



Good Corporate Governance: The Key to Recovery for a Defaulted Mutual Insurance Company

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Abstract. This study aims to analyze the case of AJB Bumiputera 1912, the only mutual insurance company in Indonesia, which defaulted in 2018. Using a statutory and conceptual approach, the researcher shows that there is still a chance for the company to recover. The results indicate that with the restructuring of the company, including a change of directors, AJB Bumiputera 1912 has begun to make improvements. The company must implement good corporate governance principles such as transparency, accountability, independence, fairness, and responsibility. In the new normal era, the solidarity of policyholders, who are the owners of the company, is also crucial. The study implies that the efforts made can impact the conscience of legislators to create laws specifically regulating mutual insurance companies, as Indonesia currently lacks such a law.

Keywords: Mutual Insurance · Default · Recovery · Corporate Governance · Solidarity

1 Introduction

The current case or polemic involving AJB Bumiputera 1912 surfaced when the company experienced solvency problems of more than IDR 20,000,000,000,000.00 (twenty trillion rupiah). Where the cause is mismanagement (it can also be interpreted as poor management, red). This has been detected since January 2018, where AJB Bumiputera 1912 admitted delays in claims of 1–2 months. The delay was triggered by the absence of a premium that should have been generated by AJB Bumiputera 1912. The causative factor was the transfer of production to Bhinneka Life. The name Bhinneka Life emerged due to the failure of the agreement between AJB Bumiputera 1912 and Evergreen Invesco Tbk. At the start of the agreement, Evergreen Invesco Tbk promised a net profit of 40% (forty percent) from the planned premium acquisition of AJB Bumiputera 1912 of Rp. 16,000,000,000,000.00 (sixteen trillion rupiah) within a 12-year period. However, it turned out that only IDR 1,700,000,000,000.00 (one point seven trillion rupiah) was fulfilled [1].

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In response to this, the Financial Services Authority (OJK) issued Financial Services Authority Regulation Number 1/POJK.05/2018 concerning Financial Soundness for Insurance Companies in the Form of Joint Business Legal Entities (mutual, red). AJB Bumiputera 1912 then underwent an initial restructuring scheme, namely restructuring. Not long ago, AJB Bumiputera reopened its operations to the public, with assurances from the OJK that AJB Bumiputera had paid claims to investors of Rp.436,000,000,000.00 (four hundred thirty-six billion rupiah) during the restructuring period. To customers, AJB Bumiputera also stated that it had paid claims of IDR 3,300,000,000,000.00 (three trillion three hundred billion rupiah) in the period January 2018 to October 2018 [1]. The total liabilities that must be fulfilled by AJB Bumiputera in the 2019 financial statements amount to IDR 30,400,000,000,000.00 (thirty trillion four hundred billion rupiah). This amount consists of premium reserves of IDR 24,400,000,000,000.00 (twenty-four trillion forty billion rupiah) and claims payable of IDR 5,200,000,000,000 (five trillion two hundred billion rupiah). However, this large obligation is not offset by proper asset management. The value of assets dropped to a level of IDR 10,000,000,000,000.00 (ten trillion rupiahs) and capital minus IDR 20,400,000,000,000.00 (twenty trillion four hundred billion rupiahs) [2].

Responding to this polemic, management can actually take strategic steps to reduce the possibility of greater risk. Even in an extreme way related to the potential to disband the company. Then has this been done? As an effort or at least to provide space for the only mutual insurance company in Indonesia, an opportunity to continue to grow? This question is reasonable to ask, considering the characteristics of a mutual insurance company are very different from insurance companies in the form of a Limited Liability Company (PT). Mutual insurance company is a collection of people, not a collection of capital. In a mutual insurance company, the policyholder is also the owner of the company. Suing corporate organs, as is often done by disadvantaged communities (by demonstrating or making complaints to the government), is actually suing oneself. So?

2 Methodology

To discuss issues or issues related to whether AJB Bumiputera 1912 has taken strategic steps as a form of efforts to save the company, the author uses a normative method. The statute approach is more focused on what a company should do as mandated by the 1912 AJB Bumiputera Articles of Association, in addition to looking at the applicable laws and regulations. As for supporting material, the author accesses information data through the official website of AJB Bumiputera 1912. The supporting data referred to are the company's integrated governance reports for 2020 and 2021 as well as the dynamics of the company's efforts in carrying out organizational improvements.

3 Results and Discussion

Even though we knew the form of a mutual insurance company long before our country became independent (AJB Bumiputera 1912, red), Europe has known this form of company for a longer time. Call it The Great Fire of London. Its existence was detected in 1666, which became the first milestone in the practice of mutual insurance in Europe.

