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Review Article

Indonesia Insurance Corporate Governance: A Literature Review

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Abstract: The aim of this research is to present and evaluate corporate governance framework for insurance companies in Indonesia based on previous researches related to corporate governance and The Indonesia Financial Services Authority Regulation. We evaluate concerning to governance objectives that include protecting shareholder interests, enhancing shareholder value, ensuring accountability, managing risk, promoting ethical behavior, transparency and disclosure, balancing interests, strategic decision-making, compliance with laws and regulations, efficient operations, long-term sustainability, stakeholder engagement, adapting to change, creating a positive reputation, and facilitating investment. We discuss the corporate governance framework for insurance companies in Indonesia based on the Indonesia Financial Services Authority regulation that states governance structure, corporate governance code, self-assessment & governance report, governance process and corporate governance principles to meet governance objectives. Although every year all insurance companies report corporate governance, but some companies have been stopped by the Authority. This raises research problems for the future relating to why insurance companies that have complied with corporate governance provisions have been stopped by the Authority.

Keywords: Corporate Governance Framework, Financial Services Authority Regulation, Governance Objectives, Insurance Companies.

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1. INTRODUCTION

In recent decades, the level of development of science and technology has increased the progress of all economic sectors, the expansion of private enterprises, and increased global competitiveness. However, these advancements were accompanied by a notable downside: a surge in significant corporate scandals such as Swissair, the Worldcom, Global Crossing Ltd., HealthSouth, Pamalat, Jinro Ltd and Tyco international companies (Htay *et al.*, 2013). Enron, a major U.S. corporation offering a range of services including wholesale and retail energy, broadband, and transportation, gained notoriety due to its massive failures rooted in deficient corporate governance. The company's bankruptcy filing marked a pivotal moment in global corporate governance, prompting significant legal reforms aimed at preventing or mitigating future corporate collapses. The combination of financial mismanagement, ethical lapses, poor corporate governance, and regulatory shortcomings culminated in Enron's collapse in December 2001. The bankruptcy resulted in significant losses for investors, employees, and the broader financial system, leading to increased scrutiny and reforms in corporate governance, accounting standards, and regulatory oversight to prevent similar corporate disasters in the future.

Insurance companies in China are also experiencing problems, especially in terms of firm's investment efficiency while China's economy is evolving, and enhancing economic development efficiency. The National Congress of the Communist Party of China acknowledges this shift from high-speed growth to high-quality development as various problems in high-speed growth such as investment bubbles, high leverage ratios, and income inequality. To attain high-quality economic development, Chinese business sector shift its focus from increasing investment volume to improving investment efficiency to achieve high-quality economic development in the future.

Directors' and officers' liability insurance is a mechanism designed to safeguard corporate directors and officers from legal liability arising from their actions and decisions made within their regular duties. This insurance covers personal liability resulting from misconduct during their managerial responsibilities, including the costs of legal defense and civil liability

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from legal actions brought by stakeholders like investors and creditors.

China's Securities Law state that directors and officers (D&Os) can be held jointly liable with the issuer for compensation if they provide false information in corporate documents, leading to investor losses. They face significant legal and financial risks unless they can prove their innocence. Over the past two decades, several listed firms and their D&Os have faced lawsuits and penalties due to their failure to fulfill their oversight duties. However, challenges such as lack of standardized insurance policy formats, an imperfect litigation system, and a low litigation rate, which have hindered D&O insurance's growth in China. Many Chinese D&O insurance policies are direct copies of foreign policies, which may not align with China's unique context.

Existing research offers mixed findings on D&O insurance's impact. Advocates contend that it curbs opportunistic behavior among D&Os, attracts and retains skilled executives, and boosts firm value. Conversely, critics argue that it might foster moral hazard issues, thereby diminishing firm value. Previous studies on investment efficiency have mainly focused on information transparency and financial reporting quality. Some argue that D&O insurance can enhance these factors, while others suggest it might exacerbate moral hazard, potentially impairing investment efficiency (Li *et al.*, 2023)

The separation of ownership (shareholders) from control (managers) has created a misalignment of interests, giving rise to agency conflicts. Within governance structures, the role of chief executive officers (CEOs) has received considerable focus in the literature, as they are responsible for leading the firm's executive team (Han *et al.*, 2016 and Masli *et al.*, 2018). The breakdown of corporate governance systems is frequently cited as a significant factor contributing to financial crises (Conyon *et al.*, 2011 and Bruner, 2011).

