Revealing Red Flags of Insurance Fraud: A Case Study Research of PT Jiwasraya Indonesia

Wahyu Alimirruchi * a, Anis Chariri ** b

* Master in Accounting, Diponegoro University, Semarang, The Audit Board of The Republic of Indonesia, Jakarta, Indonesia, ORCID: https://orcid.org/0009-0004-4949-917X, e-mail: alimirruchiwahyu@gmail.com
** PhD in Accounting, Professor at the Department of Accounting, Diponegoro University, Semarang, Indonesia, ORCID: https://orcid.org/0000-0001-9055-1735, e-mail: anis_chariri@live.undip.ac.id

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Insurance companies are prone to fraud due to high yield pressures and hence we need to identify certain red flags for fraud detection. This study is descriptive-analytical research that aims at analyzing the red flags of insurance fraud and at finding the strategies to eliminate potential fraud by learning from insurance fraud cases. Using PT Asuransi Jiwasraya (Persero) from 2006 to 2020 as case study research, the finding shows that mega fraud (corruption, asset misappropriation, fraudulent financial statements) occurred during the period. Red flags of improper disclosure are disclaimer opinion from The Audit Board of The Republic of Indonesia, PwC’s adverse opinion, and 2002 and 2004 insolvency. Timing differences red flags are Jiwasraya bought second and third tier shares before the end of the 2019 quarter to be resold on January 2, 2020. Red flags of Jiwasraya’s corruption are indicated by misuse of interest by Jiwasraya’s directors, inappropriate bancassurance, purchase of shares and mutual funds that are more expensive than market prices. Jiwasraya’s red flag in asset misappropriation is shown by the purchase of shares and mutual funds of poor quality using income from the sale of saving plan products. These findings imply that detective, preventive, and repressive strategies are needed to combat insurance fraud in Indonesia.

Keywords: Fraud; Insurance; Red Flags.
Research Problem Formulation

Association of Certified Fraud Examiners (ACFE) in the Fraud Examiners Manual: Section 1 Financial Transactions and Fraud Schemes states that the insurance business is basically vulnerable to fraud because insurance companies are under great pressure to maximize return on investment against reserve funds thereby increasing the potential fraud by high-yield investment schemes. One example of insurance fraud cases in Indonesia can be seen in the Jiwasraya insurance fraud case which has received much attention. Moving on from this, the researchers intend to reveal the red flags of insurance fraud case at Jiwasraya Indonesia so that new knowledge can be obtained of the insurance fraud.

Article Purpose

The researchers are interested in conducting research with a qualitative research, especially with the case study research method. Insurance fraud is still little qualitative-based research on fraud; so the researchers intended to analyze the fraud methods and its red flags that occurred at Jiwasraya Indonesia from 2006 to 2020. Furthermore, this study also answers how to apply detective, preventive, and repressive strategies to combat potential insurance fraud at Jiwasraya.

Research methods

This research was descriptive analytical research. This study focused on case studies on the identification of red flags in each fraud scheme that occurred at Jiwasraya and its preventive, detective, and repressive strategies to combat insurance fraud. Based on R. K. Yin, the case study is an empirical approach to cases where there is an unclear boundary between the phenomenon and the context so that research is carried out to answer the question of why or how related to the case of the phenomenon. Data collection in case studies according to R. K. Yin includes documentation, archival records, interviews, direct observation, participant observation and physical artifacts. So that in this study collect research data through documentation from mass media reports, archival records and physical artifacts in the form of Audit Reports of The Audit Board of The Republic of Indonesia, Jiwasraya Financial Statement from 2006 to 2020, Letter of OJK 46/SEOJK.05/2017. There are five case study analysis tools namely explanation building, pattern matching, time-series analysis, cross-case synthesis, and program logic models. This study used analytical tools by R. K. Yin, namely time-series analysis of the chronology of insurance fraud by Jiwasraya, pattern matching on the theory of insurance red flags and fraud tree by the Jiwasraya case, and explanation building analysis by identifying strategies to combat insurance fraud to obtain research results. According to R. K. Yin, the validity of case studies is to ensure construct validity (through triangulation), internal validity (through the use of analytical techniques), external validity (through analytical generalizations), and reliability (through case study databases). This study uses triangulation.
of various sources as a validity tool. In addition, the research results were obtained by analyzing several expert judgments or competent expert opinions. The purpose of using the expert opinion method is to prove the validity and reliability of research. Therefore, research based on the results of competent and experienced expertise can serve as a basis for analyzing insurance fraud red flags along with the application of innovative insurance fraud eradication mechanisms recommended by researchers to obtain the required results. The theoretical approaches related to insurance fraud red flags and insurance fraud eradication mechanisms are based on scientific findings with the following expertise.

### Analysis of Essential Researches and Publications

There are always changes in social reality that cause social conflict. This is due to the fact that social reality is in the form of illusions and distortions which are not always easy to observe quantitatively. Therefore, in analyzing social reality, a qualitative approach is needed which aims to reveal the actual phenomenon without any distortion at the surface level which usually consists of various levels of reality. Therefore, to get answers to the meaning of the phenomena that occur, qualitative research is needed to obtain quality and in-depth data. This study uses several competent expert opinions or expert judgements.

### Main Content Presentation

Economic growth creates a change in crime from what was originally just a conventional economic crime to an unconventional economic crime. Conventional economic crimes or commonly referred to as blue collar crimes are crimes in the form of murder, theft, and so on. Meanwhile, non-conventional crimes or commonly referred to as white collar crimes are criminal acts committed by companies...
such as fraudulent behavior committed by company management or other stakeholders. In contrast to blue collar crimes, the perpetrator of white collar crime is someone who has a high social status through his/her authorities and positions in an organization. Indeed white collar crime is the latest trend in fraud management due to company psychopaths in their management who are good at manipulating to get their personal goals. The traits of a corporate psychopath are a personality disorder with excessive self-esteem and a lack of guilt, conscience and empathy; so that psychopaths have no remorse for hurting others in order to gain money, power or status. Therefore, it is important for fraud investigators, forensic accountants, fraud auditors, and even managers to know about the red flags of fraud and the rule of law for audit evidence to work in court.

In the Indonesia environment, Indonesia Law No. 15/2004 about Audit, Management and Financial Responsibility of State in Article 1 paragraph (6) states that “State Financial Management is the entire activity of state financial management in accordance with their position and authority, from planning, implementation, supervision, and accountability”. Government officials have the obligation to manage the financial state/regional with the value of transparent, fair, obedient the regulations, and apply the 3E principles (Economical, Efficient, and Effective) to avoid fraud. Based on Indonesia Law Number 8 of 1995 on Capital Markets, crimes are identified as fraud, market manipulation, and insider trading. Fraud securities trading activities in Indonesia are prohibited directly and indirectly from deceiving other parties by using any means and prohibited from making false statements about material facts with the aim of misleading the situation in order to gain advantages or avoid harm to oneself or another party. While the Crime of Market Manipulation based on Indonesia Law Number 8 of 1995 is that any party is prohibited from committing direct or indirect fraud by creating a false or misleading image related to trading activities, market conditions, or securities prices on the Stock Exchange and is prohibited from providing materially misleading statements that affect the price of securities on the Stock Exchange. So according to P. M. Dechow et al., the capital market will efficiently benefit investors (better returns), analysts (avoiding bad reputation), auditors (avoiding litigation risk), and regulators (increasing investor protection).

