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The Role of the Financial Services Authority in Supervision of Fraud Prevention in Life Insurance Companies in Indonesia

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ABSTRACT

This study aims to provide a monitoring strategy, especially in the field of preventing fraud in life insurance companies in Indonesia. The form of this research is qualitative and follows a normative approach by reviewing the duties, objectives, and authorities of the Financial Services Authority to prevent fraud in life insurance companies. The object of this research is a life insurance company that has been declared bankrupt by the Financial Services Authority, namely PT. Bumi Asih Jaya Life Insurance. The results of this study provide an overview of fraud prevention strategies at life insurance companies in the form of emphasis on supervision through the audit function, especially in the field of direct examination of reports made by life insurance companies and then matched with documents owned by insurance. Supervision must be carried out regularly and consistently.

INTRODUCTION

The large population of Indonesia is a potential market for the insurance industry to obtain many customers and insurance premiums. Indonesia's population in 2021: The Ministry of Home Affairs of the Republic of Indonesia started in 2021 and the total population of Indonesia until December 2020 reached 271,349,889 people (Indonesia's population in 2021). The population of Indonesia is the latest population data based on the synchronization of the results of the 2020 Population Census and population administration data (Adminduk) from the Directorate General of Population and Civil Registration (Ditjen Dukcapil) of the Ministry of Home Affairs. Indonesia, with a large population as described above, provides hope for investors both from within and outside the country to establish insurance companies, both for life insurance and loss insurance. Data from the Central Statistics Agency in 2020 showed the number of companies engaged in insurance at 228, consisting of insurance companies and conventional and sharia insurance supporting companies. In general, when viewed from the object of coverage, there are 59 life insurance companies and 77 loss insurance companies. The large number of companies engaged in insurance requires comprehensive supervision and more focus on each insurance company is running its business, especially in preventing fraud, or it can continue to become bankrupt. Fraud is one of the negative impacts on financial services, In banking terms, fraud is an act of deviation or omission that is intentionally carried out to deceive, deceive or manipulate the bank, customers, or other parties, which occurs within the bank and/or uses bank facilities so as to cause the bank, customers, or other parties to suffer losses and/or fraud perpetrators to obtain financial benefits both directly and indirectly (source:

POJK No.39/POJK.03/2019 concerning the Implementation of Anti-Fraud Strategies for Commercial Banks).

In the insurance industry, the term "fraud" is almost never heard of, but in fact, lately acts of fraud in the insurance industry, especially life insurance, have occurred in insurance companies, especially life insurance with the largest number of customers, for example, PT. Asuransi Jiwasraya (Persero), (CNBC Indonesia, 18 December 2019). Another case due to fraud is the Bumiputera Joint Life Insurance (AJB). According to Irvan Rahardjo, Bumiputera's failure to pay was due to weak governance, weak supervision by the Financial Services Authority (OJK), and a lack of understanding of asset-liability management (Detik finance, March 11, 2021). Another case that is no less exciting is PT. Bumi Asih Jaya Life Insurance, namely the financial health problems of insurance companies (Bisnis.com, 2013). Even though the insurance company has been bankrupt based on Supreme Court Decision Number 408 K/Pdt.Sus-Pailit/2015, (Ridho, 2020), from the results of the investigation in the form of interviews, some insurance customers who have been bankrupt have not received the claim payments as promised in the policy. This was due to the curator not carrying out its functions as mandated in the law, but there has been misappropriation of assets from the company PT. Bumi Asih Jaya Life Insurance (Tirto.id, July 22, 2017).