Research on the structure and performance of boards of directors has mainly focused on the financial services industry in developed and developing countries (Adams and Mehran, 2012 and Pathan and Faff, 2013). There has been a noticeable gap in exploring the relationship between governance mechanisms and efficiency within insurance markets and have primarily concentrated on countries in Asia, North America, Europe, Islamic nations, and the Middle East and North Africa (MENA) regions (Hsu and Petchsakulwong, 2010; Hardwick *et al.*, 2011; Huang *et al.*, 2011; Bahloul *et al.*, 2013; and Karbhari *et al.*, 2018). The impact of governance on performance is especially pertinent for the non-listed financial services industry in Africa, which may be characterized by high levels of information asymmetry that exacerbates the principal-agent conflict (Alhassan and Boakye, 2020)

Insurance companies are involved in intricate operations, underscoring the vital role of robust governance and effective accounting and financial reporting standards in obtaining a comprehensive understanding of their financial standing. The World Bank and International Monetary Fund place significant emphasis on corporate governance (CG) within the insurance sector, as highlighted by Cheng *et al.*, (2011) and Eling and Marek (2014). Furthermore, the European Union introduced Solvency II in 2009 to enforce appropriate governance and risk management practices among insurance firms, as noted by Boubakri (2011).

Within insurance companies, corporate governance (CG) significantly influences their risk-taking behavior, and this impact varies depending on their ownership structures. Insurance firms were not unaffected by the recent financial crisis, which revealed vulnerabilities in executive compensation, board responsibilities, and risk management practices. As a result, there has been a comprehensive exploration of various CG mechanisms aimed at mitigating risk-taking, as observed in studies by Adams and Jiang (2016), Mokhtar and Mellett (2013), and Calomiris and Carlson (2016).

The insurance sector plays a substantial role in the UK's economy, ranking as the third-largest global insurance market. Notably, approximately one-third of revenue generated by UK insurance companies comes from their international operations, underscoring its significance (French, Vital, and Minot, 2015; Adams and Jiang, 2016). Insurance firms are key contributors to the stability of the financial system. While they weathered the financial crisis more robustly than certain other sectors, maintaining strong governance and adhering to high accounting and financial reporting standards remains crucial for a resilient financial system that can support the economy's requirements. By improving corporate governance practices, insurers can safeguard both their businesses and individuals against risks, ultimately enhancing the resilience of the economy (Adams and Jiang, 2016; Afrifa and Tauringana, 2015; Boubakri, 2011).

In 2012, the Financial Reporting Council (FRC) emphasized the role of an active board in enhancing a company's values, behaviors, and overall culture. The latest UK Corporate Governance (CG) Code, introduced in October 2016, adheres to the "comply or explain" approach set out by the FRC in 2014. Its primary objective is to promote effective, innovative, and prudent management practices that support long-term growth in businesses (FRC, 2014). While corporate governance plays a pivotal role, assuming a straightforward link between robust governance and the prudent risk-taking of insurance companies can be misleading. Given the complexity and opacity of these firms, identifying the specific components of corporate governance that

influence their risk-taking requires a more nuanced examination. (Ahmed, *et al*., 2018).

The separation of ownership and control in corporations, leading to agency conflicts between shareholders and managers, can significantly impact expected investor returns, making it a critical concern for shareholder wealth. One common strategy to mitigate these conflicts is the distribution of dividends, which encourages firms to interact more with external capital markets. This increased external scrutiny acts as a monitoring mechanism, reducing agency costs. However, entering external markets does entail transaction expenses, so an ideal dividend policy seeks to strike a balance that minimizes the combined costs of agency conflicts and transactions. Dividend payments and subsequent capital-raising activities function as tools to manage agency costs by enhancing oversight of a company's activities and performance by the primary capital market. Effective corporate governance can play a pivotal role in reducing the expenses associated with agency conflicts and can influence dividend policies by decreasing the costs shareholders incur for monitoring and auditing. Within this framework, corporate governance serves as a bonding mechanism to align the interests of shareholders and managers (Puleo, *et al*., 2018).

Bhuyan, *et al*., (2022) investigate the relationship between chief executive officer (CEO) compensation and a firm's financial performance in the insurance industry to determine CEO pay policies that are more effective in promoting specific financial corporate goals. They question the justification of high executive compensation in relation to their work contributions and value to shareholders. Mishel and Schieder (2018) highlight that executives at the largest 350 US firms receive an average pay of approximately $18.9 million, which is 312 times higher than the average worker's salary in the same firms and that executive compensation in Japan and Great Britain during the same period was significantly lower. The financial crisis of 2008 reflected executive greed and unethical actions in precipitating a global economic downturn and underscore the moral hazard issue arising from the separation of ownership in public companies, prompting consideration of compensation policies to address this agency-related problem.

The SEC should increase transparency and require detailed corporate disclosure of all forms of compensation, including hidden benefits, to align pay with performance more effectively. Bebchuk and Spamann (2009) express concern that executive compensation arrangements may have encouraged excessive risk-taking in the financial sector, and emphasize the importance of addressing these arrangements to prevent a similar crisis. Components of executive compensation include salary, bonuses and long-term incentives such as stock awards and options and there has been a shift from salary-based compensation to performance-based compensation in leading US companies and significant increases in CEO compensation over the last three decades. They conclude that after the crisis the insurance industry experienced a major change in executives' compensation packages. While CEOs' compensation was primarily based on bonuses pre-crisis, the average size of the bonus was reduced to one-third of the level, stock awards and nonequity incentives were doubled and option awards increased almost 70 percent in the post-crisis period. It is also evident that the work experience of CEOs and the firm's financial performance play a significant role in determining CEO compensation. As the CEO becomes more experienced, stock awards and option awards replace cash bonus.

