CHAPTER I

INTRODUCTION

1.1 Background of the Study

The insurance company is a nonbank financial institution that has a role that is not much different with a bank. The insurance company is engaged in services provided to the public in dealing with risks that will occur in the future. The insurance company can be used as one of the economic pillars in Indonesia, because developments in the insurance company can affect the condition of economic growth both in terms of trade and services. According to the Republic of Indonesia Law Number 40 of 2014 about insurance, insurance is an agreement between two parties, namely an insurance company and policy holder, which is the basis for premium holders by insurance company in return. In general, a company is established with the aim that the company is able to develop and be able to keep and maintain the continuity of its business in the future. The survival of a company is a measure of the company's performance as opposed to bankruptcy. Along with economic growth that continues to change, this situation can affect the performance and circumstance of the company.

By the presence of the insurance industry, this can provide rational reasons and cannot be avoided in situations where most community members and entrepreneurs have a general tendency to avoid or transfer the risk of loss for everything they have. If this is not considered as a protection against various risks, it can cause significant financial losses. During the 2018 period, there are at least two insurance companies that are problematic in terms of payment of claims. The two companies, namely Asuransi Jiwa Bersama (AJB) Bumiputera 1912 and PT Asuransi Jiwasraya. Although they have similar problems, they have different root causes.

In January 2018, the Asuransi Jiwa Bersama (AJB) Bumiputera admitted to have delayed claims within 1-2 months. This was because there are no premiums produced by AJB Bumiputera. However, the management finally opened up about the delay in payment of due policies due to the liquidity pressure that had plagued this red plate life insurance. For the period of January to mid-October 2018, the company has paid claims of Rp.3.3 trillion. However, the outstanding issue is that AJB Bumiputera is ready to sell its assets to pay for customer claims.

At PT Asuransi Jiwasraya, this company experienced asset liability mismatch, an inaccuracy between policy receipts and liabilities that were due. Practically Jiwasraya is experiencing serious liquidity pressures. Jiwasraya experienced liquidity pressure of up to Rp 802 billion. Jiwasraya itself is known to sent a letter on October 10, 2018 to a number of bancassurance partners stated the late payment of the JS Proteksi Plan insurance policy that is due. The issue of liquidity difficulty was the reason for the late payment delivered by that red plate insurance company.

Related to the case of AJB Bumiputera and Jiwasraya insurance companies, this has encouraged insurance companies to improve the company's performance to get customers. Just like companies in general, insurance companies are companies that try to get maximum profits for shareholders. Insurance companies raise funds in the form of premiums from the insured by carrying out operational activities in the form of risk mitigation. The premiums obtained by the company must be processed and utilized properly in order to fulfill each of its obligations and obtain optimal profits.

The analysis of financial statements specifically describe in terms of calculation of ratios so that it is easy to evaluate the financial condition of a company both past, present and future. This is the most commonly used way to analyze financial statements, in other words to measure the financial strengths and weaknesses of a company can be analyzed through financial ratios expressed in terms of relative or absolute to explain certain relationships between one factor to another factors in financial statements.

Currently, the capital health in insurance companies is an important factor that is the center of attention of customers. The capital adequacy factor in insurance companies is known as risk based capital. Risk based capital is a benchmark that cannot be negotiated. Therefore, the Ministry of Finance stipulates that insurance companies in Indonesia today must have a minimum risk based capital value of 120 percent. Risk based capital is a capital adequacy ratio against the risks borne and is one of the main indicators in assessing the health of insurance companies, especially those related to solvency or the ability of a company to fulfill all its obligations. Risk based capital is obtained from the results of comparing the difference in allowable wealth and liabilities to the minimum level of solvency. Other factors that need to be considered are profitability, liquidity, premium stability, and technical.

Risk based capital is very necessary for national insurance companies to measure the level of corporate financial health performance and as a tool for customers to analyze whether the company has sufficient capital or not if someone is involved in investing in the company. The supervision of insurance companies, as already applied to other financial institutions such as banks, is very necessary. In practice, the checks for routine supervision should be carried out regularly but this is difficult to be done in every country due to limited funds and labor in the supervisory agency and supervision of insurance companies. This encourages the creation of a scale of priorities to determine which insurance company will be examined. The priority scale is determined by the level of performance of an insurance company with different benchmarks according to those made by each country.

The financial performance of a company can be seen from the description of a company's financial statements. In the financial statements contain estimates such as assets, capital and profits from the company. To find out the company's financial performance, especially in insurance companies, it can be measured using financial ratio analysis made by The National Association of Insurance Commissioners (NAIC), known as financial ratio analysis using early warning system. The early warning system is a benchmark for calculating financial performance and evaluating the soundness of insurance companies in Indonesia. According to Satria (1994), calculate using the early warning system method are used by many countries to provide oversight of the financial performance of an insurance company, this is because the results of this system analysis provide an early warning of financial conditions so that they can be used in analyzing the financial performance of insurance companies. Financial performance of insurance companies can be known to have increase or decrease from the results of financial ratio analysis. The benchmark used in measuring the financial ratios of the early warning system in insurance companies is the benchmark set by the Indonesian government. The early warning system method has been compiled in the Statement of Financial Accounting Standards Number 28 year 1994 concerning Accounting for Insurance Losses along with the ratios in them.