Survey on Fraud by ACFE Indonesia Chapter indicates 239 fraud cases consisting of 167 cases of corruption (69.9% of cases with a total loss of Rp 373.650 millions), 50 cases of asset misappropriation of state and company (20.9% cases occurred with a total loss of Rp 257.520 millions), and 22 cases of financial statement fraud (9.2% cases occurred with a total loss of Rp 242.260 millions). Based on the results, Indonesia Law Number 8 of 1995 on Capital Markets, crimes are identified as fraud, market manipulation, and insider trading. Fraud securities trading activities in Indonesia are prohibited directly and indirectly from deceiving other parties by using any means and prohibited from making false statements about material facts with the aim of misleading the situation in order to gain advantages or avoid harm to oneself or another party. While the Crime of Market Manipulation based on Indonesia Law Number 8 of 1995 is that any party is prohibited from committing direct or indirect fraud by creating a false or misleading image related to trading activities, market conditions, or securities prices on the Stock Exchange and is prohibited from providing materially misleading statements that affect the price of securities on the Stock Exchange. So according to P. M. Dechow et al., the capital market will efficiently benefit investors (better returns), analysts (avoiding bad reputation), auditors (avoiding litigation risk), and regulators (increasing investor protection).

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11 Ibid.
15 Ibid.
government institutions (48.5%) and state-owned companies or BUMN (31.8%) are the two highest institutions with the most disadvantaged by fraud in Indonesia. For the average loss of more than ten billion rupiah caused by fraud, 20.8% was experienced by the government and 11.1% by BUMN. Meanwhile according to the ACFE Global Report to The Nations, it states that occupational fraud with 86% of cases occurred in asset misappropriation with an average loss of $100,000; 43% of fraud cases occurred in corruption with an average loss of $200,000, and 10% of fraud cases occurred in financial statement fraud with the largest average loss of $954,000.

L. Brenner et al. conclude that there are two potential consequences of victimization of fraud by white collar crime, namely psychological consequences (loss of trust in financial matters) and economic consequences (decreased net worth). Thus, white collar crime has severe negative impacts on the firm and related stakeholders.

S. Repousis states that fraudulent financial statements are intentional errors in the financial condition of a company that can be achieved through misstatements or omissions of amounts or disclosures in financial statements to deceive financial statement users. It is in accordance with the results of a survey by ACFE Indonesia Chapter where the positions and authorities of the fraudsters are 23.7% managers, 29.4% owners, 31.8% employees, and others 15.1%. Although the percentage of fraud by employees is the highest compared to fraud by managers and directors, fraud by employees causes losses with a relatively small nominal, which is between Rp 10 million to Rp 100 million. Meanwhile, the nominal loss due to fraud by managers and directors reaches Rp 500 million to more than Rp 10 billion.

Insurance has the meaning as a legal relationship between the insurer and the insured in which the insurer is bound to compensate for the loss suffered by the insured against the risk of damage, loss, destruction of the object of insurance, loss of expected potential profit, legal liability to third parties, as a result of an unpredictable events that occurs in in the future, including payments resulting from the death or consequences of the life of the insured up to a certain time, in which the insured is bound to pay a premium to the insurer. PT Asuransi Jiwasraya Persero (hereafter called as Jiwasraya) is an Indonesian insurance company that was established in 1859 but in 2020 experienced a financial fraud which resulted in massive losses to its customers, including causing losses to the state up to Rp 16.8 trillion. The fraud carried out by Jiwasraya consisted of various fraud schemes from asset misappropriation, corruption, fraudulent financial statements, to money laundering. Jiwasraya is known to have
experienced financial problems since 2002 due to insolvency until 2020 which was declared unable to pay insurance claims to its customers. Successful fraud auditors and forensic accountants are experts on red flags and fraud schemes.

It is necessary to understand red flags to make it easier to detect fraud. According to ACFE, perpetrators of fraud at work are caused by 42% of fraudsters with high lifestyles exceeding their financial capabilities and 26% of fraudsters with financial difficulties. In addition, the results of the 2019 Indonesia Fraud Survey added that the top five characteristics of fraudsters in Indonesia are a luxurious lifestyle (34.7%), financial difficulties (15.9%), having intimate relationships between buyers and suppliers (13.4%), attitude rationalization (6.7%), and the absence of separation of authority with other employees (4.6%). So because of these problems, this paper will identify the red flags fraud that occurred in the case of Jiwasraya.

Based on the above arguments, this study is intended to analyze the red flags of fraud of Indonesia Insurance company. More specifically, this study aims at analyzing the fraud methods and its red flags that occurred at Jiwasraya from 2006 to 2020. Finally, this study also intends to reveal further about how to apply detective, preventive, and repressive strategies to eliminate the insurance fraud at Jiwasraya.

**Fraud Theory**

T. W. Singleton and A. J. Singleton define fraud as an action that is planned by an individual or group of people to achieve profit through unfair acts or intentional abuse of authority. ACFE has identified a Fraud Tree (Corruption, Asset Misappropriation, and Fraudulent Financial Statement) with an explanation of each characteristic as follows.

The asset misappropriation scheme is usually carried out by employees with the most frequent occurrences of fraud but having the least financial impact. The motive that encourages employees to commit asset misappropriation is because of personal needs that are beneficial to fraudsters, so the most appropriate way to fight this type of fraud is to build employee's fraud awareness and employ an internal auditor to detect this type of fraud. Fraudulent financial statement schemes are usually carried out by company executives with very large company financial losses but the rate of occurrence is the least. Executives's motive to commit fraud is usually related to stock prices (stock bonuses and pressure to maintain higher shares) which benefit the

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25 ACFE. Report To The Nations ... .


28 Ibid.

29 Ibid.

company and fraudsters but detrimental to other stakeholders.\textsuperscript{31} While fraudulent financial statements have very material value, so the audit committee must assign an external auditor to detect and report this type of fraud to law enforcement.\textsuperscript{32} Corruption schemes can be in the form of bribes or extortion which usually involve at least two parties (company’s internal and external parties), although sometimes one party does it by force.\textsuperscript{33} T. W. Singleton & A. J. Singleton\textsuperscript{34} and A. Tkachenko et al.\textsuperscript{35} stated that the motive for committing corruption is due to persuasion and business relationships that are beneficial for fraudsters. So the way to combat the corruption is to focus on finding transaction relationships in every parties, especially if the transaction is hidden. The relationship of internal and external parties can not be separated from the agency theory. M. C. Jensen & W. H. Meckling\textsuperscript{36} stated that the agency relationship in agency theory is a relationship or contract between one or more people called principals who have capital by involving other parties as agents who are contracted to manage and provide services on behalf of the principal by delegating authority to the agent. The agency relationship will cause two problems, namely information asymmetry and conflict of interest because the principal and agent have their own interests.\textsuperscript{37} E. F. Zainudin & H. A. Hashim\textsuperscript{38} argue that there is a possibility that there are agents who have the urge to manipulate financial statements by utilizing asymmetric information to fulfill certain objectives that are detrimental to the principal. So the agent compiles an annual report that contains various useful informations for the principal as a way to reduce information asymmetry and conflict of interest.\textsuperscript{39} In addition, ACFE\textsuperscript{40} stated that insurance companies have great pressure to maximize the return on investment of their customers’ reserve funds, thus making them vulnerable to high-yield investment schemes. Due to asymmetric information and conflict of interest between the principal (Jiwasraya customers) and agents (Jiwasraya), it encourages the emergence of insurance fraud that harms Jiwasraya’s customers and benefits the insurance fraud perpetrators at Jiwasraya.