Advocates of the pay-for-performance perspective argue that incentive pay, based on agency theory, helps align these interests, reducing opportunism and discouraging risk aversion (Devers *et al*., 2007). Optimal contracting theory suggests that compensation arrangements between boards of directors and executives, viewed as arm's length transactions, can mitigate agency problems by aligning interests in compensation structures (Yermack, 1996). On the contrary, the managerial power theory contends that executive compensation is influenced by managerial power, which may result in compensation structures that fail to resolve agency issues and could even exacerbate them (Van Essen *et al*., 2015).

The importance of contextual influences on compensation design, including environmental factors marked by high uncertainty and discretion favoring innovation over performance. Governance-related factors, such as ownership structures and board characteristics, have garnered scholarly attention in the discussion of executive compensation.

Insurance companies were pioneers in recognizing the risks associated with environmental consequences linked to global warming, even before the widespread awareness of terms like "global warming" and "climate change." They observed a noticeable increase in claims related to floods during this time. However, the 1990s marked the emergence of various initiatives within the financial sector, with a focus on integrating environmental, social, and governance (ESG) factors. These initiatives signaled a broader commitment to sustainability in financial services.

The insurance industry has expanded its sustainability efforts to address issues such as biodiversity loss, ecosystem degradation, water scarcity, poverty, and the aging population. Consequently, new products and services have been developed to meet emerging needs, including inclusive insurance designed for low-income communities, individuals with special needs, and the elderly.

The Sustainability Principles for Insurance (PSI) were introduced during the United Nations Conference on the Environment. These principles resulted from collaborative efforts between global insurers and the United Nations Program Finance Initiative for the Environment. The PSI underscores the importance of considering environmental, social, and governance aspects relevant to insurance activities while promoting awareness among governments, regulators, and the public through regular and transparent communication (Borelli, 2020).

In Indonesia, many companies are managed poorly, making it difficult for them to fulfill the best interests of all involved, from employees to investors, suppliers, and others; less focus on company's values; lack of ability to organize company to deliver long-term success and economic growth; unable to maintain investors' confidence; less competent in improving control over management and information systems; less able to maintain the goals and objectives of the company at the forefront of what you do; less able to minimize risk; and less focus on building and maintaining a strong brand reputation by bringing a high level of satisfaction to employees, customers, investors, and the community at large; as well as providing inadequate reporting to shareholders and other stakeholders yearly performance and operating results.

The Financial Services Authority (OJK) assesses that the implementation of GCG in Indonesia in ASEAN region is still lagging behind four countries, namely Thailand, the Philippines, Singapore and Malaysia (Ramli and Setiany, 2021). The Indonesian Financial Services Authority (OJK) continues to work on addressing problems in several insurance companies such as PT Asuransi Jiwa Adisarana Wanaartha, PT Asuransi Jiwa Kresna, Asuransi Jiwa Bersama Bumiputera, and Asuransi Jiwasraya (The Indonesia Financial Services Authority, 2021).

Kurniaty *et al*., (2019) summarize that various types of companies in Indonesia have problems separating ownership and management within the corporation; debates around dividend policy and its impact on company value; the importance of financial performance and ratios in evaluating a company's health and attractiveness in the eyes of investors; increasing shareholder welfare and trust in the company; challenges in the Indonesian stock market, including delisting of issuers, price gouging, and problems with private banks; the need for Indonesian companies to improve their management systems and financial performance in order to compete effectively in the ASEAN Economic Zone (Markonah *et al*., 2019); specific agency issues particularly regarding challenges posed by concentrated ownership and potential conflicts of interest (Setyahadi and Narsa, 2020); and quality and attractiveness to investors through timely disclosure of financial information.

Markonah *et al*., (2019) and Meianti, A., and Imsar, I. (2023) summarize that globalization is anticipated to play a pivotal role in driving worldwide economic expansion. Nevertheless, questions arise concerning Indonesia's capacity to effectively harness this opportunity, particularly within the insurance sector. Notably, there exists a relatively sparse presence of non-bank financial entities, particularly insurance companies, in comparison to other financial institutions. This hints at a potential market gap and presents the insurance sector with formidable challenges. There exists a pervasive lack of awareness and comprehension regarding insurance among the Indonesian populace. This absence of awareness can be ascribed to several contributing factors, including low savings rates, restricted promotional and educational efforts by the insurance sector, and the prevailing negative perception of insurance. Indonesia grapples with intricate ownership structures that can have a pronounced impact on overall performance. Premiums emerge as a pivotal concern within the insurance landscape. Fostering premium growth is perceived as a critical driver for enhancing profitability and overall performance. Nevertheless, insurance companies grapple with the intricate task of harmonizing premium growth with other concurrent financial objectives. In particular, life insurance companies encounter the delicate balancing act of distributing dividends while concurrently making judicious investments in assets. This equilibrium is essential for ensuring sustained financial performance and operational viability. The Indonesian insurance sector is experiencing robust growth, with a steadily increasing number of service companies, especially insurance providers (Vincent, *et al*., 2023).