Specifically in England. The condition of most of the people was very apprehensive at that time. The great fire that hit the city of London, has brought them into unusual financial difficulties. Therefore, in order to lighten the burden, they work hand in hand (joint venture). There is no concept of seeking profit here. Solely to reduce mutual losses [3].

In Indonesia itself, we can learn the concept of a mutual company from AJB Bumiputera 1912. In the midst of the problems facing the only mutual insurance company, the articles of association have actually provided a separate solution. This is related to strategic steps that can be taken by the company, as explained in Article 38 of the Articles of Association of AJB Bumiputera 1912. The rescue steps in question are [4]:

- (1) If AJB Bumiputera 1912 suffers a loss, the loss will first be covered by a general reserve fund.
- (2) If still not enough, the loss will be covered by guarantee funds and other equity.
- (3) If the guarantee fund cannot cover the loss, then an Extraordinary BPA Session will be held based on Article 40 to decide whether AJB Bumiputera 1912 is liquidated or continued to be established by maintaining the form of a joint business or changing the form of another business entity.
- (4) In the event that AJB Bumiputera 1912 continues to be established, then the remaining losses are divided pro-rata among the members of AJB Bumiputera 1912 in the manner determined at the BPA session.

Apart from Article 38 above, the possibility of dissolution is also confirmed by Article 40 of the 1912 AJB Bumiputera Articles of Association. This article serves as a guideline for holding an extraordinary session of the Member Representative Body (BPA). Where the dissolution of the joint venture can only occur if $\frac{1}{2} + 1$ of the total number of members requests it, which represents a minimum of $\frac{2}{3}$ of the total sum insured. Even so, to implement these strategic steps does not appear to be easy. It was proven that until mid-2021, the management had not carried out the mandate of Article 38 of the AJB Bumiputera 1912 Articles of Association. Until finally the Chairperson of the BPA, Nurhasanah, was named a suspect by OJK investigators. This stipulation is related to the non-implementation of a written order from the authority, where the authority places limits on the BPA (or General Meeting of Members (RUA), a replacement term for BPA in Government Regulation Number 87 of 2019), the directors and the board of commissioners to implement Article 38 of AJB's Articles of Association Bumiputera 1912 no later than September 30 2020. This non-compliance raises allegations of criminal offenses in the financial services sector [5] as referred to in Law Number 21 of 2011 concerning the Financial Services Authority (OJK). Responding to this, Nurhasanah revealed that there were provisions that could not be implemented, namely the provisions of Article 38 paragraph (3) of the 1912 AJB Bumiputera Articles of Association. Why? because the requested sum assured was not met. Nurhasanah actually considered that the coercion of the implementation of Article 38 violated the articles of association itself [6].

Regardless of Nurhasanah's determination as a suspect, in October 2019 the management made a press release. If you pay close attention, this broadcast is a breath of fresh air for policyholders. Because the broadcast can be interpreted as part of the company's

commitment to obligations to policyholders. In the said broadcast, AJB Bumiputera 1912 realized that delays in fulfilling obligations to policyholders/members were still ongoing. On this basis, the management feels the need to apologize publicly. Besides, the company also stated that it had made various efforts to suppress the increasing number of protests or demonstrations from members who felt aggrieved. The efforts referred to, for example, are through payment of claims for 2018, where the total payment reached 3.9 trillion rupiah. Whereas in 2019, the total claims that have been paid amounted to 2.1 trillion rupiah. In the broadcast, there is also an affirmation (or can it be said as a promise?) that the management is trying to reschedule the payment of claims for the policyholders. This effort causes delays in fulfilling the company's obligations. Why is it said that? because previously the payment of the claim had been delayed. Then rescheduled. Then there is a double delay alias delay in payment of claims. Even so, the management asked the policyholders to provide an 'notification'. This is based on the philosophy of the establishment of AJB Bumiputera 1912. Where the philosophy in question is the company's building pillars. There are pillars of mutualism, idealism, and professionalism. How should policyholders behave? From the aspect of the agreement, the management has actually committed what we call a default, due to the delay in fulfilling the achievement. However, the resistance to this default was felt to be deadlocked. Why? because of the mutual character attached to the company. A character that seems to be a wall is difficult to penetrate. It is said that because of the position of the policyholders who are members and at the same time the owner of the company. So, it would be very naive if the policyholder sued himself, wouldn't he? This unique characteristic has the potential to make the AJB Bumiputera polemic yet to find a bright spot. But that doesn't mean it can't be solved at all. Need a breakthrough. It takes courage to apply the rules. Disclosure is needed to all policyholders, especially those who have been disadvantaged.