From the three major cases above due to fraud in life insurance companies, the role of the Financial Services Authority needs to be further maximized as an independent institution that was formed with the aim of being a financial services supervisory institution both engaged in banking and non-banking. The prevention function should be emphasized so that financial losses will not occur in the future, especially for insurance customers due to fraud. In this paper, fraud is defined as the inability of the insurer (the insurance company) to carry out its obligations, especially the payment of the appropriate insurance benefits that have been promised at the time of the initial closing of the insurance policy with prospective customers. Life insurance is a long-term business that requires public trust in managing protection and savings prepared for the retirement needs of its customers and other needs. In carrying out its functions and authorities, the Financial Services Authority (OJK) must change its strategy in carrying out its prevention function before fraud occurs, because if fraud occurs, it will have even greater socio-economic implications, especially for public trust in life insurance companies, causing a public interest to decline. Insurance coverage has also become less necessary. Freud in the insurance world is always associated with the mismanagement of insurance companies in managing insurance premiums. Even recently, Freud in the insurance business is also associated with external conditions such as macroeconomic conditions. However Freud’s in the insurance company was caused by bad ethics (moral hazard) from the top management in the insurance company, as in the cases of PT. Bumi Asih Jaya Life Insurance and PT. Asuransi Jiwasraya (Persero). (Atmasasmita, 2010), Freud's modus operandi in the investment business is a new case in the world of business crime. The modus operandi cannot be classified as a corporate crime, but the corporation functions as a place to accommodate the proceeds of crime.

In essence, the modus operandi of the corporation is used as a forum to accommodate the proceeds of crime in the life insurance business. It can be prevented if the supervisory strategy is better supported by the regulations made by the Financial Services Authority (OJK), especially in terms of placing the board of commissioners and the Board of Directors. prevent fraud so that the insurance business, especially life insurance in Indonesia, is more professional in running its business so that public trust in insurance is maintained. This trust is very important because people want to make insurance companies their place to transfer the management of protection for themselves and their families for financial losses if something happens and to save for old age needs.

RESEARCH METHOD

This research is qualitative research through a normative approach with the aim of knowing the extent of supervision and prevention of the authority given by the government to the Financial Services Authority to prevent fraud in life insurance companies. The object of this research is the Life Insurance

Company which has been bankrupt by the Financial Services Authority, namely PT. Bumi Asih Jaya Life Insurance and several other companies were used as comparative studies. The data collection technique is through case inventory and data inventory in the form of regulations related to the authority in the field of supervision and supporting theory.

RESULTS AND DISCUSSION

Optimization of the Financial Services Authority Supervision Strategy

In the Law of the Republic of Indonesia Number 21 of 2011 concerning the Financial Services Authority, the Financial Services Authority in Chapter I, Article 1 Paragraph 1 states that the Financial Services Authority, hereinafter referred to as "OJK," is an institution that is independent and free from interference from other parties and that has the functions, duties, and powers of regulation, supervision, examination, and investigation as referred to in this law. The functions, duties, and authorities attached to the Financial Services Authority are the only agencies or institutions that oversee financial institutions, both banks, and non-banks, especially insurance, in this country. Furthermore, in Chapter III Article 4 Section C, it is explained that the objectives, functions, duties, and authorities of the Financial Services Authority are to protect the interests of consumers and the public.

According to (Nurwanto et al. 2010), control and supervision activities are essentially carried out based on existing (applicable) regulations as well as policies that have been established by the organization. While the orientation is more on activities to match the regulations and policies with the activities carried out by employees. In the implementation of supervision and control as is generally carried out in a company, office, or other institution, this supervision and control carry out three (three) functions, namely audit, supervision, and inspection functions.

Human supervision and control (such as attitudes, behavior, and mental and other actions that are not easily seen) will be more difficult than controlling things that are standard in nature, so it takes several people who have the skills, experience, and competence, or are like practical psychologists. This means that an auditor is required to have the skills, experience, and competence required. Competence is not enough if it is not accompanied by experience and skills in carrying out the supervisory function because the object to be supervised has its own mode or tactic to avoid finding cases that are not in accordance with the regulations that have been made, in this case by the Financial Services Authority.

In optimizing one of the three (three) supervisory and control functions, namely inspection, the auditor must make a minimum schedule every year to go down to insurance companies to match all reports that have been given to the Financial Services Authority with existing data or files. insurance company. This needs to be done to prevent duplication of reporting between the report on the state of the company reported by the Financial Services Authority and data on the actual state of the company, for example, the portfolio of customer coverage owned by each life insurance company. Inspections must be carried out periodically and consistently. Otherwise, it will accumulate various problems that occur in the insurance company so that if a violation is found according to the rules made by the Financial Services Authority, it is very difficult to fix. Example: Case of PT. Asuransi Bumi Asih Jaya, the beginning of the supervision of PT. Bumi Asih Jaya Life Insurance by the Capital Market and Financial Institution Supervisory Agency (Bapepam-LK), which has now changed its name to the Financial Services Authority (OJK) due to the discovery of the company's financial health problems, namely risk basic capital and the ratio of investment balance to technical reserves and claims debt, which is not in accordance with the provisions of existing regulations, so it must increase the capital of approximately 1 trillion. This, of course, is very difficult to fulfill by PT. Bumi Asih Jaya Life Insurance, even though it has been given sufficient time to improve the company’s financial condition. (Siregar, 2020).

From several cases of insurance companies that have been described because of fraud, it appears that the amount of loss is very large. There are two possibilities: first, because there is a long enough opportunity to commit fraud due to ineffective supervision carried out by regulatory bodies that supervise individuals or a company's business entity (Perceived Opportunity).
The results of the analysis of several cases above, agree with the theory developed by Cressey (1950) in the Fraud Triangle Theory (FTT) which states that there are three factors that people commit fraud, namely:

a) *Perceived Pressure/Incentive/Motive*: This first part is something that gives someone the initial trigger to commit corruption. Can also be called the initial motive, which can be in the form of pressure (pressure) or incentives. The word perceived which means "perceived" indicates that the pressure or incentive does not have to really exist. A person simply thinks that he is pressured or tempted by the shadow of an incentive, then this first trigger has been fulfilled.
b) *Perceived Opportunity*: The second thing is the opportunity that can be realized in many ways. The most frequent example is the weakness of the supervisory system. The word perceived also shows that this opportunity also does not have to be really real. The weakness of the supervisory system is sufficient in the perception of the perpetrators. Up to this point, no matter how much pressure or temptation there is in a person, if he can't see an opportunity, according to Cressey, he will not commit corruption.
c) *Rationalization*: The third thing is rationalization. From the results of his interview, Cressey found that the perpetrators always had rationalizations to at least reduce their guilt. For example, “I am doing this because I am not being paid properly” or “the company's profits are too big and not distributed fairly among employees” and so on. Howe and Malgwi stated, "a bridge between incentive/pressure and opportunity is created when an individual is able to rationalize the fraudulent behavior".

The ineffectiveness of supervision needs to be a lesson for the Financial Services Authority to make corrections and improvements to activities in the field of supervision of companies engaged in banking and non-banking, so that the Financial Services Authority can maintain the continuity of the insurance industry so that a supervisory system is implemented regularly, fairly, transparently, and accountable so that insurance customers avoid fraud so that the function and role of the Financial Services Authority can be felt by the public, especially customers of insurance companies because they are able to protect the interests of consumers (insurance customers) and society in general. The bankruptcy of an insurance company can be avoided if periodically and regularly the control and supervision functions are carried out, because if an insurance company goes bankrupt through the authority of the Financial Services Authority it owns, then the insurance customers are the ones who will be harmed. The absence of fraud, let alone bankruptcy in insurance companies, proves that the Financial Services Authority has the principle of integrity, namely the principle that adhering to moral values in every activity must be accountable to the public in the form of performance.

From the results of the above description, essentially consumer protection, in this case, insurance customers, is not by going bankrupt the insurance company but the understanding of consumer and community protection is to prevent fraud and bankruptcy of life insurance companies. Because if there is a fraud, let alone bankrupt the insurance company, the insurance customer will experience financial losses. Explicitly, the Financial Services Authority must be able to make financial institutions, both bank and non-bank, still exist. This is stated in Chapter III Article 4 paragraph b: "Able to realize a financial system that grows sustainably and stably".

CONCLUSION

In carrying out its functions, the Financial Services Authority (OJK) is obliged to carry out supervision in the form of direct and periodic inspections. The activities carried out can prevent the life

insurance company from committing fraud so that its obligations to customers are as agreed as stated in the insurance policy, and the authority of the Financial Services Authority to bankrupt the insurance company can be avoided because it will harm the insurance customer itself.

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