The aim of this research is to present and evaluate corporate governance framework for insurance companies in Indonesia based on previous researches related to corporate governance and The Indonesia Financial Services Authority Regulation.

2. LITERATURE REVIEW

International Finance Corporation (2018) define corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

The goals and objectives of corporate governance are designed to ensure that a company is managed and controlled effectively while serving the interests of various stakeholders. These goals and objectives generally include:

a) Protecting Shareholder Interests:

One of the primary goals of corporate governance is to protect the rights and interests of

shareholders. This involves ensuring that shareholders have a say in major company decisions and that their investments are safeguarded.

b) Enhancing Shareholder Value:

Corporate governance aims to maximize shareholder value over the long term. This involves making decisions that prioritize the financial health and growth of the company, which ultimately benefits shareholders.

c) Ensuring Accountability:

Corporate governance establishes mechanisms to hold executives and directors accountable for their actions. This includes transparent reporting, ethical conduct, and consequences for misconduct.

d) Managing Risk:

Effective corporate governance is crucial for identifying, assessing, and managing risks that the company faces. This includes financial risks, operational risks, and compliance risks.

e) Promoting Ethical Behavior:

Corporate governance frameworks often include codes of ethics and conduct to ensure that the company and its employees operate with integrity and in compliance with applicable laws and regulations.

f) Transparency and Disclosure:

Corporate governance seeks to ensure transparency in financial reporting and disclosures. This helps investors and stakeholders make informed decisions about the company.

g) Balancing Interests:

Corporate governance strives to balance the interests of various stakeholders, including shareholders, employees, customers, suppliers, and the broader community. It seeks to prevent conflicts of interest and promote fair treatment.

h) Strategic Decision-Making:

Another objective is to guide the company's strategic direction and decision-making processes. Corporate governance ensures that decisions are made in the best interests of the company and its long-term sustainability.

i) Compliance with Laws and Regulations:

It is essential for companies to adhere to applicable laws and regulations. Corporate governance helps ensure that the company complies with legal requirements and avoids legal and regulatory issues.

j) Efficient Operations:

Effective corporate governance also focuses on improving the efficiency of the company's operations. This includes optimizing processes, reducing waste, and improving overall productivity.

k) Long-Term Sustainability:

Corporate governance aims to ensure the company's long-term sustainability and success. This involves considering environmental and social responsibility aspects alongside financial performance.

l) Stakeholder Engagement:

Engaging with stakeholders, including shareholders, employees, and communities, is a key objective. Corporate governance frameworks may encourage open communication and collaboration with these groups.

m) Adapting to Change:

Corporate governance should enable the company to adapt to changing market conditions, technological advancements, and evolving customer preferences while remaining competitive.

n) Creating a Positive Reputation:

A positive corporate reputation is a valuable asset. Corporate governance helps build and maintain a strong reputation by promoting responsible behavior and ethical practices.

o) Facilitating Investment:

Companies with robust corporate governance practices are more likely to attract investment from institutional investors, as these practices enhance investor confidence.

2.1 Corporate Governance and Agency Conflict

Agency cost is the internal expense resulting from conflicts of interest between principals and agents in an organization; it is hidden in any decision which is not aimed at maximizing company profit (Nguyen *et al*., 2020). Agency theory is a framework used in employment contracts to form a system that regulates the distribution of rights and responsibilities between the parties involved while still considering overall benefits. An employment contract basically contains guidelines that determine the sharing mechanism, which includes the results and risks agreed between the principal and the agent. The effectiveness of a contract depends on its ability to maintain a balance between the interests of the principal and the agent. This balance can be expressed mathematically, showing the optimal implementation of the agent's duties and the provision of satisfactory incentives or special rewards from the principal to the agent (Kurniaty *et al*., 2019). The foundation of agency theory lies in the meticulous design of contracts aimed at harmonizing the interests of both the principal and the agent, especially in situations where conflicts of interest or agency problems arise (Scott *et al*., 1997). A limitation of agency theory is its focus on the relationship between managers, company owners, and creditors in a complex environment, often overlooking the need for interconnectedness among various stakeholders, such as employees, society, and government. South Asian countries, effective corporate governance mechanisms in