Talking about the importance of being open to all policyholders regarding the polemic over late payment of claims, especially at the point of "pro-rata sharing of losses", is something that must be massively promoted immediately. Why? because not all members or policyholders understand this. So there are still lots of protests, lots of demonstrations, for each policyholder to fight for their rights. This attitude is fairly commonplace, considering that they have made regular premium payments, even for years, with the hope that they can take advantage of it at a certain point. But what happened was far from the fire. Why is openness important? because it is in line with the mandate of Article 38 paragraph (4) of the Articles of Association of AJB Bumiputera 1912 which explains that, "In the event that AJB Bumiputera 1912 continues to be established, then the remaining losses are divided pro-rata among the members of AJB Bumiputera 1912 in the manner determined at the BPA meeting."

On the way to resolving the polemic, in 2022, AJB Bumiputera 1912 is making progressive efforts. After the polemic dragged on during the Covid-19 pandemic, AJB Bumiputera 1912 seemed to be starting to improve again. Not only issuing an open letter which may still not be massively socialized (as a form of company commitment), but more than that, holding an extraordinary BPA meeting. With supervision from OJK, of course. The meeting which was held for the first time after the vacancy of the company's

highest organ was held on May 27 2022 at Wisma Bumiputera Jakarta. There were 3 (three) important points that became the result of the trial, namely [7]:

1. The election of the Chairman of BPA AJB Bumiputera 1912 for the 2022–2027 period, namely H. Muhammad Idaham, SH, MSi, was carried out by voting.
2. All members of BPA AJB Bumiputera 1912 agreed to continue AJB Bumiputera 1912 as an insurance company in Indonesia.
3. The holding of the 1912 BPA AJB Bumiputera annual meeting on 9–10 June 2022.

In addition to deciding on the 3 (three) points, members of the BPA were also elected representing 11 constituencies. The member in question is [7]:

1. H. Muhammad Idaham, Member of the BPA for the Electoral District I of North Sumatra. This area includes the Provinces of Nangroe Aceh Darussalam and North Sumatra;
2. Hardi, Member of the BPA for the Electoral District II of Central Sumatra. This area includes the provinces of West Sumatra, Riau and the Riau Islands;
3. Agus Patami, Member of BPA for Electoral Region III of Southern Sumatra. This area includes the provinces of South Sumatra, Jambi, Lampung, Bengkulu and Bangka Belitung;
4. Jefry Rasyid, member of the BPA for the Electoral District IV DKI Jakarta;
5. Marhalim Siregar, Member of the BPA for the Electoral District V of West Java. This area includes the provinces of West Java and Banten;
6. RM Bagus Irawan, Member of the BPA for the Electoral District VI of Central Java. This area includes the Province of Central Java and the Special Region of Yogyakarta;
7. HJ. Naniek Widya Kusuma, member of the BPA for the Electoral District VII of Eastern Java. This area includes East Java Province;
8. Chris Boy Rih Iye, member of the BPA for the electoral district VIII of Bali and Nusa Tenggara. This area includes the provinces of Bali, NTT and NTB;
9. 9.St. Apt. Alan Arthur Siahaan, BPA member for constituency IX Kalimantan; This area includes the provinces of South Kalimantan, West Kalimantan, East Kalimantan and Central Kalimantan;
10. Jalaluddin Rum, member of the BPA for the constituency X of Sulawesi. This area includes the provinces of South Sulawesi, West Sulawesi, North Sulawesi, Central Sulawesi, Southeast Sulawesi and Gorontalo;
11. Theresia Patipeme, member of the BPA for the Electoral District of XI Maluku. This area includes the provinces of Maluku, North Maluku, Papua and West Papua.

Next, the 1912 AJB Bumiputera annual meeting on 9–10 June 2022 produced a decision which was also progressive. The decision of the annual meeting is [7]:

1. Received the management accountability report of AJB Bumiputera 1912 and financial reports for the 2020 fiscal year. This acceptance was made provided that there were several revisions.

2. Decided to approve the consolidated financial statements for 2020, where the report has been audited by the Public Accounting Firm (KAP) Kanata Puradireja, Suhartono and Partners.
3. Decided not to accept the Board of Commissioners' proposal regarding the appointment of a Public Accounting Firm to audit the company's financial statements for the 2021 financial year, this was done because it was related to the company's financial efficiency.
4. Decided to approve organizational restructuring. This is done so that the company can run more effectively and efficiently
5. Approved the 1912 AJB Bumiputera Work Plan and Budget. This approval was made with notes on several revisions.
6. Decide on the formulation of the AJB Bumiputera 1912 Company Financial Restructuring Plan to be handed over to the new management which will be determined at the upcoming BPA meeting.
7. Decided not to accept the accountability report of the Board of Commissioners and asked the Board of Commissioners to resubmit the monitoring report and provide advice on company performance
8. Decided to provide a warning letter to the Board of Commissioners
9. Decided to conduct an academic study of the 1912 AJB Bumiputera Statutes.
10. Decided to approve the use of advanced premiums to be used as emergency claim payments.