**Insurance Fraud**

Insurance Fraud in Indonesia has been regulated by The Financial Services Authority or FSA (hereafter called as Otoritas Jasa Keuangan or OJK) through Letter of OJK 46/SEOJK.05/2017 (Fraud Control, Anti-Fraud Strategy Implementation, and Anti-Fraud Strategy Report for Insurance Companies, Sharia Insurance Companies, Reinsurance Companies, Sharia Reinsurance Companies...
or Sharia Units). Insurance fraud is fraud that is intentionally carried out to achieve the aim of deceiving or manipulating the policyholder, the insured, the participant, or other parties within the company and/or using the company's infrastructure so that the company, policyholder, insured, participant, or other party suffers a loss but the fraudsters obtain financial benefits directly or indirectly \(^4\).

Controls of insurance fraud, anti-fraud strategy implementation, and anti-fraud strategy report based on Letter of OJK 46/SEOJK.05/2017 can be seen on Table 1.

<table>
<thead>
<tr>
<th>Insurance Fraud</th>
<th>Method</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>Active supervision by management</td>
<td>Develop the awareness and culture of anti-fraud. Develop and implement an anti-fraud code of ethics. Develop and monitor the implementation of an anti-fraud strategy. Develop the human resources quality for fraud awareness and control. Monitor, evaluate, and follow up on fraud. Develop the helpdesk and whistleblower hotlines.</td>
</tr>
<tr>
<td>Organizational Responsibility</td>
<td></td>
<td>Develop the organizational structure that fits the characteristics and complexity of the company's business. Define clear duties and responsibilities. Direct accountability to the board of directors or equivalent. Improve competence, integrity, and independence of human resources.</td>
</tr>
<tr>
<td>Control and monitoring through Internal Control System</td>
<td>Adopt anti-fraud control policies and procedures. Conduct a top level review or functional review by internal audit on the anti-fraud strategy. Implement rotation, mutation, mandatory off-work, and gathering. Separation of functions in the acceptance, claims, and financial processes to reduce the opportunities for fraud. Improve the processing, storage, and security of data electronically. Control of physical assets and documentations.</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Insurance Fraud</th>
<th>Letter of OJK 46/SEOJK.05/2017</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevention</td>
<td>Creating a culture of anti-fraud awareness</td>
<td>Develop and publish an anti-fraud policies. Conduct employee awareness programs (seminars, discussions, training, publications, transparency of fraud investigations). Conduct customer awareness programs (anti-fraud brochures to policyholders, insured, and participants).</td>
</tr>
<tr>
<td>Identify fraud risk</td>
<td></td>
<td>Identify and analyze the company’s activities with potentional fraud. Documenting and informing the analysis results to interested parties. Updating information on potentional fraudulent activities.</td>
</tr>
<tr>
<td>Doing know-your-employee</td>
<td></td>
<td>Implement the recruitment systems and procedures effectively. Implement risk-based qualifications in objective and transparent manner. Develop policy of recognizing and monitoring the character, behavior, and lifestyle of employees.</td>
</tr>
<tr>
<td>Detection</td>
<td>Establish policies and whistleblowing mechanisms with effectively implemented</td>
<td>Provide protection and ensure the confidentiality of whistleblowers and their reports. Establish internal policies on fraud complaints based on applicable laws. Establish fraud reporting system (procedures, facilities, parties responsible for whistleblowing, and fraud follow-up mechanisms). Establish policies and audit mechanisms for high-risk units of fraud.</td>
</tr>
<tr>
<td>Investigation, Reporting, and Sanctions</td>
<td>Implementation of investigation, reporting, and sanctions</td>
<td>Implement the investigation standards (determining the PIC of investigations based on competence and independence as well as developing an investigation mechanism to follow up on the results of fraud detection by maintaining confidentiality). Establish mechanism for reporting the fraud. Establish sanctions for the deterrent affect. Provide reports to law enforcement on the fraud in company.</td>
</tr>
<tr>
<td>Monitoring, Evaluation, and Follow-Up</td>
<td>Monitor, evaluate, and follow-up on fraud</td>
<td>Monitor the fraud follow-up process in accordance with applicable laws. Maintain fraud profiling to evaluate chronological information, date of incident, parties involved in fraud, fraudster's position, fraud losses, company actions, causes of fraud, and follow-up actions. Strengthening Internal Control System by making improvements to its weaknesses.</td>
</tr>
</tbody>
</table>

**Source:** Otoritas Jasa Keuangan ⁴².

There is three basic principles of insurance according to ACFE, namely the Principle of Insurable Interest (the risk of loss that can be insured is only a loss to the object of insurance with an ownership relationship with the insured, such as a family relationship or business relationship), Principle of The Utmost Goodfaith (the agreement must be agreed upon by the insurer and the insured based on transparency and integrity), and Principle of Indemnity (the insured cannot receive compensation for more than the amount of the actual loss suffered). With the three insurance principles by ACFE, there is clear conditions between the insured, the insurer, and the accident to avoid insurance fraud.

Indonesia Government as a supervisory agency through FSA number 46/SEOJK.05/2017 is trying to eradicate insurance fraud through insurance fraud control efforts (management supervision, organizational accountability, internal control systems, and training), insurance fraud prevention efforts (raising awareness anti-fraud insurance, identifying the risk of insurance fraud, and understanding employees), efforts to detect insurance fraud (approving anti-fraud and whistleblowing policies), efforts to report and sanction insurance fraud, and efforts to evaluate and follow up on insurance fraud. With the implementation of an anti-fraud strategy policy that has been prepared by Indonesia’s Financial Services Authority from the prevention level to the repressive level, it is expected to be able to identify red flags as early warning system in detecting fraud in the process of accounting professional. As a result, auditors are required to increase their professional skepticism in order to identify red flags of fraud through training, seminars, education, and others.

Perpetrators of insurance fraud can be carried out by the insurer (agent or insurance company) or the insured (insurance policy holder). There are several red flags that can be identified to make it easier to detect insurance fraud by the insured, including: Claims are made within a short time after the inception of the policy, the insured is very firm and insists on fast settlement, the insured is willing to accept the settlement of claims far below the claim value according to the evidence submitted, the insured complaints and demands prematurely for the delay in the loss process, customers are aggressive and

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43 ACFE. Fraud Examiners Manual ...
44 Ibid.
45 Financial Services Authority. Letter of OJK 46/SEOJK.05/2017 ...
47 Ibid.
48 ACFE. Fraud Examiners Manual ...
sporadic towards insurance companies (such as publishing bad insurance companies in the mass media to get people’s attention), the insured is difficult to contact after getting the claim, the insured has a history of many insurance claims and losses, and the documentation provided by the insured is questionable and irregular. Jiwasraya committed three types of fraud according to the Fraud Tree, such as corruption, fraudulent financial statements, and asset misappropriation. These three types of fraud trees can be detected by auditors due to several red flags that have been identified by T. W. Singleton and A. J. Singleton.  