controlling the managerial opportunistic behavior to lower agency conflicts, and hence lower agency costs (Mehmood *et al*., 2019). The effectiveness of CG mechanisms is likely to supplement regulation to protect investor rights and may prove to be useful for standard-setters as an important way to reduce agency conflicts (Jatiningrum *et al*., 2023). Various corporate governance mechanisms such as the ownership structure, compensation, composition of the Board of Directors, the duties and responsibilities of the executive and non-executive directors, regular monitoring by shareholders, and takeover devices, voting rights of shareholders, detailed disclosure of company information that are material for decision making by interested parties etc. in mitigating the agency problems (Bhuiyan, 2008). Private listed companies should establish a restraint mechanism matching with the equity incentive mechanism (Hao, 2022). The corporate governance system provides effective protection for shareholders and creditors so they are sure they will get a return on their investment correctly. Corporate governance also helps create a conducive environment for the creation of efficient and sustainable growth in the corporate sector (Wikartika and Akbar, 2019). La Porta *et al*., (1999) explained that the concept of GCG was affected by law instrument to protect interests of various parties associated with a company, more particularly minority owners. In developing countries, conflicts of interest happen due to different interests and power imbalances resulting in the exploitation and imbalance of system (Syahroza, 2005). The concept of GCG is expected to become instrument to convince investors that they will gain return from their investment. Shleifer and Vishny (1997) stated that GCG focuses on how investors control managers to provide profits and behave honestly in corporate resources management.

Signaling theory proves invaluable in explaining the dynamics between two parties, whether they be individuals or organizations, when they possess varying degrees of access to information (Connelly *et al*., 2011). This theory delves into the critical question of what signals a company should convey through its financial reports and what information managers should furnish to company owners. Central to signaling theory is the premise that it is imperative to provide investors with signals that align with their perceptions of a company's prospects. Among the signals employed, one notable example is the announcement of dividends. Dividend announcements are anticipated to serve as signals to investors in their decision-making processes when it comes to investments. The magnitude and direction of abnormal returns following such announcements can serve as indicators of a company's performance. Positive abnormal returns typically signify a company's strong standing, while negative ones may suggest otherwise. Consequently, dividend announcements hold significance as signals and provide pertinent information for investors as they navigate their investment choices (Puspitaningtyas, 2019).

2.2 Corporate Governance and Corporate Value

Four principles lie at the heart of good corporate governance. Accountability, transparency, fairness and responsibility all impact the decisions board members make. An effective governance framework helps to mitigate risks, providing shareholders in non-listed companies with the comfort that although their exits may be difficult, their interests will be safeguarded by the board and management. Kokoreva and Stepanova's (2013), Fallatah and Dickins (2012) and Wahyu (2013) find that the corporate governance had an influence on the firm value. Chae *et al*., (2009) found a strong influence of corporate governance on stock returns for companies in Korea. While Chen *et al*., (2004) found a significant positive influence of corporate governance on share returns if measured using the expected return, corporate governance's influence tested positively and had a significant impact on company performance when measured with Tobin's q (de Jong *et al*., 2002; Gompers *et al*., 2003; Klapper and Love, 2004). Wahab (2007) found a significant increase in governance among firms, which had a major influence on shareholder wealth. The corporate governance index had a positive influence on the perceived value of companies as has been shown by Ammann *et al*., (2011) and Connelly *et al*., (2012).

Hasan and Butt (2009) define that companies' CG philosophy and mechanisms are related to the establishment of stakeholders' value. Furthermore, Hasan and Butt (2009) state that the principles implied within CG may ensure investors and creditor's trust. Siallagan and Machfoedz (2006) state that CG is a system that regulates and controls a company to provide and improve the company's value to its stakeholders. Siagian *et al.,* (2013) found that the CG index positively influences price to book value (PBV) and Mollah *et al.,* (2012) found that companies in Botswana have advanced orientation in market-oriented systems in developing the CG mechanisms. Tjondro and Wilopo (2011) state that GCG implementation may positively improve the company performance. Solikhah *et al*., (2020), good corporate governance is rules, standards, and organizations in the economic field that regulate the behavior of company owners, directors, and managers, thus, assuring investors that the leadership will run the company efficiently as reflected in the company's share price. Good corporate governance can help reduce information asymmetry and reduce agency costs (Djokic & Duh, 2016). Reduced agency costs can increase company revenues because company activities become efficient, and of course, can increase firm value (Rusmanto & Lisal, 2019). Aggarwal (2013) study has found that Corporate Governance with governance assessments has a positive and significant impact on the company's financial performance. Nur'ainy research *et al.,'* (2013) research suggested that Corporate Governance, as measured by the principles of transparency, accountability, responsibility, independence, and honesty have a direct positive effect on company's performance. Naftalimbalwa *et al*., (2014)

found that Corporate Governance applications were positively related to the performance of sugar companies and manufacturing companies in Western Kenya. Gunawan *et al.,'* (2014) research showed that Corporate Governance has a significant influence on bank performance, ownership structure has no positive effect on bank performance, bank size has significant effect on bank performance.

