

THE ISSUE OF PT ASURANSI JIWASRAYA: DISSOLUTION OR REDEMPTION

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Abstract

PT Asuransi Jiwasraya (Persero) is the oldest and the largest state-owned insurance company in Indonesia. By October 2018, Jiwasraya had failed to pay for claims due of the JS Saving Plan customers amounting to IDR 802 billion, due to poor corporate governance and weak supervision of the Financial Services Authority. This case is interesting to analyze with a focus on alternative solutions of settlement for the company, either dissolution or redemption. The company can perform dissolution due to bankruptcy or the government can take redemption through privatization, bailout in the form of State Capital Participation, establishment of Holding Insurance SOEs, or acquisition. Today, the government is in the process of establishing the holding insurance SOEs to inject funds to Jiwasraya. The government needs to reform Non-Bank financial institutions, covering risk arrangement, regulation and management. The House of Representatives of RI through its supervisory function should continue to oversee the settlement of Jiwasraya cases to restore public trust to the insurance company and government.

Introduction

The disclosure of the business mismanagement case of PT Asuransi Jiwasraya (Jiwasraya) has drawn public attention. Jiwasraya was founded from the Dutch East Indies government in December 31, 1859 and changed into PT Asuransi Jiwasraya (Persero) on August 21, 1984. In its course of business, the business condition of Jiwasraya had improved in 2011 despite being affected by the economic crisis of 1998 (kompas.com, December 25,

2019). Nevertheless, the absence of liquidity made Jiwasraya have failed to pay claims of JS Saving Plan customers amounting to IDR 802 billion in October 2018 and reached IDR 1.4 trillion per December 2019 (Kompas, January 18, 2019).

The poor finance of Jiwasraya was due to the company bought second and third tier shares ahead of the closing of the quarter or the closing of the year to "beautify" its financial statements (window



dressings). The Audit Board (BPK) of the Republic of Indonesia found share prices where Jiwasraya invested always "jumped" ahead of the closing of the year, and then the share was sold again on January 2 of the following year. Due to the shares purchased were below the market price, then on the financial statements of the end of the year would record the yield of Jiwasraya's investment profitable (pseudo profit). However, the company has actually suffered losses (Tempo Magazine, January 19, 2020). The purpose of this writing is to analyze what solutions that the government can take for Jiwasraya, either dissolution or redemption.

Chronology of the Jiwasraya Case

The financial condition of Jiwasraya insurance company actually got worse since 2002 due to economic crisis, until finally it could not afford to pay policies of the customer. The following is the chronology of the financial condition of Jiwasraya since 2002-2019.

Dissolution or Redemption

In accordance with Article 142 paragraph (1) letter e of Law No. 40 of 2007 concerning Limited Liability Companies and considering Jiwasraya's current financial condition, the company can conduct dissolution. The dissolution of the company occurred due to the company's property already declared bankrupt is in the state of insolvency, as regulated in Law No. 37 of 2004 concerning Bankruptcy

and Postponement of Debt Payment Obligation. Jiwasraya's financial condition in the state of insolvency occurred since 2002. Thus, Jiwasraya management can actually declare bankrupt, thus it can postpone debt payment obligations.

Another alternative solution is that if the government will save Jiwasraya, there are a number of solutions that can be done, namely: (1) privatization, (2) bailout in the form of State Capital Participation (PMN) from the State Revenues and Expenditures Budget and (3) establishment of holding insurance SOEs (cnbcindonesia.com, January 21, 2020). Privatization is done while maintaining the government as majority shareholder (above 50%) with funding requirement of IDR 32 trillion to fulfil risk based capital (RBC) regulated by FSA at 120%. However, to conduct privatization, the Jiwasraya's financial conditions must be in a healthy state, thus it has a high value of sale to fulfil substantial funding requirements.

