Journal of Current Science and Research Review
Volume 1 Issue 3 (2023) ISSN: 2961-0869
https://jcsrr.org/index.php/jcsrr

Enterprise Risk Management Implementation in Indonesian Life Insurance Company Regarding of Financial Services Authorities Regulation of Unit-Linked Product

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Abstract

The Financial Services Authority (OJK) regulates PAYDI products. Life insurance companies had to audit their product specifications, sales and marketing, investment fund administration, and customer support to comply with the new rule. An enterprise risk management (ERM) strategy identifies, assesses, manages, and mitigates risks. It involves systematic and coordinated risk assessment and risk mitigation strategies. ERM ensures that the company can navigate uncertainties and achieve its goals while protecting its assets, reputation, and stakeholders.

The business issue explore the needs of Life Insurance companies to implement ERM in response to the regulatory changes introduced by SEOJK No. 5/2022 regarding PAYDI product. The research aims to identify business risks impacted by regulatory changes and to anticipate and manage these risks effectively. The research methodology is using an extensive literature review and followed by interviews with company professionals. This study employs analytical tools such as PESTEL for external analysis, SWOT for internal analysis, and Scenario Analysis to analyse external factors, internal strengths, weaknesses, opportunities, and threats, and potential risk events.

The findings indicate that risk assessment using ERM framework has improved company's risk management practices, aligning with SEOJK No. 5/2022 provisions, enhancing risk governance and ensuring compliance with regulatory requirements. The identified risks have been adequately addressed through the ERM framework, reducing vulnerability and increasing resilience to potential disruptions.

The research gives valuable insights into the practical implementation of ERM at firms in the context of regulatory changes and highlights the importance of a comprehensive risk management approach. The results encourage organization to adopt ERM practices to safeguard against emerging business risks and meet regulatory obligations effectively.

Keyword: ***enterprise risk management, business risks, unit-linked, life insurance***

Introduction

Unit-Linked or Produk Asuransi Yang Dikaitkan dengan Investasi (PAYDI) insurance products have helped several Indonesian life insurance businesses thrive over the past two decades. It serves the customers to get insurance and financial value from this product thus has increased Indonesian insurance penetration due to consumer interest in insurance and investment protection.

In 2021, life insurance revenues rose 11.9% to IDR 241.17 trillion (AAJI, March 12, 2022). This is in line with the government's attempts to promote national economic recovery and life insurance as a pre-emptive measure against the pandemic. Unit Link products accounted for 30.7% of life insurance plans in 2021 with 6.18 million policies and the product itself safeguarded 6.44 million Indonesians. AAJI data also reveals that

Unit Link premium income climbed 6.4% to IDR 127.70 trillion in 2021, driven by unit link product contributions of 62.9%. Traditional items contributed 37.1% and rose 11.4% to IDR 75.23 trillion.

However, this product has regressed in the past year due to many people complaining and feeling deceived because insurance companies' explanations through marketers don't provide the right understanding, so many people feel disadvantaged due to investment value that doesn't match product sales illustration. Not a few customers feel wronged. In 2019, the Financial Services Authority (OJK) received 360 complaints related to unit links. The following year, the number of complaints jumped 65% to 593. Because of the polemic, there were 2.4 million customers who wanted close their insurance policy in 2020. In the first quarter of 2021, complaints about unit links from customers have reached 273 cases.

The Financial Services Authority (OJK) issued a new rule on unit-linked instruments in the OJK Circular Letter (SEOJK) 5 of 2022 to address this problem. All Indonesian insurance companies must promptly adjust product management, investment management, sales distribution to customers, and operating services to comply with this legislation by March 2023. Integrated Enterprise Risk Management in the life insurance industry is needed to anticipate this development.

OJK's policy, which was published in March 2022 as part of SEOJK no.5 of 2022, is being interpreted as the government's attempt to persuade all life insurance companies to stop offering unit-linked products that are enticed by the promise of investment returns and instead concentrate on providing insurance protection and superior customer service. In practice, this policy means that each insurance firm will only have one year to develop a new unit-linked product in compliance with the PAYDI regulations, while at the same time sales of unit-linked products that were published before SEOJK no.5 of 2022 would be discontinued.

Business Issue

In 2022, the Financial Services Authority (OJK) issued OJK PAYDI Circular Letter No. 5 of 2022 concerning Insurance Products linked to investment or PAYDI. The issuance of the Circular Letter aims to further regulate PAYDI products as a form of customer protection and the advancement of the insurance industry. The three main aspects highlighted in this regulation are marketing, product transparency, and asset management so that customers become more comfortable and safer when buying unit link products. However, to remain in compliance with the new regulation, all currently available Unit Link products must undergo revisions within 1 (one) year, otherwise all existing products must be closed or discontinue to be available in the market.

Hence, this new regulation may influence the risks that businesses face, and the adoption of integrated risk management is required for the life insurance company to be able to continue its profitability in the long run. In addition, the context of the business issue on which this research focuses is how implement Enterprise Risk Management Framework to mitigate any business risks related with SEOJK 05/2022 which impact to their scale and profitability to the shareholder. This raises questions in this study, namely:

1. What are the risks of business that will impacted by new OJK regulation?
2. How to implement Enterprise Risk Management (ERM) framework to anticipate business risks?
3. What is the appropriate strategy to improve ERM framework?

Literature Review

Enterprise Risk Management (ERM) represents a leading paradigm, supporting organizations to identify, evaluate, and manage risks at the enterprise level. According to Khan et al. (2016), several factors play an important part in encouraging companies to adopt ERM practices and raising general awareness of the importance of doing so, namely international regulation, internal factors such as expected cost of financial distress, existence of growth opportunities, capital structure and market performance, corporate governance. Thus, for a company to grow, it would need a competitive advantage to support it through a strong and proper risk management strategy (Blanco-Mesa et al. 2019).

Traditional risk management (TRM) has one meaning, but the term enterprise in enterprise risk management (ERM) has a distinct one. When opposed to Traditional Risk Management, Enterprise Risk Management involves the integration or aggregation of all different types of hazards, as well as the utilization of integrated tools and methodologies for risk mitigation and communication across different business lines or levels. Modifying a life insurance company's activities, reorganizing its capital structure, and making use of certain financial instruments are all examples of what is meant by the term "integration." (Meulbroek, 2002).

The application of integrated Enterprise Risk Management is an effort to manage various risks that arise such as financial risk, strategic risk, and operational risk to anticipate changes in unit linked products that must be implemented by all life insurance companies in Indonesia.

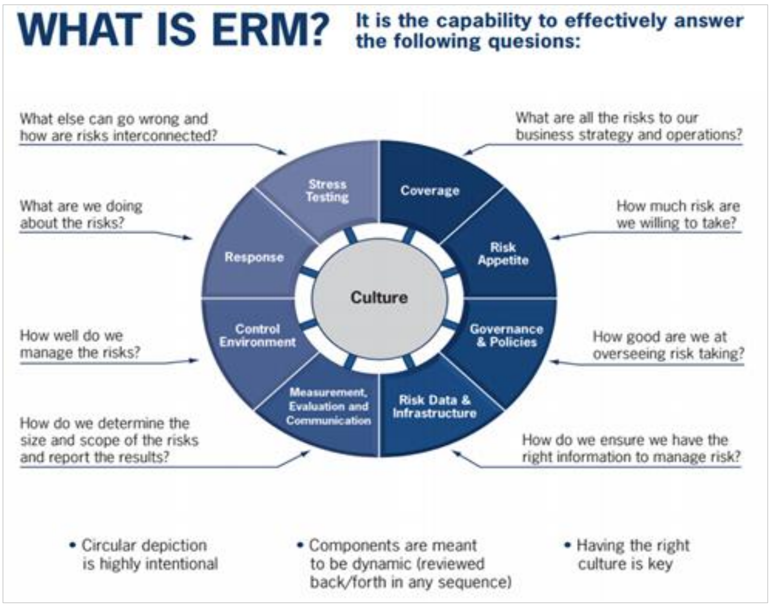

Figure 1: What is Enterprise Risk Management

There are many possible outcomes that might take place. These include potential losses in the areas of finances, strategies, and operations. The term "financial risk" refers to the possibility of incurring a loss because of changes in economic factors including currency exchange rates, derivatives, liquidity hazards, and credit risks. According to Li and Liu (2002), strategic risk is defined as the unpredictability of loss of a complete company, and the loss may be profit or non-profit. However, according to Mango (2007), there is no definition of strategic risk owing to the inability to well-define and comprehend it. The introduction of new technologies, bureaucratic red tape, or political obstructions are all potential sources of strategic risk. Lastly According to the definition provided by the Basel Committee (2001), operational risk is the possibility of suffering a direct or indirect loss because of insufficient or failed internal procedures, personnel, and systems as well as external occurrences. The operational risk of a company is more closely associated with the company's internal issues, such as employee fraud, corporate leadership, segregation of roles, information risk, and product faults.

Method

In getting an accurate and comprehensive data for this study, it was design as qualitative research by using Mono-method which is use of a single data collection technique and corresponding analysis procedures (Saunders et al, 2007), Cross-sectional research which is a study of phenomenon (or phenomena) at a particular time, i.e., a "snapshot" (Saunders et all, 2007), and Single Case which is often used where it represents a critical case or, alternatively, an extreme or unique case (Saunders et al, 2007). Conversely, a single case may be selected because it is typical or because it provides you with an opportunity to observe and analyse a phenomenon that few have considered before. Inevitably, an important aspect of using a single case is defining the actual case.

Qualitative research is used to understand or explain the behaviour, motivations, and characteristics of people in a target group. This type of research can also be used in the business world if we want to know what a specific group thinks about new ideas for products or services.

At the core of enterprise risk management (ERM) is the risk management process, which entails identifying, analysing, assessing, and finally responding to and monitoring risk. What separates "ERM" from "traditional" risk management is the fact that it looks at both "upside" opportunities and "downside" risk and considers risks and opportunities in the context of strategy. Extending this process over a full life insurance company, looking at both "upside" possibilities and "downside" risk. This abbreviated Guide to Risk Assessment & Response deals with the seven steps in risk/opportunity management process shown in Figure 2 which are:

Step 1: establishing the context: This step involves understanding the organization's internal and external context. It includes identifying the objectives, stakeholders, and regulatory requirements that shape the risk management process. Establishing the context ensures that risks are assessed within the appropriate organizational framework.