### Table 2.  

<table>
<thead>
<tr>
<th>Fraud Tree</th>
<th>Identification on Red Flags</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraudulent Financial</td>
<td>Accounting anomalies.</td>
</tr>
<tr>
<td>Statement</td>
<td>Rapid growth of the company.</td>
</tr>
<tr>
<td></td>
<td>The company earns unusual profits especially when compared to the industry average.</td>
</tr>
<tr>
<td></td>
<td>Low of company internal control.</td>
</tr>
<tr>
<td></td>
<td>Executive management tends to be aggressive, obsessed with stock prices, and performs micromanagement.</td>
</tr>
<tr>
<td></td>
<td>Complex or unstable organizational structures.</td>
</tr>
<tr>
<td></td>
<td>Repeated negative cash flows from operations, especially when coupled with increased profits and overall positive cash flows.</td>
</tr>
<tr>
<td></td>
<td>All significant transactions with related parties are not audited or audited by a different audit firm.</td>
</tr>
<tr>
<td></td>
<td>There were significant, unusual, or highly complex transactions at the end of the fiscal year.</td>
</tr>
<tr>
<td></td>
<td>Significant sales volume to entities whose owners are not clearly identified.</td>
</tr>
<tr>
<td>Corruption</td>
<td>Special relationship between employees and vendors.</td>
</tr>
<tr>
<td></td>
<td>There is confidentiality with third parties.</td>
</tr>
<tr>
<td></td>
<td>Lack of management approval reviews.</td>
</tr>
<tr>
<td></td>
<td>Anomalies in transaction record and vendor approval.</td>
</tr>
<tr>
<td>Asset Missappropriation</td>
<td>Changes in the employee’s attitude and lifestyle.</td>
</tr>
<tr>
<td></td>
<td>The employee’s work history is messy.</td>
</tr>
<tr>
<td></td>
<td>Tends to be unable to make eye contact.</td>
</tr>
<tr>
<td></td>
<td>Increased irritability.</td>
</tr>
<tr>
<td></td>
<td>Increased company conflicts because they tend to blame others.</td>
</tr>
<tr>
<td></td>
<td>Employees are dissatisfied with executives.</td>
</tr>
<tr>
<td></td>
<td>Employees never take time off or vacations.</td>
</tr>
<tr>
<td></td>
<td>Employees refuse to be rotated, transferred, or promoted.</td>
</tr>
<tr>
<td></td>
<td>Employees have financial problems.</td>
</tr>
</tbody>
</table>

**Source:** T. W. Singleton and A. J. Singleton.
The Chronology of Insurance Fraud at PT Asuransi Jiwasraya (Persero)

The financial problems experienced by Jiwasraya began in 2002 with insolvency and continued until 2004. The Audit Board of The Republic of Indonesia also gave a disclaimer opinion on Jiwasraya's 2006–2007 Financial Statements due to windows dressing. From 2010 to 2011, Jiwasraya undertook a reinsurance scheme as a solution to deficits of Rp 5.7 trillion (2008) and Rp 6.3 trillion (2009). Jiwasraya conducted bancassurance through the JS Saving Plan product on December 12, 2012 and resulted in an increase in premium income until 2014. However, based on the results of the Special Purposes Audit of The Audit Board of The Republic of Indonesia in 2016 on the business management, investment, income, and operational costs of Jiwasraya in 2014–2015 found audit findings that Jiwasraya committed fraudulent financial statements and abused authority by investing without adequate studies. The Audit Board of The Republic of Indonesia again gave a disclaimer opinion on Jiwasraya's 2017 financial statements due to a shortage of Rp 7.7 trillion in reserve funds and Jiwasraya still invests without paying attention to the principle of prudence. In addition, PwC gave an Adverse opinion on Jiwasraya's 2017 financial statements because the liability for future policy benefits was Rp 38.76 trillion from what it should have been Rp 46.44 trillion and corrected Jiwasraya's profit in 2017 from Rp 2.4 trillion to Rp 428 billion. Based on the results of the 2018 Preliminary Investigation of The Audit Board of The Republic of Indonesia, it was stated that there were indications of fraud in the management of saving plan products with very high interest rates above the deposit and bond interest rates that had been massive since 2015, but the proceeds from the sale of these products were invested in stocks and mutual funds of poor quality so that the potential loss to the state. In December 2019, Jiwasraya failed to pay Rp 12.4 trillion and as a result, Attorney General's Office of Indonesia asked the The Audit Board of The Republic of Indonesia, Financial Services Authority, The Ministry of State Owned Enterprises, and Audit Firm to investigate Jiwasraya's fraud investigation. Based on the results of the investigative audit, the Jakarta Corruption Court judged seven defendants including the former President Director (Hendrisman Rahim), Former Finance Director (Hary Prasetyo), Former Head of Investment and Finance Division (Syahmirwan), Former Deputy Commissioner for Capital Market Supervisory 2 of Financial Services Authority (Fakhri Hilmi), President Director of PT Hanson International Tbk (Benny Tjokrosaputro), President Commissioner of PT Trada Alam Minera (Heru Hidayat), and Director of PT Maxima Integra (Joko Hartono Tirto) for the alleged corruption case. As a result of the fraud committed by Jiwasraya, customer claims due reached Rp 16.1 trillion with a potential state loss of Rp 13.7 trillion due to failure to pay the policy. The chronological details of Jiwasraya's fraud can be seen at the Table 3.
Table 3. **Chronology of Fraud at Jiwasraya**