The interesting thing about the rejection of the annual meeting on 9–10 June 2022 is the meeting's rejection of the accountability report of the board of commissioners. This condition may be triggered, among other things, by the results of the annual report regarding the implementation of integrated governance of the AJB Bumiputera 1912 financial conglomerate in 2020 and 2021. In the 2020 report, it turns out that the board of commissioners and directors are known to have not involved the role of the integrated governance commission. The replacement of the board of commissioners and directors has not been followed by a reorganization of the integrated governance committee. While the implementation of work unit functions is carried out not by the work unit that should be. This function is carried out by an existing work unit, namely the internal control department, where this has the potential to affect independence. The 2021 report is also similar. Added to this is the finding that the integrated risk management policy for the Bumiputera Group has not been completed by the integrated management work unit [8].

Furthermore, the BPA Extraordinary Session on 21–22 June 2022 will be held with the agenda of electing a new director. The trial took place on the 22nd floor of Wisma Bumiputera Jakarta. Of the 11 members of the BPA, only 1 was absent due to the pilgrimage. BPA chairman H. Muhammad Idaham chaired the trial by prioritizing the principle of deliberation to reach a consensus. The trial on June 21, 2022 was carried out with a work encouragement program by the candidates for the Board of Directors. On the second day, 22 June 2022, the BPA Extraordinary Session decided to continue the current Director, Dena Chaerudin, to complete the work within the next 1 year. This is done by BPA so that the partnership of the organization's wheels continues to run well. Dena Chaerudin was given the opportunity to oversee the transition period until a new director was elected. Furthermore, the trial decided Dr. Irvandi Gustari, SE, MBA as the

Main Director and L.I. Sampulawa as Business Director. The selected directors will be submitted to the Financial Services Authority (OJK) for the next stage, namely taking the Fit and Proper Test [7].

Not stopping at the company reorganization, AJB Bumiputera 1912 improvements continued. The continuation is through a press conference ‘Development of Assessment of the Financial Services Sector and OJK Policy Results of the August 2022 Monthly Board of Commissioners Meeting (RDKB)’ which was held on 5 September 2022. The Chief Executive for the Supervision of the Non-Bank Financial Industry said that OJK continues to handle the AJB Bumiputera 1912 issue. For example by giving approval for the establishment of a Member Representative Body, the establishment of a board of directors as well as a board of commissioners. So that the organs of the only mutual insurance company in Indonesia are now complete. The new management must immediately finalize the company’s rejuvenation plan. The plan in question must be reliable, workable, and certainly be able to solve the problems of AJB Bumiputera 1912. The plan for restructuring must be made seriously. This is because AJB Bumiputera 1912 is in the form of a mutual agreement, where the company owners are the policyholders [9]. That is, when AJB Bumiputera 1912 experiences difficulties in fulfilling its obligations, it is indirectly the policyholders who “share” the burden [10]. It is hoped that AJB Bumiputera 1912, with its new management, will be able to implement good corporate governance or what we usually know as good corporate governance. Where good corporate governance contains several important principles, namely transparency, accountability, responsibility, independence and fairness [11] Transparency is the principle of openness within a company in making decisions as well as openness in providing related and relevant information. Accountability is more interpreted as the creation of an effective oversight system based on the balance of powers of the board of commissioners, board of directors, shareholders and auditors. Clarity of functions, implementation in the field and accountability of company organs must be regulated better. Meanwhile, Responsibility is the conformity between legal management and company regulations and sound corporate principles. Companies in this case are also encouraged to be responsible to society and the environment. The principle of independence is an attitude in which the company is managed professionally and without conflict of interest or pressure from any party that is not in accordance with laws, company regulations and the principles of a healthy company. Finally, the principle of fairness. This principle focuses on fairness and equality in fulfilling the rights of stakeholders arising from agreements and laws and regulations [12].

4 Conclusion

From the description that has been put forward, in fact several efforts have been made by AJB Bumiputera 1912 to overcome the problem. A problem that started before the Covid-19 pandemic hit the country. In the new normal era, the company’s organs are being revamped. Of course, by continuing to synergize with the OJK. Under the leadership of the new management structure, AJB Bumiputera 1912 must make the current momentum an opportunity. Let’s just say it won’t happen again. Opportunities that must be filled with evidence that the new corporate organs are able to implement corporate governance

better. So that the Indonesian people can still enjoy the services of a mutual insurance company that is second to none (because AJB Bumiputera 1912 is the only mutual insurance company in Indonesia to date, red). Hopefully, in the future we will have a law that specifically regulates the governance of mutual insurance companies.

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