Steps 2-4: conducting risk assessment which includes identifying, analysing, evaluating: Risk assessment involves three main components: identifying risks, analysing risks, and evaluating risks. During the risk identification phase, potential risks are identified and documented. Risk analysis involves understanding the nature, causes, and potential consequences of identified risks. Risk evaluation assesses the significance and likelihood of risks to determine their overall impact on the organization.

Step 5: responding to risks and opportunities: Once risks are assessed, organizations need to develop and implement appropriate risk response strategies. This step involves evaluating various options to mitigate, transfer, avoid, or accept risks. Similarly, opportunities arising from favourable events are identified and pursued to enhance the organization's objectives. Risk response strategies should align with the organization's risk appetite and risk tolerance.

Step 6: monitoring and updating the status: Risk management is an ongoing process, and it is essential to monitor and review the status of identified risks regularly. This step involves tracking changes in risk exposure, assessing the effectiveness of risk controls, and evaluating the overall risk landscape. Continuous monitoring ensures that risk profiles remain up to date and aligned with the evolving business environment.

Step 7: reporting on those that could materially affect the institution or a department. Organizations are responsible for reporting on risks that could materially affect the company. This step involves communicating risk-related information to relevant stakeholders, including senior management, board of directors, regulators, and shareholders. The reporting should provide clear and concise information on identified risks, their potential impacts, risk response strategies, and the effectiveness of risk management practices.

The procedures of determining the context and conducting an assessment provide decision-makers with assistance in determining which risks or opportunities should be prioritized, what the appropriate response should be, and what resources should be given to manage the risk or opportunity in a manner that is most supportive of the organization's strategy. The process of responding entails deciding and developing a strategy for the most effective approach to "treat" or change the risk or opportunity, and then putting that plan into action. This approach begins with gaining an awareness of the origins of risk and then on to offer direction on the seven steps.