Jiwasraya's redemption efforts by bailout method with PMN need to consider the current state financial conditions (State Revenues and Expenditures Budget). The plan for the State Capital removal which is the focus of the government certainly needs large costs, while the state revenue conditions from tax is not optimal. The Government still needs funds outside the State Revenues and Expenditures Budget to realize development programs. Therefore, Jiwasraya settlement through PMN bailout needs to include alternative funding source solutions, either through issuance of State Debenture bond or loans from

abroad. In this case, the government must be careful in making decisions.

If Jiwasraya redemption is done through Holding Insurance SOEs, it must take into account the capability of the Holding Insurance SOEs to absorb Jiwasraya's bonds of around IDR 4-5 trillion. This obscures the main purpose of the holding to increase competitiveness (Republika.co.id, January 21, 2020). There are 7 government insurance companies (Perum Jamkrindo, PT Asabri, PT Asuransi Export Indonesia, PT Askrindo, PT Asuransi Jasa Raharja, PT Asuransi Jasa Indonesia (Jasindo) and Jiwasraya) that can be involved in the holding SOEs.

In addition to the three redemption methods mentioned above, the fourth strategy is by offering Jiwasraya for acquisition by other companies. Of the four alternative redemption solutions above, the establishment of Holding insurance SOEs and acquisition by other companies are the most possible method to save Jiwasraya for the interest of obligation to pay customer policies payable by the company. Currently, the efforts that the government is doing are establishment of holding insurance SOEs. The parent holding insurance SOE is planned by PT Bahana Pembinaan Usaha Indonesia (Persero) and will be filled by State-Owned Companies Askrindo, Jasa Raharja, Jasindo. The establishment of the Holding Insurance SOEs is done through creation of Government Regulations (PP) currently in the preparation stage as its legal basis. The Holding Insurance SOEs are expected to be established no later than the Second Quarter of 2020. Thus, Jiwasraya will get fund injection from

the holding SOE (Kompas.com, January 16, 2020).

Insurance Industrial Reform

Learning from the Jiwasraya case, the Non-Bank Financial Institution reforms (NBFI), especially the insurance industry needs to be done. The reforms include: (a) arrangements, (b) supervision and (c) risk management, to restore public trust to LKNB in particular insurance companies. In addition, the House of Representative of RI needs to consider to revise Law No. 21 of 2011 concerning the Financial Services Authority where its substance material regulates non-bank industry especially insurance business.

The government noted that the non-bank financial institution reforms were lastly done in 2000-2005 to adjust the financial condition after the economic crisis in 1997-1998. The Indonesian General Insurance Association (AAUI) considers the insurance industry reform must begin from consolidation of regulations and legal instruments. Reactive or curative steps such as the establishment of policy guarantor institution (LPP) have actually been mandated in Law No. 40 of 2014 concerning Insurance.

Whereas the Insurance Association the Indonesian KUfe Insurance Association (AAJI) views that in order for the insurance reform to be right on target, it requires Insurance Technology (Insurtech) program and national campaigns on increasing awareness of insurance. In addition, it is necessary to think about the

establishment of the Guarantor Institution for policyholders (LPPP), the implementation delay of International Financial Reporting Standard (IFRS) 17, insurance consumer protection according to FSA regulations, arrangement for portion of foreign ownership, coordination of benefit of BPJS for Health, spin off delay of sharia insurance, revised Pension Fund Law and arrangement of insurance industry taxation (Republika, January 18, 2020).

Closing

The mismanagement case in State-Owned Enterprise Jiwasraya can decrease public trust in an insurance company in Indonesia. This has become a valuable lesson for the government especially FSA in regulating and organizing the insurance industry in the future and take the best solution in the settlement. Saving customer and investor funds are an urgent effort to be done by the government in the future. Intensive supervision needs to be done to maintain financial system stability, especially insurance industry.

The House of Representative of RI needs to be urge the Ministry of SOEs to immediately establish FSA to improve intensive guidance and supervision towards financial institutions especially non-banks. This is due to the Jiwasraya case can have a systemic impact on non-banking financial sector, where the transaction involves investors and customers holding a large number of policy.

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