Every company needs to conduct financial analysis to find out how financial performance is at their company. The way that can be done to analyze the company finance is by financial ratio analysis. Financial ratio analysis is an assessment of company finance which involves reviewing data, calculating, interpreting and providing information on the financial condition of a company for a certain period. Financial ratio analysis used between companies often differs depending on the type of business being analyzed.

In this case, the writer wants to measure the financial condition of the PT. Asuransi Bringin Sejahtera Artamakmur Company with the risk based capital and early warning system method to determine the health of the financial situation in the company given that there has been no research on financial health in the PT. Asuransi Bringin Sejahtera Artamakmur Company. Risk based capital is needed as a benchmark for customers whether the insurance company has sufficient capital or not while the early warning system is used to measure financial ratios contained in the financial statements of insurance companies. Financial health in insurance companies is one of the important factors in customer assessment whether the insurance company is able to carry out all its obligations and provide evidence that the insurance company is healthy enough to carry out its business and has capital strength that exceeds the total liabilities of the company.

Based on the background above, the writer wants to measure financial health performance by using the risk based capital method and the financial ratio of early warning system with title, **"The Analysis of Financial Health Performance of PT. Asuransi Bringin Sejahtera Artamakmur using Risk Based Capital and Financial Ratio of Early Warning System."**

1.2 Problem Formulation

Based on the background above, the problems formulation are:

1. What is the financial health performance of PT. Asuransi Bringin Sejahtera Artamakmur using risk based capital during the period of 2013 to 2017?
2. What is the financial health performance of PT. Asuransi Bringin Sejahtera Artamakmur using financial ratio of early warning system based on Statement of Accounting Standard Number 28 year 1994 during the period of 2013 to 2017?

1.3 Research Focus

Based on the background above, the writer focus in the form of the following statements:

1. Analyze the financial health condition using the risk based capital and financial ratio of early warning system based on Statement of Accounting Standard Number 28 year 1994.
2. The company used by the writer is PT. Asuransi Bringin Sejahtera Artamakmur.
3. The period used by the writer is 2013 to 2017.

1.4 Research Objectives

The objectives to be achieved in this research include:

1. To analyze the financial health performance of the PT. Asuransi Bringin Sejahtera Artamakmur using risk based capital during the period 2013 to 2017.
2. To analyze the financial health performance of the PT. Asuransi Bringin Sejahtera Artamakmur using financial ratio of early warning system based on Statement of Accounting Standard Number 28 year 1994 for the period 2013 to 2017.

1.5 Benefits of the Research

This research is expected by researchers to provide the following uses:

1.5.1 Theoritical Benefits

Theoretically the results of this research are expected to be useful, namely:

1. Be able to open insights and thoughts on financial health performance appraisal using the risk based capital and early warning system method especially for insurance companies in Indonesia so that the public can assess the financial condition experienced by the insurance company.
2. The results of this study can be used as a reference for the company to improve their financial health performance of insurance company.

3. Can provide good consideration for investors in their decisions to invest in the insurance company

1.5.1 Practical Benefits

1. For companies

The benefits of this research are expected to be used as consideration or become a basis in making decisions regarding the health or failure of the financial condition of general insurance companies using the risk based capital and early warning system methods. So that in the future, the company can take a better step in maintaining the company's financial stability.

2. For writers

This research is expected to be able to add a good understanding for researchers with each description of the problem described and help lecture through the process of preparing skripsi.

3. For the insurance/investor

This research is expected to be able to open insights and provide a broad view related in the field of insurance and can be a benchmark in the selection of safe and appropriate insurance and foster a sense of trust for investors who will cooperate in using insurance products.

1.6 Systems of Writing

In this research, the systematics of writing this essay consists of five interrelated chapters. Each of them is outlined in detail which can be explained as follows:

Chapter I: Introduction

The first chapter is an introduction which is used as the basis and reference for why this research was conducted. This chapter consists of background problems that explain why researchers raised the issue of financial health performance in insurance companies. Furthermore, it is followed by the subject matter of this research and described in the form of a problem statement. In addition, this chapter also outlines the limitations, objectives and benefits of this research.

Chapter II: Theoretical Framework

This chapter explains the theoretical basis relating to the problems raised in this study. In addition, this chapter also contains summaries of previous research and framework of thinking.

Chapter III: Research Methodology

This chapter describes the types and objects of research, data collection methods and data analysis methods used during conducting the research.

Chapter IV: Data Analysis and Discussion

This chapter contains an explanation of the results of research on financial health conditions using risk based capital and financial ratio of early warning system in the PT. Asuransi Bringin Sejahtera Artamakmur.

Chapter V: Conclusion

This chapter contains conclusions from the discussions described in the previous chapters and provides recommendation that would be useful for interested parties.