Figure 2: Risk Management Framework ISO 31000

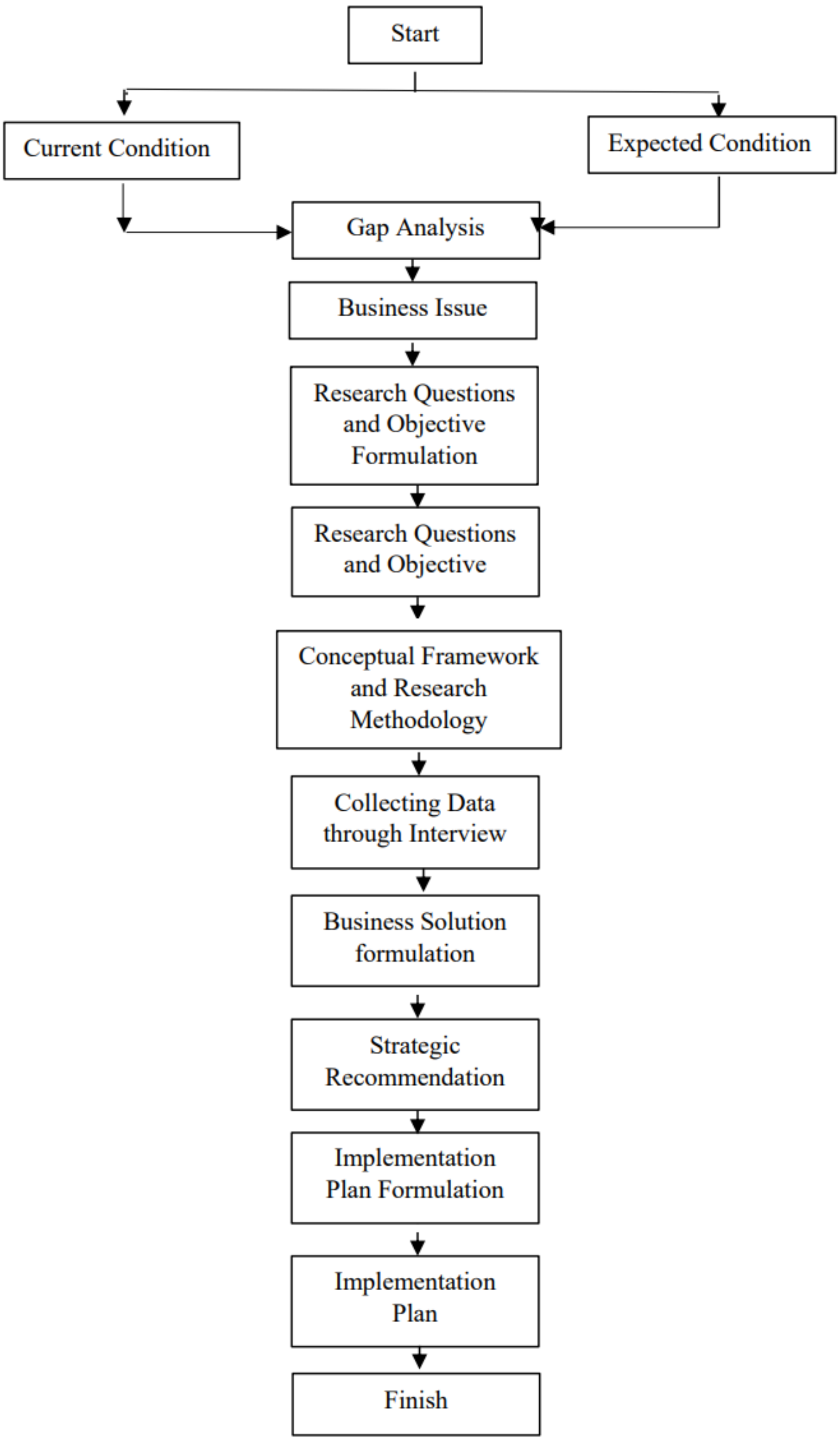

Figure 3: Research Design
Source: Author

Data Analysis Method

The technique used for analysing qualitative data that emphasizes on Framework analysis is a systematic method for analysing qualitative data that entails the creation of a classification framework or matrix based on pre-established categories or themes. This method permits a structured and comparative analysis of data across multiple cases or research subjects. Framework analysis provides a rigorous and transparent method for organizing, analysing, and interpreting qualitative data, thereby facilitating the identification of common risk -related themes and patterns for the implementation of Enterprise Risk Management (ERM) in accordance with Financial Services Authorities (OJK) Regulation No. 5/SOJK.05/2022.

Start by immersing in the qualitative data, as outlined in this general outline of the steps involved in qualitative data framework analysis. Read the data multiple times to familiarize yourself with its content and acquire a comprehensive understanding of the data set.

The second stage is to create an initial coding matrix or framework. This framework should include a set of predefined categories or themes that encapsulate the research's main concepts or topics. These categories can be derived from the research queries or established through an initial data analysis. Create an index or primary list that documents the locations of each category's coded data segment. This index facilitates data retrieval and organization during the analysis process.

The index may be a spreadsheet or a table that connects the categories to their corresponding coded segments.

The next stage is to summarize and synthesize the data by analysing the data within each category or theme and summarizing the most important findings and patterns. Determine similarities, differences, and connections between the data segments. Examine the data for recurring themes, notable variations, and unexpected insights. In the context of the qualitative data, synthesize the information to generate a coherent and comprehensive understanding of the research topic.

In light of the research objectives and pertinent theoretical frameworks, the final stage is the interpretation and reporting of the findings. Consider the implications of the findings and their contribution to the comprehension of the research topic. Identify any limitations or areas requiring further study. Finally, convey the results in a concise and organized manner. This may entail composing a narrative summary, developing visual representations of the data (such as tables or diagrams), and providing pertinent quotes or excerpts to support the analysis. Ensure the report or presentation reflects the rigor and credibility of the process of framework analysis.

Results and Discussion

The actual method of Enterprise Risk Management (ERM) at life insurance company will be discussed further including planning and implementation of the risk management plan that will be carried out. The first step in implementing a risk management plan is to define the scope, context, and criteria. The purpose of establishing the scope, context, and criteria is to adapt the risk management process to the project being undertaken, thereby enabling effective risk assessment and appropriate risk treatment. Scope, context, and criteria involve defining the scope of the process, and understanding the external and internal context.

The scope of the ERM implementation study in the context of SEOJK no.5/2022 encompasses the processes, practices, and procedures employed to manage risks associated with the product. The study focuses on the implementation of risk management strategies and frameworks specified in the SEOJK regulation. It examines how life insurance company comply with the regulatory requirements, identify, and assess risks, implement risk mitigation measures, and monitor risk exposures related to investment-linked insurance products.

It considers the regulatory landscape and guidelines set forth by the Financial Services Authority of Indonesia (Otoritas Jasa Keuangan/OJK), particularly SEOJK no.5/2022. The study considers the unique characteristics and challenges associated with investment-linked insurance products, such as market volatility, asset-liability management, and policyholder investment risks. It also recognizes the importance of consumer protection, financial stability, and compliance with industry best practices within the Indonesian insurance sector.

The criteria for evaluating the risk management implementation within the context of SEOJK no.5/2022 regarding PAYDI can include the following:

i. Regulatory Compliance: Assessing the extent to which life insurance company adhere to the guidelines and requirements outlined in the SEOJK regulation. This criterion focuses on understanding if the risk management practices align with the prescribed regulatory framework and if companies have established adequate policies, procedures, and governance structures to ensure compliance.

