ANALYSIS OF FINANCIAL DISTRESS AND FINANCIAL REPORTING FRAUDULENT TO PREVENT PAYMENT FAILURE: CASE STUDY OF INSURANCE INDUSTRY

UNDERGRADUATE THESIS

Submitted as one of the requirements to obtain
Sarjana Aktuaria

By:

HAURA NIZAR NABILA
021202100012

FACULTY OF BUSINESS
ACTUARIAL SCIENCE STUDY PROGRAM
CIKARANG

OCTOBER, 2024

PLAGIARISM REPORT

ORIGINALITY REPORT

9%	10%	9%	3%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	repository.stei.ac.id Internet Source	1%
2	repository.unhas.ac.id Internet Source	1%
3	aimos.ugm.ac.id Internet Source	1%
4	multisciencejournal.com Internet Source	1%
5	icmai.in Internet Source	1%
6	Submitted to Universitas Jenderal Soedirman Student Paper	1%
7	core.ac.uk Internet Source	1%
8	repofeb.undip.ac.id Internet Source	1%
9	www.researchgate.net Internet Source	1%

GPTZERO REPORT

Document Title: **Document — 9/1/2024** Author: **HAURA NIZAR**

We are moderately confident this text is human generated

Classification	Probability Breakdown	Plagiarism Scan
human	human 81% · mixed 2% · ai 17%	?
17% probability AI generated		Plagiarism scan not activated
moderately confident		

AI Scanned Document

AI Content

Document — 9/1/2024

CHAPTER I INTRODUCTION 1.1. Background of The Problem Insurance industry is a financial services sector that plays a significant role in national economy. The significance of insurance industry for an economy can only be measured by its business estimates, number of workers in a country, assets under management, or its contribution to national GDP (Macmillan, 2007). This is inseparable from the importance of the insurance industry on supporting Indonesian economic growth. The government continues to encourage the role of the insurance industry in accelerating the Indonesian economy growth through expansion of insurance products and services amidst the era of advances in digitalization technology. The insurance industry in Indonesia tends to record growth every year. This can be seen from the growth of premiums purchases and assets of the insurance industry which almost always increases. Despite that, in 2018-2022 there has been a relatively modest growth of premiums in the conventional insurance sector with an average annual rate of 1.89%. In particular, conventional insurance premiums increased by just 0.9% in the same period, while contributions from sharia insurance amounted to a substantial increase of 15.7%. Despite this increase, the market share of sharia insurance contributions is relatively small compared to conventional insurance premiums excluding social and compulsory insurance in 2022, accounting for only 15.51% (OJK, 2023). Source: OJK Figure 1.1. Premium and Contribution Growth in Indonesia (2018 - 2022) Insurance is the pooling of misfortunes by transferring such risks to insurance companies that agree to provide compensation for these losses, 16 providing other financial benefits arising from their occurrence or performing services connected with those risks (Rejda, 2008). Insurance is a function of restoring the financial position that existed prior to the risk. Insurance provides protection and guarantees to the insured and is provided by insurance companies from risks that may occur. Insurance purposive to protect and guarantee the insured from risks that may arise, by providing insurance companies with guarantees. Insurance companies play significant role in the financial system as a means for savings (policy premiums are not immediately used to meet claims; instead, they are invested, providing profits to the policyholders as they recover losses or reduce premiums) and risk pooling (insurers pool risks from different policyholders, so that those with insured risks are partially compensated by premiums paid by those who do not file a claim) (Zee, 2004). Depending on the type of business, the insurance company would manage its assets (collected premiums) in a way that ensures that its liabilities (guaranteed pay-outs) are met when they fall due (De Groen & Oliinyk, 2022). The net profitability of its insurance operations and financial activities is a determining factor for the overall profitability of an insurance company. This profitability is affected by three main factors. The occurrence and size of the claims, in particular. Secondly, the prevailing level of insurance. Thirdly, the financial markets' performance In addition, the major investment portfolios and funding sources of the insurance companies also sought diversification. A direct outcome of their business model, insurance companies are investing in a unique set of assets (U.S. Chamber of Commerce. (EY), 2019). Its main business model is that it receives a constant cash flow from the policyholders in form of premiums and, over time, allocates them