2.3 Corporate Governance and Sustainability

Sustainability can be interpreted as a development that can meet current needs without sacrificing future needs by considering carefully and paying attention to resource conservation (Amacha & Dastane, 2017). Currently, the concept of sustainable development agenda has become a concern of companies in many countries. With the increasing awareness and demand for sustainability, sustainability has become a mainstream business practice (Milne *et al*., 2009). Companies that consider sustainability will rationally use existing resources to achieve eco-efficiency and social justice (Martins *et al*., 2019). Companies can achieve sustainable development through business performance that considers the concept of sustainability (Escrig-Olmedo *et al*., 2017). Even the sustainability concept in companies can be applied with organizational change and adaptation (Linnenluecke & Griffiths, 2010). Sustainability in the company is also expected to increase managerial competence and company efficiency (Manetti, 2011). We can see how fast the business develops and the dynamics of modernization, so sustainability is very relevant to current business performance (Fakir & Jusoh, 2020). With modernization, innovation occurs in all aspects of companies that were founded with the primary orientation of how to create a maximum profit so that they tend to ignore the condition of the planet's ecosystem.

Many multinational companies are now starting to pay attention to sustainability-oriented innovation (Harymawan *et al*., 2020). Companies can do this by disclosing information on social and environmental responsibility transparently (Fatchan & Trisnawati, 2016). The concept of sustainability and triple bottom line consists of climate change, environmental management and systems, human resource management, corporate governance, stakeholder engagement, social responsibility, and accountability (Amacha & Dastane, 2017).

Corporate governance is a process and structure that is used by company organs to provide added value to the company on an ongoing basis in the long term for shareholders, while taking into account the interests of other stakeholders, based on statutory regulations and applicable norms (Lestari, 2021).

Good Corporate Governance (GCG) related to effective decision making. Built through organizational culture, values, systems, various processes, policies and organizational structures that aim to achieve a profitable, efficient and effective business in managing risk and being responsible by taking into account the interests of stakeholders (Franita, R, 2018).

3. Indonesia Insurance Corporate Governance Framework

We present good corporate governance framework based on The Indonesia Financial Services Authority regulation (POJK) Number 73/POJK.05/2016 concerning Good Corporate Governance for Insurance Companies as follow:

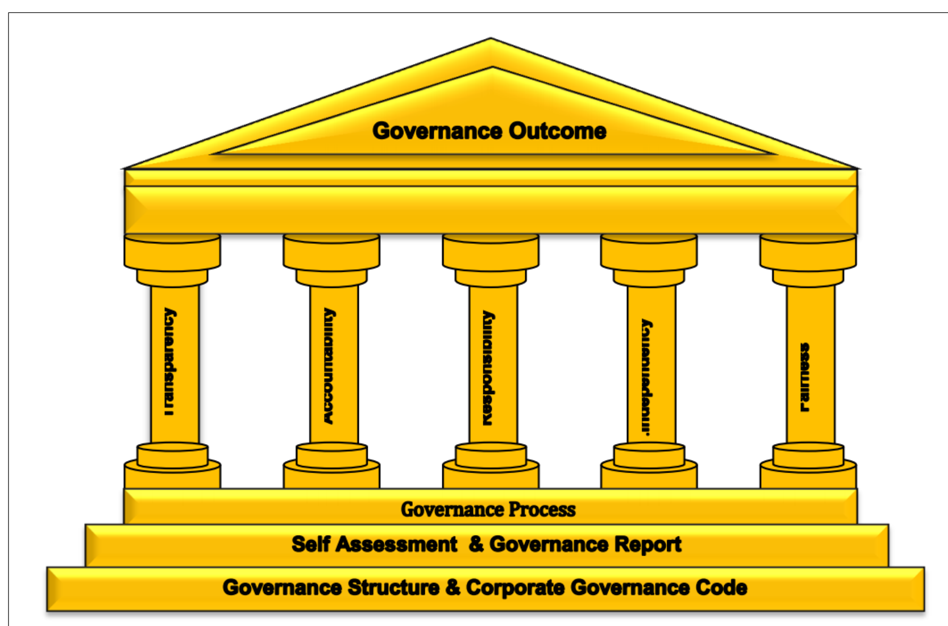

Figure 1: Indonesia Insurance Corporate Governance Implementation Framework

The International Finance Corporation (2018) states that the Indonesian Company Law requires companies to have a core governing body and this requirement does not change based on the number of shareholders or the value of the company's authorized capital. A non-listed company must have general meeting of shareholders, board of commissioners, and board of directors while in addition to the bodies required for non-listed companies, listed companies must have an audit committee, a nomination and remuneration committee, a corporate secretary, an internal auditor, and may also establish one or more of the following board committees at their discretion, namely a risk policy committee, a corporate governance committee, and other board committees.

Governance processes deal with the procedures utilized by the representatives of the organization's stakeholders to provide oversight of risk and control processes administered by management (Gramling and Ramamoorti, 2003). Internal audit is responsible for ensuring that internal controls are adequate and effective, and thus capable of protecting the organization against loss. Internal audit evaluates the control environment, assesses risks and components of risk management, communicates these findings to the BoC (through the Audit Committee) and the BoD, and makes suggestions for improvement.

The International Finance Corporation (2018) states that companies should implement a self-assessment policy that requires BoC and BoD members to evaluate their collective performance, promoting accountability and transparency through regular assessments. Companies should disclose this policy in the annual report. Listed companies in Indonesia must make public disclosure of the company's corporate governance practices at the annual GMS. The BoC should prepare the corporate governance report and submit this to the annual GMS. The corporate governance report should detail all essential elements of the company's corporate governance policies and practices. The BoC must disclose the extent to which the company complies with the CG Code and explain any discrepancy from these requirements. Finally, the BoC should also use the corporate governance report to make suggestions for improving the company's corporate governance practices.

The International Finance Corporation (2018) state that the CG Code is a living instrument that sets standards and offers guidance as to how companies may implement corporate governance to: achieve sustainable growth through a management system based on transparency, accountability, responsibility, independence, and fairness; empower the functions and independence of each company organ, namely, the BoC, the BoD, and the GMS; encourage shareholders, members of the BoC, and members of the BoD to make responsible decisions that comply with laws and regulations; stimulate the company's awareness of social responsibilities, in particular the environmental and societal interests of local communities; take shareholders and other stakeholders interests stakeholders' interests into account; and enhance the national and/or international competitiveness of a company in order to enhance market confidence which may promote investment flow and a sustainable national economic growth.

Effective corporate governance serves as a safeguard for the interests of stakeholders and mitigates the challenge of separating ownership from control within organizations. One specific aspect of corporate governance that merits attention pertains to the structure of managerial compensation packages, as highlighted by Faulkender *et al*., (2010). It's essential to recognize that corporate governance and remuneration are intricately intertwined and cannot be considered in isolation from one another. Effective corporate governance serves as a catalyst, motivating management to prioritize the maximization of shareholders' wealth, as observed by Conyon and He (2011). This underscores the significance of the governance framework and its role in shaping the interplay between corporate governance and firm performance, as highlighted by Alajmi and Worthington (2022) and Al-Gamrh *et al*., (2020). A prevailing theme in the literature posits that there exists a positive association between elevated compensation packages and improved financial and economic performance of firms, as articulated by Conyon and He (2011) and Kyere and Ausloos (2021). Specific committees ensure the quality of accomplished tasks such as audit quality and a risk management committee produce a better overview of risk management procedures (Sekome and Lemma, 2014). Corporate governance is seen as the interactions between various internal and external actors and the board members in directing a firm for value creation and improving the performance of directors by increasing their level of engagement in the corporate governance process (Hemphill and Laurence, 2014)

Sáez and Riaño (2013) state that, the shareholders' meeting plays a critical, central role in the architecture of the governance system. Shareholder activism is one of the mantras to improve corporate governance (Iliev *et al*., 2015; and Li and Ang, 2022). Shareholder meetings are a company capital decision-making system where decisions are taken in the interests of all shareholders. Giving minority shareholders more voting rights regarding decisions that potentially involve the extraction of personal profits is an effective way to increase investor protection and provide shareholders with better governance tools to protect their interests in the company. The act of casting a shareholder vote stands as one of the most potent avenues for shareholders to actively participate in the decision-making processes of the boards of directors overseeing the companies in

which they have invested (Mallin and Melis, 2012; Germann and Serdult, 2017)

In the realm of capital markets, the significance of minority shareholders in corporate governance is on the rise, yet there exists no unanimous consensus regarding their impact on governance. Frequently, minority shareholders are perceived as acting irrationally and showing limited interest in corporate governance (Yao *et al*., 2019). The ggreater CG compliance is significantly associated with firm's market capitalisation Roy A., and Pal A. M., (2017). They are often associated with fragile alliances, short-term perspectives, and informational disadvantages. Consequently, their activism within the realm of corporate governance can disrupt a company's management, potentially diminishing its overall value and offering only a marginal contribution to corporate governance (Balp, 2018).

Simultaneously, due to institutional deficiencies and information asymmetries, minority shareholders face high costs and a low probability of successfully exercising and defending their rights (Firth *et al*., 2019). This discourages their active involvement in corporate governance. As a result of the unequal balance between benefits and costs, minority shareholders tend to prefer "free riding" or "voting with their feet" when it comes to participating in shareholder meetings and voting on proposals (Hu *et al*., 2018).

Nonetheless, with the ongoing refinement of investor protection mechanisms and increased awareness of their rights, the active engagement of minority shareholders is steadily growing (Kong and Liu, 2019). Extensive research has affirmed that the involvement of minority shareholders in corporate governance can effectively mitigate agency costs (Hu *et al*., 2018), restrain executive compensation, and enhance pay-performance alignment (Liang *et al*., 2020). It also fosters audit quality and external oversight (Mustafa *et al*., 2018), promotes the distribution of cash dividends by listed companies (Xu and Wu, 2020), and bolsters the financial performance of firms and stock returns (Becht *et al*., 2016). Pahi and Yadav (2019) argued that the act of distributing dividends exhibited a positive correlation with robust corporate governance practices.

The International Finance Corporation (2018) states that the Board of Commissioners (BoC) holds a pivotal position within Indonesia's corporate governance framework. It is entrusted with the crucial duty of supervising and offering counsel to the Board of Directors (BoD) in alignment with the pursuit of the company's best interests and objectives. Within the Articles of Association (AoA), there may be provisions granting the BoC the authority to grant consent or provide support to the BoD in the execution of specific legal actions. The Corporate Governance (CG) Code lays down overarching standards, emphasizing the BoC's obligation to possess the capability to discharge its duties with integrity. BoC also must ensure that the company's operations remain in compliance with relevant laws and regulations. Okiro (2014) suggested on the basis of prior research that good CG has a positive effect on regulatory compliance, and firm performance. a positive statistically insignificant relationship between board size, board independence and IFRS compliance (Kabwe *et al*., 2020).

Abdullah *et al*., (2018) conducted a study revealing a significant relationship between various characteristics of the board of directors, such as board size, board independence, board members' religious affiliation (Muslim), audit committee size, audit committee independence, and audit committee members' religious affiliation (Muslim), with the degree of earnings management observed in the years following the adoption of IFRS in Malaysia. In the context of Kuwait, Alfraih (2016) identified positive correlations between board size, gender diversity, and multiple directorships with compliance, while noting negative correlations between CEO duality, the proportion of family members on the board, and IFRS compliance disclosure. Furthermore, Alanezi and Albuloushi (2011), also in Kuwait, discovered that the presence of an audit committee was significantly and positively associated with the extent of IFRS-required disclosure. Bajra and Čadež (2020) find that higher compliance is positively related to CGQ.

Mumu, *et al*., (2021) find that the remuneration and independence of boards of directors and the efficiency of boards of directors as a governance system, outside-director remuneration and the efficiency of outside directors as a monitoring system, and director remuneration and the role of ownership structure and top managers' compensation schemes as corporate-governance tools. Independent boards of directors serve as reliable custodians of a company's resources and contribute to enhanced company performance. This is primarily attributed to the presence of information symmetry within such boards (Kyere and Ausloos, 2021). Hemphill and Laurence (2014) find that Pozen's recommendations to reduce board size to seven members, as well as increasing the number of hours that independent directors spend on board-related activities and should be seriously considered as potential value-adding, corporate governance improvements. Alajmi and Worthington (2022) find that Board size and independent and outsider board members positively relate only to Tobin's Q. The connection between corporate governance and firm performance hinges on a multitude of board-related factors. These include the size of the board, the composition of insiders and independent board members, as well as the experience of board members. Additionally, the regulatory, cultural, economic, and political landscape in which these boards function plays a pivotal role in shaping this relationship (Bhagat and Bolton, 2019; Mertzanis *et al*., 2019).

In the context of China, Ji *et al.*, (2020) conducted a study revealing that a higher frequency of board meetings was associated with an enhancement in governance quality. This, in turn, had a positive effect on the growth of strategies linked to initial public offering proceeds and ultimately contributed to improved firm performance and firm value (Lamoreaux *et al*., 2019) and Outa and Waweru, 2016). Likewise, Min and Chizema (2018) emphasized the significance of regular board meetings with high attendance levels when assessing the effectiveness of corporate governance. In a different perspective, Fletcher and Ridley-Duff (2018) adopted an interventionist approach and found that the board's performance mindset had a notable correlation with management accounting information and its punctual submission to the board.

DeBoskey *et al*., (2019) delved into the impact of board oversight effectiveness, using board meetings as a proxy. They discovered that frequent board meetings were associated with a reduction in the aggressiveness and an enhancement in the optimism of earnings announcements. This, in turn, translated into improved firm performance.

4. SUMMARY

The aim of this research is to present and evaluate corporate governance framework for insurance companies in Indonesia based on previous researches related to corporate governance and the Indonesia Financial Services Authority Regulation.

Based on the above discussion, we summarize that corporate governance framework for insurance companies in Indonesia has anticipated most objectives that corporate governance has to meet such as protecting shareholder interests, enhancing shareholder value, ensuring accountability, managing risk, promoting ethical behavior, transparency and disclosure, balancing interests, strategic decision-making, compliance with laws and regulations, efficient operations, long-term sustainability, stakeholder engagement, except adapting to change, creating a positive reputation, and facilitating investment.

The frame work also provide solutions. The Indonesia Financial Services Authority regulation states that governance structure, corporate governance code, self-assessment & governance report, governance process and corporate governance principles to meet governance objectives.

Every year all insurance companies prepare corporate governance reports on their respective websites and report them to Indonesia Financial Services Authority. However, several companies have complied with these provisions, but their operations have been stopped by the Authority. This raises research problems for the future relating to why insurance companies that have complied with corporate governance provisions, but their operations have been stopped by the Authority.

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