ii. Risk Identification and Assessment: Evaluating the effectiveness of risk identification processes within life insurance company, including the identification of risks specific to investment-linked products. This criterion involves assessing the comprehensiveness and accuracy of risk assessments, considering factors such as market risks, credit risks, liquidity risks, policyholder behaviour risks, and other relevant risks associated with investment-linked insurance products.
iii. Risk Mitigation and Control Measures: Analysing the strategies and measures implemented by life insurance company to mitigate and control risks related to investment-linked products. This criterion examines the adequacy of risk mitigation measures, such as investment diversification, reinsurance arrangements, stress testing, and internal controls, to minimize potential losses and protect policyholders' interests.
iv. Risk Monitoring and Reporting: Evaluating the effectiveness of risk monitoring and reporting mechanisms in place within life insurance company. This criterion assesses the timeliness, accuracy, and completeness of risk reporting, including the frequency and quality of risk assessments, risk monitoring tools, and management reporting to ensure that potential risks are identified and addressed promptly.
v. Consumer Protection: Considering the measures implemented by life insurance company to protect policyholders' interests and provide transparent information about investment-linked insurance products. This criterion examines whether life insurance company have clear policies and communication channels in place to educate policyholders about the risks associated with these products and ensure fair treatment and appropriate disclosure of information.

Table 1: Summary criteria for evaluating the risk management implementation within the context of SEOJK no.5/2022

CRITERIA	EVALUATION
Regulatory Compliance	Focuses on understanding if the risk management practices align with the prescribed regulatory framework and if companies have established adequate policies, procedures, and governance structures to ensure compliance
Risk Identification and Assessment	Assessing the comprehensiveness and accuracy of risk assessments, considering factors such as market risks, credit risks, liquidity risks, policyholder behaviour risks, and other relevant risks associated with investment-linked insurance products.
Risk Mitigation and Control Measures	Adequacy of risk mitigation measures, such as investment diversification, reinsurance arrangements, stress testing, and internal controls, to minimize potential losses and protect policyholders' interests
Risk Monitoring and Reporting	Assesses the timeliness, accuracy, and completeness of risk reporting, including the frequency and quality of risk assessments, risk monitoring tools, and management reporting to ensure that potential risks are identified and addressed promptly
Consumer Protection	Examines whether life insurance company have clear policies and communication channels in place to educate policyholders about the risks associated with these products and ensure fair treatment and appropriate disclosure of information

Analysis

a. External Industry Situation (PESTEL Analysis)

a.1. Political

- Public mistrust: One of the issues that was addressed at the OJK Working Meeting that took place in February 2022 with the House of Representatives (DPR) was the unit-linked product problem that arose from three different insurance firms.

- Public pressure: To be exerted on the DPR to modify OJK policies in terms of supervision of insurance businesses, notably in terms of adopting risk management by insurance companies.

a.2. Economic

- Government taxation: It is expected that insurance companies will help move the wheels of the economy, particularly by providing assistance to the government in the field of taxation, in order to take part in the economic recovery that has been caused by the global COVID-19 pandemic.
- Job creation: The creation of jobs for those who are qualified to sell insurance and have their licenses is one of the economic drivers that might come from the insurance industry. Insurance firms are able to support economic progress by producing these jobs, one of which is a unit-linked product that may provide solutions to clients who understand the risks and advantages of the product.

a.3. Social-cultural

- Consumer Protection: Financial regulations can protect consumers from predatory practices, fraud, and other risks. This can foster trust in the financial system and create a sense of security, which in turn may lead to increased participation and engagement with financial services.
- Ethical considerations: Ethical issues often arise in risk management, particularly when it comes to balancing organizational objectives with social and environmental responsibilities. Organizations must be aware of the ethical implications of their risk management decisions, considering both local and global societal values. This includes addressing potential conflicts of interest, considering the well-being of all stakeholders, and striving for fairness and equity in decision-making.

a.4. Technology

- Cybersecurity and data protection: As organizations increasingly rely on digital tools and solutions, cybersecurity risks become more prevalent. Implementing robust cybersecurity measures and data protection policies is essential for safeguarding sensitive information and ensuring the integrity of risk management processes.
- Sustainability business practice: life insurance company has started to adopt sustainability by reducing paper use for their Policy Book printed. It replaced by E-Policy that send an email a softcopy of insurance policy to the customers. However, there might be still a gap due to most Indonesian people behaviour tend to have a paper policy book rather than a softcopy which lead to customers do not read policy provision and affect to claim dispute.

a.5. Legal

- Regulatory compliance: effective March 15th, 2023, every insurance companies must comply and change all their unit-linked product to be aligned with new regulation.
- Due diligence: effective risk management requires insurance companies to carry out due diligence in various areas, including sales distribution, product specification, investment fund management and customer services operation.
- Corporate governance: Good corporate governance involves managing risks effectively to protect the interests of stakeholders, including shareholders, employees, customers, and establish a robust risk management framework that demonstrates their commitment to good corporate governance and compliance with relevant laws and regulations.

