up to Rp 1.3 and the reinsurance scheme was still continuing. At that time, Bapepam-LK asked Jiwasraya to convey comprehensive and fundamental long-term alternative solutions. In response, Jiwasraya published the JS Proteksi Plan a bank assurance products with BTN bank, KEB Hana Bank, BPD Central Java bank, BPD East Java bank and BPD DIY bank in 2012 and were permitted by Bapepam LK. With the financial re-insurance scheme, Jiwasraya was still able to book an equity value of more than Rp 1.6 trillion at the end of 2012. However, if it is calculated without the re-insurance financial scheme, Jiwasraya will experience an equity deficit of up to Rp 3.2 trillion.

In 2013, the Financial Services Authority (OJK) asked the Ministry of State-Owned Enterprises to propose an alternative to Jiwasraya's financial restructuring steps along with the financial restructuring period, due to problems with a solvency ratio of less than 120%. The Jiwasraya Board of Directors conveyed an alternative in the form of revaluation of land and building assets in accordance with IFRS financial accounting standards, which at that time were in the convergence stage. The revalued buildings and land had a book value of Rp. 278.2 billion, which was revalued to Rp. 6.56 trillion, thus posting a profit of up to Rp. 457.2 billion in 2013. In 2015, OJK examined Jiwasraya on the investment aspect and examined coverage. In addition, in the same year the audit results of the Supreme Audit Agency showed allegations of abuse of authority; reports of financial investment assets and liabilities that were too low.

In 2016, OJK asked Jiwasraya to meet the investment adequacy ratio because it no longer used the reinsurance mechanism. In 2017, OJK gave the first warning sanction because Jiwasraya was late in submitting the actuary's report. Jiwasraya's 2017 financial statements still show a profit value of up to Rp. 360 billion. The company has a surplus of Rp 5.6 trillion in equity, but a shortage of premium reserves of Rp. 7.7 trillion because it has not taken impairment assets or decreases in assets into account.

Table 2. Jiwasraya's Financial Ratios

Year	Liquidity	Profitability	RBC
2009	512.85	11.31	139.51
2010	385.15	11.25	155.74
2011	356.54	12.1	202.06
2012	272.32	13.97	163.97
2013	237.75	15.56	174.49
2014	566.66	9.99	140.81
2015	374.78	4.72	162.16
2016	164.03	11.29	200.15

Year	Liquidity	Profitability	RBC
2017	147.5	15.56	123.16
2018			-282
2019			-850

OJK together with the Jiwasraya board of directors discussed a significant drop in premium income due to the reduction in guaranteed return on the JS Saving Plan product, this was followed by a change of directors in 2018. The new Board of Directors reported irregularities in financial reports to the Ministry of State-Owned Enterprises. The results of the audit by the Public Accountant Office on Jiwasraya's financial statements in 2017, among others, corrected the interim financial statements which originally recorded a profit of Rp 2.4 trillion to Rp 428 billion. Jiwasraya announced that it could not pay the claim for the JS Saving Plan policy which was due for Rp. 802 billion. In response, OJK held a meeting with the Jiwasraya board of directors who scheduled a discussion on the condition of the company in the third quarter of 2018 and the efforts made by the company management [3], [16].

In 2019 Jiwasraya was again late in submitting the financial statements for the 2018 period, OJK imposed sanctions in accordance with applicable regulations. OJK issued a license to form a subsidiary of Jiwasraya Putra, which is part of a financial restructuring plan that has been approved by the Ministry of State-Owned Enterprises as shareholder. The Managing Director of Jiwasraya said he needed a capital injection of Rp. 32.89 trillion to meet the risk-based capital adequacy ratio (RBC). The company's assets were recorded at only Rp. 23.26 trillion, while liabilities were Rp. 50.5 trillion. There was negative equity of Rp. 27.24 trillion. The problematic liability of the JS Saving Plan is IDR 15.75 trillion.

Jiwasraya's financial problems were allegedly caused by missmanagement, particularly in the investing activities. Jiwasraya is suspected of investing on companies that do not provide good returns. This triggered allegations of abuse of power and corruption at Jiwasraya. The media highlighted the purchase of shares of third-tier companies in the capital market by Jiwasraya, which are generally above the market prices. Moreover, Jiwasraya did not immediately release the shares when the price went up, so that Jiwasraya did not get gain on their investments [17]–[20].

The stocks that were highlighted the most were Hanson International, Tbk (MYRX); PT.Trada Alam Minera, Tbk (TRAM) and PT Inti Agri Resources, Tbk (IIKP). Currently, the court process is ongoing with six defendants, namely Benny Tjokrosaputro (President Director of Hanson International, Tbk); Harry Prasetyo (Jiwasraya's Finance Director for the period January 2013-2018); Hendrisman Rahim (President Director Jiwasraya, 2008-2018), Joko Hartono Tirto (President Director of PT. Maxima Integra, the company with the largest shareholder of PT. IIKP; Heru Hidayat (President Commissioner of PT. Trada Alam Minera, Tbk) and Syahmirwan (Former Head of Jiwasraya Investment and Finance Division).

The results of this study indicate that financial ratios are still main indicators of financial performance. And financial statements are still the main source of information describing the financial performance of an entity. Jiwasraya's unstable financial condition has actually been reflected in the financial reports it presents.

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