<table>
<thead>
<tr>
<th>Date</th>
<th>Chronology of Fraud at Jiwasraya</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 31, 1859</td>
<td>The establishment of Jiwasraya by the Dutch East Indies government.</td>
</tr>
<tr>
<td>August 21, 1984</td>
<td>Jiwasraya was changed to PT Asuransi Jiwasraya (Persero).</td>
</tr>
<tr>
<td>Year 2002</td>
<td>There was an insolvency of Rp 2,9 trillion at Jiwasraya.</td>
</tr>
<tr>
<td>Year 2004</td>
<td>There was an insolvency of Rp 2,76 trillion at Jiwasraya.</td>
</tr>
<tr>
<td>Year 2006</td>
<td>The Audit Board of The Republic of Indonesia gave a disclaimer opinion on Jiwasraya's 2006—2007 Financial Statements because the presentation of the reserve funds could not be verified due to negative equity of Rp 3.29 trillion with assets smaller than liabilities which caused windows dressing through false profit bookkeeping. The Ministry of State Owned Enterprises and FSA assessed Jiwasraya's equity was negative at Rp 3.29 trillion.</td>
</tr>
<tr>
<td>Year 2008</td>
<td>Jiwasraya issued limited investment mutual funds and reinsurance to minimize losses in Jiwasraya's financial statements which had a deficit of Rp 5.7 trillion. The Audit Board of The Republic of Indonesia gave a disclaimer opinion on Jiwasraya's 2006—2007 financial statements due to the presentation of information on reserve funds that could not be trusted, resulting in a deficit of Rp 5.7 trillion (2008) and Rp 6.3 trillion (2009).</td>
</tr>
<tr>
<td>Year 2009</td>
<td>Jiwasraya continued reinsurance to minimize the Rp 6.3 trillion deficit.</td>
</tr>
<tr>
<td>Year 2010</td>
<td>Jiwasraya resumed its reinsurance scheme.</td>
</tr>
<tr>
<td>Year 2011</td>
<td>Jiwasraya continued reinsurance and obtained a surplus of Rp1.3 trillion.</td>
</tr>
<tr>
<td>May 2012</td>
<td>Jiwasraya requested an extension of reinsurance but was refused.</td>
</tr>
<tr>
<td>Dec 12, 2012</td>
<td>JS Saving Plan as Jiwasraya product through bancassurance (in collaboration with bank BTN, Standard Chartered Bank, KEB Hana Bank Indonesia, Bank Victoria, Bank ANZ, Bank QNB Indonesia, and BRI) with high interest offers of 9% to 13% permitted by Bapepam-LK as alternative solutions for comprehensive and short-term fundamentals.</td>
</tr>
<tr>
<td>Dec 31, 2012</td>
<td>Jiwasraya received a surplus of Rp 1.6 trillion due to reinsurance, but also a deficit of Rp 3.2 trillion without a reinsurance scheme.</td>
</tr>
<tr>
<td>Year 2013</td>
<td>The FSA (switching from Bapepam-LK) supervised Jiwasraya and asked The Ministry of State Owned Enterprises to provide a solution for a solvency ratio of less than 120%.</td>
</tr>
<tr>
<td>Year 2014</td>
<td>Jiwasraya sponsored MU. There was an increase in shares and mutual funds at Jiwasraya so that there was an increase in premium income of up to 50%.</td>
</tr>
<tr>
<td>Year 2015</td>
<td>The audit of The Audit Board of The Republic of Indonesia stated that there were fraudulent financial statements (overstated and understated) and alleged abuse of authority (Jiwasraya bought Medium-Term-Note bonds from a company that had only been established for 3 years which was losing money without any income and also bought shares and second and third mutual funds without adequate review, regulations, and finance).</td>
</tr>
</tbody>
</table>
***Chronology of Fraud at Jiwasraya***

**Year 2016**

The results of a special audit by The Audit Board of The Republic of Indonesia in 2016 revealed that there were 16 findings on Jiwasraya’s business management, investment, revenue, and operational costs for 2014—2015, such as ***:

- the recording of indirect investments amounted to Rp 6.04 trillion of the total investment and the purchase of shares and mutual funds was more expensive than the market price, resulting in a potential loss of Rp 601.85 billion;
- TRIO, SUGI, LCGP shares were not supported by an adequate review of the proposed share placement;
- there was a potential risk of default in investment transactions for the purchase of PT Hanson Internasional (HI) Medium Term Notes;
- Jiwasraya was not optimal in monitoring mutual funds;
- Jiwasraya placed shares in a company that performed less well.

Based on The Audit Board of The Republic of Indonesia's recommendation, Jiwasraya released its second and third tier shares and mutual funds. FSA asked Jiwasraya to prepare a plan to fulfill the investment adequacy ratio because there was no reinsurance.

**Year 2017**

The Audit Board of The Republic of Indonesia gave a disclaimer opinion on Jiwasraya's 2017 financial statements because there was a lack of reserve funds of Rp 7.7 trillion.

FSA did not find stocks and mutual funds that exceeded the investment limit for each investment manager and FSA also gave the first warning sanction because Jiwasraya was late in submitting its 2017 actuarial report.

Jiwasraya experienced an increase in revenue due to the sale of the JS Saving Plan. Jiwasraya evaluated the JS Saving Plan due to FSA's request to assess the suitability of investment capabilities where the JS Saving Plan in 2017 rose 37.64 % from 2016 by generating revenue of Rp21 trillion and profit of Rp 2.4 trillion **.

Jiwasraya bought back shares and second and third tier mutual funds.

Jiwasraya's financial position is an equity surplus of Rp 5.6 trillion, a shortage of premium reserves of Rp 7.7 trillion (not counting asset losses), understated liabilities resulting in a profit before tax of Rp 428 billion from a loss of Rp 7.26 billion.

**Year 2018**

The results of the audit by The Audit Board of The Republic of Indonesia *** stated that Jiwasraya invested in risky assets to obtain high returns without using the principle of prudence. Only 2 % of Jiwasraya's investment was placed in quality stocks and mutual funds, while 5 % of Rp 5.7 trillion was in bluechip stocks. As a result, the sale of Jiwasraya's shares and mutual funds, which fell in value by Rp 1.7 trillion and Rp 8.1 trillion in 26 and 107 mutual funds, could not be released ****.

The Audit Board of The Republic of Indonesia's Preliminary Investigation 2018 stated that there were indications of fraud in the management of saving plan products with very high interest rates above the deposit and bond interest rates that had been massive since 2015 but the proceeds from the sale of these products were invested in stocks and mutual funds of poor quality thus potentially detrimental to state finances.

<table>
<thead>
<tr>
<th>Date</th>
<th>Chronology of Fraud at Jiwasraya</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 2018</td>
<td>FSA punished Jiwasraya for being late in submitting its 2017 financial report with an administrative fine of Rp 175 million. FSA approved the 2016 premium reserve of Rp 10.9 trillion **. PwC corrected Jiwasraya's profit in 2017 from Rp 2.4 trillion to Rp 428 billion and provided an Adverse Opinion on Jiwasraya's 2017 financial statements **. Jiwasraya's President Director and Finance Director were removed **. The customer has started to withdraw the JS Saving Plan.</td>
</tr>
<tr>
<td>May 2018</td>
<td>The President Director of Jiwasraya, Asmawi Syam, has been inaugurated and reported irregularities in the financial statements to The Ministry of State Owned Enterprises **.</td>
</tr>
<tr>
<td>August 2018</td>
<td>The Ministry of State Owned Enterprises met with directors regarding the potential for default and asked the The Audit Board of The Republic of Indonesia and Finance and Development Supervisory Agency to audit Jiwasraya's investigations **.</td>
</tr>
<tr>
<td>Oct 2018</td>
<td>Based on H. Purnomo ****, Jiwasraya failed to pay the JS Saving Plan customer’s maturity policy claim of Rp 802 billion due to the weak governance of Jiwasraya and also the weak supervision from the FSA, so Jiwasraya discussed the decrease in premium income due to the decrease in the guaranteed return on the JS Saving Plan with FSA.</td>
</tr>
<tr>
<td>Oct – Nov 2018</td>
<td>Jiwasraya's liquidity problems began to be publicized **</td>
</tr>
<tr>
<td>Nov 2018</td>
<td>The shareholders replaced the President Director and stated that Jiwasraya needed Rp 32.89 trillion in funds **.</td>
</tr>
<tr>
<td>Sept 2019</td>
<td>Jiwasraya had negative liquidity pressures of Rp 23.92 trillion, but liabilities of Rp 49.6 trillion, assets of only Rp 25.68 trillion, while JS Saving Plan's liabilities were Rp 15.75 trillion *****. So S. Makki ** said Jiwasraya needs Rp 32.89 trillion to cover the 120% solvency ratio. The reasons for Jiwasraya's negative performance according to H. Purnomo ****: Errors in product pricing; weak implementation of prudent investment principles; the existence of stock price engineering; and JS Saving Plan liquidity pressure.</td>
</tr>
<tr>
<td>Dec 2019</td>
<td>Jiwasraya experienced a default of Rp 12.4 trillion. Jiwasraya's finances deteriorated due to window dressing through the purchase of second and third tier shares before the close of the quarter and then the shares were resold on January 2 of the following year. As a result of buying shares below the market price, the investment results in the financial statements will be recorded as profitable but only false profits.</td>
</tr>
<tr>
<td>Dec 30, 2019</td>
<td>Attorney General's Office of Indonesia asked the The Audit Board of The Republic of Indonesia to conduct an investigative audit and calculate the state losses of Jiwasraya along with FSA, The Ministry of State Owned Enterprises, and Public Accounting Firm *.</td>
</tr>
</tbody>
</table>
Date | Chronology of Fraud at Jiwasraya
--- | ---
Year 2019 | Based on the examination of the witnesses who managed Jiwasraya until 2015, the list of witnesses *****:
• Former General Manager Teknik PT Asuransi Jiwasraya,
• Vice Head of Center Bancassurance and Strategic Alliance PT Asuransi Jiwasraya Period 2015—2019,
• Head of Division at Bancassurance Finance and Strategic Alliance PT Asuransi Jiwasraya Period 2015—2019,
• Head of Division at Wealth Management Head Office BRI Division Bancassurance, and
• Head of Division at Bancassurance Accountability and Strategic Alliance PT Asuransi Jiwasraya Period 2015—2018.

Year 2020 | The Audit Board of The Republic of Indonesia audited Jiwasraya's and FSAs' investments at the request of the Attorney General's Office of Indonesia. The House of Representatives of The Republic of Indonesia formed Panitia Kerja Jiwasraya or Committee Jiwasraya *****.
Attorney General's Office of Indonesia examined FSA officials related to Jiwasraya's corruption including: Director of Investment Management of FSA's 2A Capital Market Supervision Department, Head of Product Registration Division of FSA's Directorate of Investment Management's 2A Capital Market Supervision, Head of Sub-Section of FSA's Securities Transaction Supervision Department, and the former President Director of IDX.

Jan 7, 2020 | The Ministry of State Owned Enterprises asked The Audit Board of The Republic of Indonesia to examine Jiwasraya in a transparently *****.

Jan 8, 2020 | The Audit Board of The Republic of Indonesia gave an official statement regarding Jiwasraya's default **.

Jan 14, 2020 | Attorney General's Office of Indonesia detained 5 people suspected of being involved in the Jiwasraya case, which consisted of Hendrisman Rahim (Former Director), Harry Prasetyo (Former Finance Director), and Syamirwan (Former Head of Investment and Finance Division) for Law No. 31 of 1999.

Oct 12, 2020 | The panel of judges at the Jakarta Corruption Court sentenced Hendrisman Rahim, Hary Prasetyo, Syahmirwan, Fakhri Hilmi, Benny Tjokrosaputro, Heru Hidayat, and Joko Hartono Tirto for the alleged corruption case in the management of Jiwasraya's investment funds.

Dec 2020 | Customer claims due reached Rp 16.1 trillion with a potential state loss of Rp 13.7 trillion due to policy failure.

*** Badan Pemeriksa Keuangan Republik Indonesia. Audit Report ... . URL: https://www.bpk.go.id/ihps# (date accessed: 02.03.2023).
**Red Flags on Fraudulent Financial Statement at Insurance Fraud Jiwasraya**

Based on the chronology of the Jiwasraya case, it can be identified that Jiwasraya is a complex and systemic case by committing all three types of fraud at once from 2002 to 2020 and this fraud has also spread to Asabri. The first discussed fraud is the fraudulent financial statement which is divided into five types of schemes, including: Timing Differences, Fictitious Income, Hidden Liabilities, Improper Disclosure, and Improper Asset Valuation. So the following is the identification and explanation of the red flags of the Jiwasraya case fraud in the Fraudulent Financial Statement scheme.

### Table 4. Red Flags on Fraudulent Financial Statement Scheme on Fraud Jiwasraya

<table>
<thead>
<tr>
<th>Improper Asset Valuation</th>
<th>Identification of Red Flags</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improper Asset Valuation is an increase in nominal assets (receivables, inventories, fixed assets), capitalizing costs, or reducing contra accounts. Some general red flags of improper asset valuation according to T. W. Singleton and A. J. Singleton are: Unusual or unexplained increase in the book value of assets (inventory, receivables, long-term assets). Unusual trends in ratios or the relationship of assets to other parts of the financial statements. GAAP violations on the recording of expenses and assets. Management tends to be unresponsive when internal auditors conduct audits. Statement assets are removed from the balance sheet. So that the red flags that occur in the Improper Asset Valuation scheme at Jiwasraya are: Jiwasraya was declared overstated and understated based on the results of the The Audit Board of The Republic of Indonesia's audit in 2015. Understated liabilities in 2017 resulted in a profit before tax of Rp 428 billion from a loss that should have been Rp 7.26 billion.</td>
<td></td>
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</tbody>
</table>

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Fraudulent Financial Statement Identification of Red Flags

Improper Disclosure Based on T. W. Singleton and A. J. Singleton *, red flags for improper disclosure are disclosures that are intentionally obscured and there are legal findings that are kept secret. Jiwasraya made inadequate disclosures in its financial statements so that The Audit Board of The Republic of Indonesia and PwC gave a disclaimer opinion for several years until the Ministry of State Owned Companies (called as BUMN) asked The Audit Board of The Republic of Indonesia and Finance and Development Supervisory Agency (BPKP) to audit Jiwasraya to find out the nominal transparency of Jiwasraya's financial statements **. So that the red flags for improper disclosure to Jiwasraya: The Audit Board of The Republic of Indonesia's Disclaimer Opinion on Jiwasraya's 2006—2007 Financial Statements: The presentation of the reserve funds cannot be trusted because the negative equity amounted to Rp 3.29 trillion with assets smaller than liabilities, resulting in an apparent profit. The Audit Board of The Republic of Indonesia's disclaimer opinion on Jiwasraya's 2017 Financial Statements: Lack of reserve funds of Rp 7.7 trillion. Adverse Opinion by PwC on Jiwasraya’s 2017 Financial Statements: PwC corrected profit from Rp 2.4 trillion to Rp 428 billion. There were Rp 2.9 trillion and Rp 2.76 trillion insolvency at Jiwasraya in 2002 and 2004.

Timing Differences Timing Differences is a method used by overestimating income for the current fiscal period by playing with time *. Jiwasraya’s red flags doing Timing Differences is that Jiwasraya in December 2019 bought the second and third tier shares before the close of the quarter and then resold the shares on January 2 of the following year.


Red Flags on Corruption at Insurance Fraud Jiwasraya

The second fraud is a corruption scheme which is divided into four types of schemes, including: Economic Distortion, Illegal Gratification, Conflict of Interest, and Bribery 52. Corruption schemes involve at least 2 parties which are characterized by internal company parties working with external or internal company partners 53. In the Jiwasraya case, the corruption that occurred was included in the Conflict of Interest Scheme with the following informations.

53 Ibid.
Table 5.

Red Flags on Corruption Schemes at Fraud of Jiwasraya

<table>
<thead>
<tr>
<th>Corruption Scheme</th>
<th>Identification of Red Flags</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conflict of Interest</td>
<td>A conflict of interest occurs when an employee, manager, or executive has an undisclosed economic or personal interest in a transaction that has a negative impact on the company *. The red flags of conflict of interest on corruption according to T. W. Singleton and A. J. Singleton * are: There is an abuse of authority **. Transactions with large amounts with certain vendors. There is an undisclosed special relationship between the company and third parties. Low segregation of duties (especially in accounting contracts). While the identification of red flags in the Jiwasraya case related to conflicts of interest are: There was an abuse of authority of Jiwasraya's directors so that there was a change of director by the Shareholders. On 12 December 2012, Jiwasraya conducted bancassurance with bank BTN, Standard Chartered Bank, KEB Hana Bank Indonesia, Bank Victoria, ANZ Bank, QNB Indonesia Bank, and BRI by offering high interest rates of 9% to 13% ***. Jiwasraya purchased MTN bonds (Medium-Term-Note) in 2015 from a company that has only been established for three years which continues to suffer losses without any income ****. In 2015, Jiwasraya purchased shares and second- and third-tier mutual funds without proper studies, regulations, and finances. Purchases of shares and mutual funds were more expensive than the market price, resulting in a loss to the state of Rp 601.85 billion in 2016 ****. In 2016, Jiwasraya purchased TRIO, SUGI, LCGP shares which were not supported by an adequate review of the proposed share placement ****. In 2016 Jiwasraya released its second and third tier shares and mutual funds, but bought again in 2017 ****. Based on the results of the 2018 audit by The Audit Board of The Republic of Indonesia, it was stated that Jiwasraya invested 2% in quality stocks and mutual funds, 5% invested in blue chip stocks, while the rest was invested in bad investments ***.</td>
</tr>
<tr>
<td>Asset Misappropriation</td>
<td>The third fraud is asset misappropriation of cash. In the Jiwasraya case, the red flag for asset misappropriation of cash is that in 2018 Jiwasraya received income from the sale of saving plan products but it was misused to invest in stocks and mutual funds of poor quality, potentially causing state losses.</td>
</tr>
</tbody>
</table>

**** Badan Pemeriksa Keuangan Republik Indonesia. Audit Report ... . URL: https://www.bpk.go.id/ihps# (date accessed: 02.03.2023).

Red Flags on Asset Misappropriation at Insurance Fraud Jiwasraya

The third fraud is asset misappropriation of cash. In the Jiwasraya case, the red flag for asset misappropriation of cash is that in 2018 Jiwasraya received income from the sale of saving plan products but it was misused to invest in stocks and mutual funds of poor quality, potentially causing state losses.

There are three strategies to combat insurance fraud at PT Asuransi Jiwasraya (Persero), including: detective strategy, repressive strategy, and preventive strategy.

The Detective Strategies to Combat Insurance Fraud

The detective strategy aims to identify the causes of insurance fraud through system improvements, follow-up on public
complaints, mandatory periodic financial reporting, and mandatory reporting of the wealth of officials. Occupational fraud is usually detected through information (43% intensity within a 14-month detection period with a median loss of $145,000), internal audit (an intensity of 15% within a 12-month detection period with a median loss of $100,000), management reviews (an intensity of 12% within a 17-month detection period with a median loss of $100,000), others (6% intensity within a 24-month detection period with a median loss of $200,000), account reconciliation (4% intensity within a 7-month detection period) with a median nominal loss of $81,000), external audit (an intensity of 4% with a detection period of 24 months with a median loss of $150,000), document inspection (an intensity of 3% within a detection period of 18 months with a median loss of $101,000), supervision (intensity of 3% in a period of 7 months with a median nominal loss Ian for $44,000), law enforcement (intensity of 2% over a 24-month period for a median loss of $900,000), IT surveillance (intensity of 2% over a 6-month period for a median loss of $80,000), and recognition (intensity of 1% over a period of 17 months with a median nominal loss of $225,000) 54.

The Preventive Strategies to Combat Insurance Fraud

Preventive strategies are carried out internally or externally. External prevention is carried out by minimizing and even eliminating the causes and opportunities for the occurrence of insurance fraud. Several ways that can be done in a preventive strategy are identifying the reasons or causes of insurance fraud, compiling and implementing a code of ethics, improving the quality and welfare of financial managers at PT Asuransi Jiwasraya (Persero), as well as improving services and management control systems. However, this preventive strategy is preventive from the external side so that it has obstacles in the form of the need for synergy and coordination of all national units from the executive, judicial, legislative, and Indonesian people.

The Repressive Strategies to Combat Insurance Fraud

The repressive strategy is an effort to minimize the number of insurance fraud through legal action so that it has a deterrent effect. The repressive process usually begins with the handling of public complaints (whistleblowers) and inspections by external auditors and internal auditors. After that, law enforcement officers carry out investigations, prosecutions and executions. There are several state institutions that are given the authority to combat fraud with repressive functions in the Police, the Prosecutor’s Office, the Indonesian Commission for the Elimination of Corruption (KPK), the Ministry of Finance, and Indonesia’s Financial Services Authority 55. However, there is the potential for throwing responsibilities at each other because of the division of authority between repressive agencies in resolving cases, such as the KPK which is reluctant to intervene in the PT Asuransi Jiwasraya (Persero). Y. Wang et al. 56 and L. L. Lisic.

54 ACFE. Report To The Nations ….
et al. 57 divide the punishment for accounting fraud in China with the approach of financial sanctions (fines) and non-financial sanctions (reputation) with the aim of deterring fraudsters from repeating their actions again. Repressive strategies in combating fraud are divided into two, namely as repressive as justice enforcement and repressive as legal protection. In a repressive perspective for legal protection, it can be identified four efforts for the case of PT Asuransi Jiwasraya 58.

**Table 6. Repressive Strategy for Customer Legal Protection in the Fraud Case of Jiwasraya**

<table>
<thead>
<tr>
<th>Repressive for Customer Legal Protection</th>
<th>Explanation on Fraud at Jiwasraya</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criminal Law Protection</td>
<td>Attorney General's Office of Indonesia has named a suspect in the Jiwasraya case based on Articles 2 and 3 of the Corruption Crime Law to process criminal charges that cause state losses. So the Attorney General's Office of Indonesia in collaboration with Indonesian Financial Transaction Reports and Analysis Center (called as PPATK) traces Jiwasraya's assets and evidence of corruption.</td>
</tr>
<tr>
<td>Civil Law Protection</td>
<td>Civil law protection through ordinary civil lawsuits or bankruptcy. Jiwasraya customer has filed a lawsuit for default on Jiwasraya.</td>
</tr>
<tr>
<td>Administrative Legal Protection</td>
<td>Jiwasraya's governance is bad, resulting in Financial Services Authority (FSA) gave administrative sanctions *. If the Public Accounting Firm that has audited Jiwasraya is involved in Jiwasraya's fraud, it could potentially be subject to administrative sanctions by the Minister of Finance.</td>
</tr>
<tr>
<td>Ethical Responsibility</td>
<td>The FSA Board of Commissioners imposed ethical sanctions on FSA officials and employees who commit fraud.</td>
</tr>
</tbody>
</table>


Meanwhile, the repressive strategy for justice enforcement has identified Jiwasraya’s efforts against the law by violating several applicable laws and regulations.\(^{59}\)

<table>
<thead>
<tr>
<th>Repressive for Justice Enforcement</th>
<th>Explanation on Fraud at Jiwasraya</th>
</tr>
</thead>
<tbody>
<tr>
<td>OJK Law No. 73/POJK.05/2016 (Good Corporate Governance for Insurance Companies) Article 17</td>
<td>Based on the results of the audit by The Audit Board of The Republic of Indonesia, it was stated that the sale and purchase of shares and mutual funds of Jiwasraya indicated fraud by the leadership of Jiwasraya, thus violating the provision that the Board of Directors is prohibited from conducting transactions with conflicts of interest. As a result, they are subject to administrative sanctions and are prohibited from holding certain positions in insurance companies.</td>
</tr>
<tr>
<td>Law No. 31 of 1999 (Corruption Crime) Article 2 and 3</td>
<td>The act of enriching individuals and other parties by abusing their authority to the detriment of the state. Punishment in the form of criminal threats and fines. Based on the results of the audit by The Audit Board of The Republic of Indonesia, Jiwasraya was indicated to be corrupt through the marketing of the JS Saving Plan where relevant parties received a fee for the sale of the JS Saving Plan.</td>
</tr>
<tr>
<td>Law No. 8 of 2010 (Prevention and Eradication of the Crime of Money Laundering) Article 3</td>
<td>Jiwasraya is suspected of hiding corruption assets, so Attorney General’s Office of Indonesia, Indonesian Commission for the Elimination of Corruption, and Indonesian Financial Transaction Reports and Analysis Center are trying to trace the flow of Jiwasraya’s corruption money and if proven, they will be sentenced to a maximum of 20 years and a maximum fine of Rp 10 billion.</td>
</tr>
<tr>
<td>Law No. 40 of 2007 (Incorporated Company) Article 97</td>
<td>Based on the results of the audit by The Audit Board of The Republic of Indonesia *, the Director of Jiwasraya deliberately did window dressing, proposed cost of funds without involving the relevant divisions, and appointed bancassurance officials who did not comply with the provisions. As a result, it generates false profits and has financial legal consequences.</td>
</tr>
<tr>
<td>Law No. 8 of 1995 (Capital Market) Article 90</td>
<td>Based on the results of the audit by The Audit Board of The Republic of Indonesia, Jiwasraya committed fraud through buying and selling shares and mutual funds that did not match the actual nominal value. The result is a maximum imprisonment of 10 years and a maximum fine of Rp 15 billion.</td>
</tr>
</tbody>
</table>

This research was only conducted in one insurance company in Indonesia in the case of insurance fraud at PT Asuransi Jiwasraya (Persero) from 2006 to 2020 so it cannot be generalized to all fraud cases.

**Conclusion**

Forensic auditors need to understand the red flags in every fraud scheme as an early warning system. The purpose of understanding red flags by auditors is to facilitate the characteristics, processes, detection, and prevention of fraud effectively and efficiently.

In the Jiwasraya case, there was a mega fraud involving corruption fraud, asset misappropriation fraud, and financial statement fraud which resulted in the Jiwasraya fraud case being systemic and detrimental to many parties. Jiwasraya's fraudulent financial statement scheme occurred in accordance with the Improper Asset Valuation, Improper Disclosure, and Timing Differences schemes.

The red flags for the fraudulent financial statement scheme on improper asset valuation are based on the Audit Result Report by The Audit Board of The Republic of Indonesia that in 2015 Jiwasraya overstated and understated and in 2017 understated liabilities which included improper profits. The red flags for the fraudulent financial statement scheme in Jiwasraya's improper disclosure are The Audit Board of The Republic of Indonesia's disclaimer opinion on Jiwasraya's financial statements, adverse opinion from PwC, and Jiwasraya's insolvency in 2002 and 2004 of Rp 2.9 trillion and Rp 2.76 trillion.

The red flags for Jiwasraya's fraudulent financial statement scheme on timing differences are that Jiwasraya bought the second and third tier shares before the end of the quarter in December 2019 and then resold them on January 2, 2020. The red flags of Jiwasraya's corruption with the Conflict of Interest Scheme is an abuse of interest which resulted in the removal of the director by shareholders, Jiwasraya did bancassurance against the provisions by offering high interest rates in 2012, Jiwasraya bought MTN bonds at a newly established company that suffered...
losses in 2015, Jiwasraya bought shares and mutual funds more expensive than the market price, Jiwasraya bought shares without review proposed adequate share placements in 2016, and the majority of Jiwasraya's investments (approximately 93%) were placed in underperforming stocks and mutual funds. Meanwhile, the red flags for the misuse of cash assets by Jiwasraya were the purchase of shares and mutual funds of poor quality using income from the sale of saving plan products. So that detective, preventive, and repressive strategies are needed to combat fraud committed in Indonesia in general and PT Asuransi Jiwasraya (Persero).

The detective strategy aims to identify the causes of insurance fraud through system improvements, follow-up on public complaints, mandatory periodic financial reporting, and mandatory reporting of the wealth of officials. Occupational fraud is usually detected through information, internal audit, management reviews, account reconciliation, external audit, document inspection, supervision, law enforcement, IT, recognition, and others. Several ways that can be done in a preventive strategy are identifying the reasons or causes of insurance fraud, compiling and implementing a code of ethics, improving the quality and welfare of financial managers at Jiwasraya, as well as improving services and management control systems. Preventive strategies for insurance fraud need to be implemented internally and externally by identifying the causes of insurance fraud, compiling and implementing a code of ethics, improving the quality and welfare of PT Asuransi Jiwasraya (Persero), as well as improving services and management control systems. The repressive strategy is divided into two, namely repressive as legal protection and repressive as justice enforcement. In the perspective of repressive legal protection, four efforts can be identified in the case of PT Asuransi Jiwasraya (Persero): Criminal Law Protection, Civil Law Protection, Administrative Legal Protection, and Ethical Responsibility. While the repressive strategy of justice enforcement can be identified that Jiwasraya has violated several applicable laws and regulations: OJK Law No. 73/POJK.05/2016 Article 17; Law No. 31 of 1999 Article 2 and 3; Law No. 8 of 2010 Article 3; Law No. 40 of 2007 Article 97; Law No. 8 of 1995 Article 90; and Law No. 40 of 2014 Articles 11 and 21.

Виявлення індикаторів ризику у страховому шахрайстві: аналіз окремого дослідження (на прикладі PT Jiwasraya Indonesia)

Вах’ю Алімірручі, Аңіс Чаріпі


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Participants
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