Table 2: PESTEL External Analysis

P	**E**	**S**	**T**	**E**	**L**
Politic	Economy	Social-cultural	Technology	Environment	Legal
Public mistrust	Government taxation	Consumer Protection	Cybersecurity and data protection	Sustainability business practice	Regulatory compliance
Public pressure	Job creation	Ethical considerations			Due diligence
					Corporate governance

b. Internal Business Situation (SWOT Analysis)

b.1. Strength

- Dual benefits: life insurance company has most sellable hybrid unit-linked insurance products which offer both insurance protection, annual guaranteed bonus, and investment opportunities, making them attractive to customers seeking a combination of financial security and potential returns.
- Customization: life insurance company allow customers to choose their preferred investment allocation and risk profile, offering a level of customization that can be appealing to individual investors with diverse financial goals.
- Targeting middle class: Middle class consumers dominate the customer segment who buy unit-linked products of life insurance company. A high average premium per policy indicates a growing middle-class consumer segment.
- Increasing financial literacy: As financial literacy improves in Indonesia, more people are becoming aware of the benefits of investment and insurance, potentially increasing demand for unit-linked insurance products.

b.2. Weakness

- Market volatility: The performance of unit-linked insurance products depends on the performance of the underlying investments, which can be subject to market volatility and economic fluctuations.
- Complexity: Unit-linked insurance products can be more complex than traditional insurance products, potentially creating confusion or misunderstanding among customers with limited financial knowledge.
- Limited product awareness: Many potential customers in Indonesia may not be aware of unit-linked insurance products or may have misconceptions about their benefits and risks.
- Regulatory changes: Changes in regulations and compliance requirements can create challenges for insurance providers, potentially affecting product offerings, pricing, and profitability.
- Expanding financial sector: Indonesia's financial sector is continuously growing and evolving, creating new opportunities for insurance providers to develop innovative unit-linked insurance products.
- Digitalization: The increasing use of digital technology and online platforms can enable insurance providers to reach a wider audience, streamline the application process, and improve customer service.
- Partnerships with financial institutions: Collaborating with banks, asset management companies, and other financial institutions can help insurance providers expand their distribution channels and enhance their product offerings.
- Financial education initiatives: Insurance providers can invest in financial education initiatives to raise awareness about unit-linked insurance products and improve customers' understanding of their benefits and risks.

b.3. Threat

- Competition: unit-linked insurance market in Indonesia is highly competitive, with numerous providers offering similar products. This can lead to price competition and reduced profit margins.
- Economic instability: Economic downturns or instability in Indonesia can negatively affect the performance of underlying investments and reduce customers' willingness to invest in these products.
- Changing consumer preferences: Consumer preferences can shift over time, potentially reducing demand for unit-linked insurance products if alternative financial products become more popular.
- Regulatory risks: Changes in government regulations, tax policies, or compliance requirements can create uncertainty and challenges for insurance providers operating in the unit-linked insurance market.

Table 3: SWOT Internal Analysis of life insurance industry unit-linked product

S	W
- Dual benefits - Customization - Targeting middle class	- Market volatility - Complexity - Limited product awareness

- Increasing financial literacy	- Regulatory changes
O	**T**
- Expanding financial sector - Digitalization - Partnerships with financial institutions - Financial education initiatives	- Tight Competition - Economic instability - Changing consumer preferences - Regulatory risks

In the context of ERM, risk identification is part of the overall risk assessment process, which also includes risk analysis and risk evaluation. Risk identification is essential because it helps organizations proactively address potential threats and vulnerabilities before they materialize, allowing them to allocate resources effectively and make informed decisions.

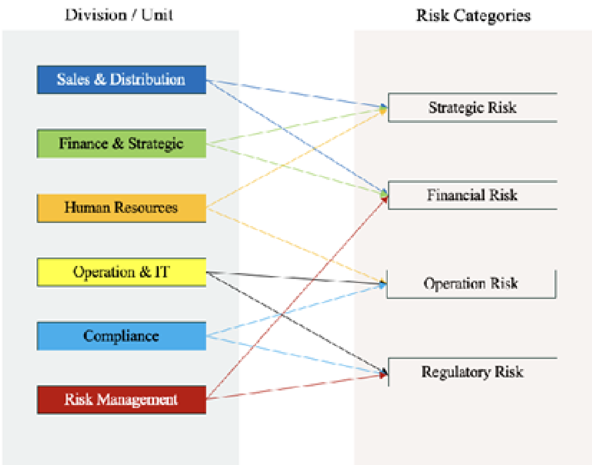

Figure 4: Risk Mapping

Based on internal and external analysis, all identified risks threat are listed with the categorization based on risk framework as seen in table below:

Table 4: Risk Identification

Risk Category	Risk Profile	Description
(1) Strategic	Unable to scale-up distribution sales organically	Sales distribution fails to grow organically and achieve the desired scale due to slow recruitment, low agent activation, unsatisfactory income impacted by new SEOJK
(2) Strategic	Unable to scale up through existing partnership	Life Insurance Company is unable to secure a long-term partnership with existing partners; poor execution and investment in partnership to penetrate partner's customer base impacted by new SEOJK
(3) Financial	Unable to achieve in-force block earnings & expenses target	Unable to achieve earnings target due to unfavorable policyholder experience, including claim and persistency experience, and higher expense than budget
(4) Operational	Reinsurance risk	Reinsurer fail to pay claim recoveries leading to financial loss and ineffective process resulting in operational loss.
(5) Operational	Loss of leadership team and key talent	Loss of key people coupled with poor succession plan causing knowledge loss and operational issues.
(6) Operational	Operational resilience risk from information security exposure	Weak information security resiliency due to data loss, security incidents from internal or business partners, or malicious trusted party/ insiders, including third party resiliency.

(7) Regulatory	Changes to regulatory environment	Volume of changes in regulatory regime coupled with challenges in the industry and interpretation present higher complexity in assessing business impact of regulatory changes, potentially higher cost of compliance.
(8) Strategic	Inability to capture growth catalyst opportunity	Life Insurance Company to undertake available growth catalyst to achieve its objective. The management may fail to effectively assess and pursue new opportunity to catalyze its growth.

Total Risk Profiling Summary

CATEGORY	Risk (#) threat	LIKELIHOOD	CONSEQUENCE (IMPACT)	RISK (PRIORITY)
Strategic Risk				
External	(1) Unable to scale up agency organically	Very High	Severe	High Priority
External	(2) Unable to scale up through existing partnership	Occasional	Minor	Medium Priority
External	(8) Inability to capture growth catalyst opportunity	Occasional	Moderate	High Priority
Financial Risk				
Internal	(3) Unable to achieve in-force block earnings and expenses target	Occasional	Minor	Medium Priority
Operational Risk				
External	(4) Reinsurance risk	Low	Major	High Priority
Internal	(5) Loss of leadership team and key talent	Low	Moderate	Medium Priority
Internal	(6) Operational resilience risk from information security exposure	High	Minor	Medium Priority
Regulatory Risk				
External	(7) Changes to regulatory environment	Occasional	Moderate	High Priority

Figure 5: Risk Priority

The need to prioritize risks arises from the fact that life insurance company must contend with many threats despite having a limited number of resources available for threat reduction. By assigning a priority to each risk, life insurance company are better able to concentrate their efforts on mitigating the threats that pose the greatest threat and have the greatest potential impact, thereby lowering the possibility of suffering losses and improving the efficiency of risk management. In addition, risk prioritization enables organizations to align their risk management strategies with their business objectives, ensuring a proactive and targeted approach to risk mitigation. This is made possible by the alignment of risk management strategies with business objectives.

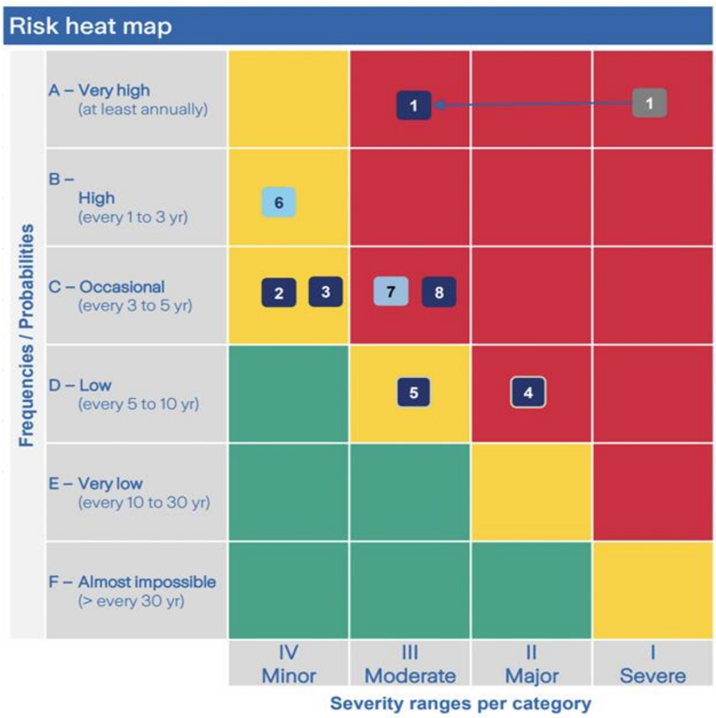

Figure IV.4 Risk Heat Map

The risk profile measurement above assists in the comprehensive identifying and evaluating of risks. The risk heat map document takes into consideration the likelihood of risks occurring (in the form of frequencies or probabilities) as well as the potential impact on capital, earnings, and reputation. It does this by utilizing historical data, industry benchmarks, and the judgment of industry experts. With the help of this methodical approach, life insurance company can pinpoint the threats that pose the greatest possibility of causing disruptions to business operations and having an impact on the overall performance of the organization.

The risk profile measurement document makes risk rating and prioritization easier by assigning risk ratings to identified risks based on the combination of frequency or probability and severity levels. These ratings are then used to rank the risks in descending order. Life insurance company can evaluate the overall risk landscape as well as compare risks across the life insurance company's various business units because they use a standardized rating system. This procedure ensures that the organization's resources and attention are directed toward managing the risks that pose the greatest threats to its capital, earnings, and reputation. Those risks can be identified using the risk assessment process.

Business Solution

The scope of the ERM implementation study focuses on managing risks associated with investment-linked insurance products, specifically PAYDI. It encompasses the entire process, practices, and procedures employed by life insurance company in accordance with the SEOJK no.5/2022 regulation. This includes but is not limited to:

- Product Specifications: Assessing the risk management practices related to the design and specifications of PAYDI products. Gap analysis has been conducted to ensure comply with regulatory requirements and industry best practices.
- Sales and Marketing Processes: Evaluating the risk management measures implemented during the sales and marketing activities of PAYDI products, including the adequacy of disclosure requirements and consumer protection mechanisms.
- Investment Fund Administration: Examining the risk management strategies and controls in place for managing investment funds associated with PAYDI products. This involves assessing investment diversification, asset allocation, and risk monitoring practices.
- Customer Support Operations: Assessing the risk management processes within customer support operations, including the handling of policyholder inquiries, complaints, and claims related to PAYDI products.
- Regulatory Landscape and Guidelines: Consider the external context of a life insurance company, including the regulatory landscape and guidelines set forth by the Financial Services Authority of Indonesia (OJK). Ensure that life insurance company's risk management practices align with the specific requirements outlined in the SEOJK no.5/2022 regulation regarding investment-linked insurance products.
- Unique Characteristics and Challenges: Recognize the unique characteristics and challenges associated with investment-linked insurance products. Acknowledge the potential risks stemming from market volatility, as well as the complexity of managing asset-liability relationships in the context of PAYDI products. Understand the specific risks related to policyholder investments and the need to ensure suitable investment options and risk disclosures.
- Consumer Protection and Financial Stability: Emphasize the importance of consumer protection in the context of investment-linked insurance products. Ensure that risk management practices prioritize the safeguarding of policyholders' interests, including fair treatment, transparent information disclosure, and effective grievance handling mechanisms. Recognize the role of risk management in maintaining financial stability within life insurance company and the broader Indonesian insurance sector. Compliance with industry best practices is essential to foster trust and confidence among policyholders, regulators, and other stakeholders.

By considering the external and internal context within which life insurance company operates, understanding the unique characteristics and challenges associated with investment-linked insurance products, and emphasizing consumer protection, financial stability, and compliance with industry best practices, the ERM implementation study can effectively address the specific risks and requirements relevant to life insurance company's operations. This approach ensures that risk management practices are tailored to the life insurance company's context and aligned with regulatory expectations and industry standards, ultimately supporting the organization's long-term success and the protection of policyholders' interests.

Conclusion and Recommendation

In conclusion, the purpose of this research was to investigate the implementation of Enterprise Risk Management (ERM) in accordance with the Financial Services Authorities (OJK) Regulation No. 5/SEOJK.05/2022, with a particular emphasis on PAYDI (Unit-Linked) products. Following a comprehensive analysis of the existing body of literature as well as the collection of primary data, several important findings have become apparent.

The findings of the study demonstrated that ERM practices are an essential component of an efficient risk management strategy for investment-linked insurance products. Firm is in a better position to comply with regulations and improve its risk management capabilities if it ensures that it is following the requirements outlined in the SEOJK regulation.

The following recommendations are put forward considering the findings in order to improve the efficiency with which ERM implementation is carried out:

1. Strengthen Risk identification and Assessment: life insurance company should continue to hone its risk identification and assessment procedures to become more efficient. This can be accomplished by combining more advanced data analytics techniques, market intelligence, and scenario analysis to identify new risks as soon as they appear. In addition, life insurance company ought to give some thought to the possibility of implementing quantitative risk assessment methodologies to improve risk prioritization and resource allocation.
2. Enhance Risk Mitigation Strategies: life insurance company needs to conduct a risk assessment and improve its existing risk mitigation strategies for PAYDI products. This includes putting in place an effective strategy for investment diversification, establishing reliable reinsurance arrangements, and carrying out routine stress tests to evaluate the robustness of the investment portfolio. In addition, life insurance company needs to make certain that adequate internal controls are put into place to reduce the operational risks that are associated with PAYDI products.
3. Improve Risk Monitoring and Reporting: life insurance company needs to improve the risk monitoring and reporting mechanisms it has in place so that it can provide information that is both timely and accurate regarding risk exposures. This requires the establishment of key risk indicators (KRIs) to monitor risk levels, the implementation of a comprehensive risk reporting framework, and the guaranteeing of clear communication channels within the organization to facilitate effective decision-making.
4. Enhance Training and Awareness Program: It is imperative that life insurance company makes investments in comprehensive training and awareness programs to cultivate a culture within the organization that is alert to potential dangers. This includes holding regular training sessions on regulatory compliance, risk management best practices, and the significance of enterprise risk management (ERM). It is possible for life insurance company to improve the efficiency of the ERM implementation by raising the level of employee awareness and knowledge.
5. Continuous Improvement and Review: life insurance company should adopt a continuous improvement mindset and conduct regular reviews of its ERM practices. This includes periodic assessments of the effectiveness and efficiency of risk management strategies, engagement with external experts or consultants to provide insights and recommendations, and a commitment to staying abreast of evolving industry best practices and regulatory requirements.

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Life insurance companies will be able to further strengthen its ERM practices, align itself with the regulatory framework, and enhance its ability to effectively manage risks associated with PAYDI products if it follows these recommendations and puts them into action. This, in turn, will contribute to an environment for doing business that is more resilient and sustainable, ensuring the protection of policyholders' interests and maintaining a competitive advantage within the Indonesian insurance market.

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