ABSTRACT

According to CNBC, in recent years several Indonesian insurance companies have faced problems due to their failure to pay claims due to financial distress and significant increase of financial reporting fraud cases that occurred that led to a loss of public trust. Understanding a company's financial condition is very important for customers and investors before buying a policy and shares of the company. Therefore, it can be a reference before placing their money in a company to be able to know how much risk they might suffer in the future. Insurance companies are businesses that are vulnerable to bankruptcy because the nature of the business is influenced by public trust. This research aims to determine if the companies are experiencing financial distress and indicated to commit financial reporting fraud as a result of pressure or encouragement to manipulate the financial reporting and hide the truth about company performance. The sample used in this research was financial reporting of 18 public insurance companies registered on IDX from 2020-2023. Altman Z-Score is used to predict financial distress and Beneish M-Score is used to detect financial report fraud. The result of the research calculations is that by the period 2020-2023 there were 2 companies that were predicted to be experiencing financial distress and 5 companies in the grey zone. Moreover, there were 4 companies that are predicted to be experiencing financial distress and detected to commit financial reporting fraud. The result of this research might be helpful for customers and investors in making decisions.

Keywords: *Insurance Industry, Financial Reporting, Financial Distress, Payment Failure, Altman Z-Score, Fraud, Beneish M-Score*

ABSTRAK

Dikutip dari CNBC, dalam beberapa tahun terakhir beberapa perusahaan asuransi Indonesia menghadapi masalah karena kegagalan mereka dalam membayar klaim akibat kesulitan keuangan dan meningkatnya kasus kecurangan pelaporan keuangan yang terjadi secara signifikan yang berujung pada hilangnya kepercayaan masyarakat. Memahami kondisi keuangan perusahaan merupakan hal yang sangat penting bagi nasabah dan investor sebelum membeli polis dan saham perusahaan. Oleh karena itu, hal tersebut dapat menjadi acuan sebelum menempatkan uang mereka di suatu perusahaan untuk dapat mengetahui seberapa besar risiko yang mungkin akan mereka tanggung di masa depan. Perusahaan asuransi merupakan bisnis yang rentan mengalami kebangkrutan karena sifat bisnisnya yang dipengaruhi oleh kepercayaan masyarakat. Penelitian ini bertujuan untuk mengetahui apakah perusahaan-perusahaan yang mengalami kesulitan keuangan dan terindikasi melakukan kecurangan pelaporan keuangan sebagai akibat dari adanya tekanan atau dorongan untuk memanipulasi pelaporan keuangan dan menyembunyikan kebenaran atas kinerja perusahaan. Sampel yang digunakan dalam penelitian ini adalah laporan keuangan 18 perusahaan asuransi umum yang terdaftar di BEI dari tahun 2020-2023. Altman Z-Score digunakan untuk memprediksi kesulitan keuangan dan Beneish M-Score digunakan untuk mendeteksi kecurangan laporan keuangan. Hasil dari perhitungan penelitian ini adalah pada periode 2020-2023 terdapat 2 perusahaan yang diprediksi mengalami kesulitan keuangan dan 5 perusahaan yang berada di zona abu-abu. Dan juga, terdapat 4 perusahaan yang diprediksi mengalami kesulitan keuangan dan terdeteksi melakukan kecurangan laporan keuangan. Hasil dari penelitian ini dapat membantu nasabah dan investor dalam mengambil keputusan.

Kata Kunci: *Industri Asuransi, Laporan Keuangan, Kesulitan Keuangan, Gagal Bayar, Altman Z-Score, Manipulasi, Beneish M-Score*

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES