

## Policy Guarantee Program To Improve Customer Trust In Insurance Industry

The Indonesian Government has recently enacted Law Number 4 of 2023 concerning the Law on the Development and Strengthening of the Financial Sector ("**P2SK Law**"). This P2SK Law amends some previous laws and regulations covering many sectors such as Bank, Capital Market, Insurance, Financing, Financial Technology and other sectors. One of new programs that will be launched is Policy Guarantee Program (*Program Penjaminan Polis*) organized by Indonesia Insurance Deposit Corporation (*Lembaga Penjamin Simpanan – LPS*), which is regulated in Article 79 to Article 103 of the P2SK Law.

The purpose of this Policy Guarantee Program is to protect policyholders, insureds, or participants of Insurance Companies and Sharia Insurance Companies who have had their business licenses revoked due to financial difficulties. Any insurance company has an obligation to be a participant in this Policy Guarantee Program, and companies that want to register for this program for the first time must meet certain requirements.

In addition to submitting some documents for the registration purpose, insurance companies are also required to:

- Pay the initial membership dues;
- Pay periodic dues for guarantees;
- Submit reports periodically;
- Submit data, information, and documents needed;
- Placing proof of participation in the company's business office so that it can be easily known by the public; and
- Comply with the provisions of regarding the implementing laws and regulations.

If an insurance company does not meet the requirements to become the Policy Guarantee Program participant, then it is obliged to form a Guarantee Fund (*Dana Jaminan*). Stipulation on the Guarantee Fund is regulated under Article 36 of Financial Services Authority (OJK) Regulation Number 71/POJK.05/2016 which require minimum 20% of company's equity.

This Program only guarantees the protection element of insurance products in certain business lines which together with obligations, payment and claim procedures will be further regulated either through Government Regulations, LPS Regulations or OJK Regulations.

### LEGAL UPDATES



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LPS shall also handle insurance companies which facing financial difficulties based on notification from OJK to LPS on the status of the supervised insurance company. Further, LPS is authorized to conduct an examination towards such company. In case of such company cannot be improved after the examination, the OJK will revoke the company's business license, notify the company in writing, and submit the settlement to LPS, so that LPS can wind up the company.

Similar with winding up process of a private company, LPS shall act as the liquidator of insurance company by forming a liquidation team to take over all rights and authorities of shareholders and to remove the legal entity status of the liquidated insurance company.

Besides the foregoing, LPS shall also be responsible for the management and administration of assets and liabilities for the implementation of this Program and separates the recording of assets and liabilities for the implementation of this Program from the recording of assets and obligations for the implementation of deposit guarantees.

All the cost spent by LPS in the context of implementing this Program shall be the cost of policy guarantee for LPS. In the event that there is a difference between the cost of completing the policy guarantee and the funds received by LPS, the difference is not a loss to the state's finances.

Administrative sanction would be imposed to insurance company which does not make periodic payments of guarantee contributions and submit reports. Meanwhile, criminal sanctions will also be imposed against the board or shareholders members of the insurance company who does not submit the required Program documents, submit the documents which are untrue, false and/or misleading or refuses to provide documents, data, information, and/or reports related to policy guarantee as set forth in Article 294.

People who previously were skeptical of insurance products, fear of the fraud of insurance companies that would harm the public as consumers, are expected to gradually recover and immediately feel the benefits of insurance products with this Program. To implement this Program, LPS needs to establish an organizational structure, integrated system, implementing regulations and it shall be effective in the next 5 years as of the promulgated date of the P2SK Law.

**T**he needs of improving public trust on insurance industry is entertained by Indonesian Government by giving a mandate to LPS, in coordination with OJK, to set a Policy Guarantee Program and its system which will be in operation in the next 5 years.

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