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Effect of Competitors and Covid-19 Pandemic on Stock Prices of Reinsurance Companies 2016-2020

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Abstract

This research was conducted to determine the influence of competitors and Covid-19 which is believed to have contributed to the decline in insurance stocks. This study also aims to determine the impact of the decline in Indonesian stocks and their changes in recent years. The type of research used is descriptive quantitative research. Sources of data used are secondary data from advertisers, the Central Bureau of Statistics from annual reports and research documents about insurance. The type of data used is time series, the data is taken sequentially from 2016-2020. The type of data collection method used is the documentary method. The results showed that there was no influence between the competitor variables and covid-19 on stock prices at PT. Indonesian Reinsurance. On the other hand, the competitor variable has a positive effect on stock prices, while the Covid-19 variable has a negative effect on stock prices.

INTRODUCTION

PT Reasuransi Indonesia Utama (Persero), the company's business in the field of reinsurance, provides competitive and high-quality services and applies the principles of a limited liability company to obtain or pursue profits in order to increase the value of the company. In this study, the author uses the theory of management process, the theory of needs by Abraham and the theory of economic inequality. Strategic management is an ongoing process. Therefore, it must be realized that each component interacts with other components and this interaction often occurs. The risk of a decline in the value of shares is related to the increasing problems that occur in society. Insurance as a non-bank financial institution can also provide protection or guarantee The development of the insurance industry in Indonesia is of course independent of economic and technological developments in human life. development activities are not free from various risks that can interfere with the development results that have been achieved. The insurance industry in Indonesia can develop more rapidly if unfair competition in the credit insurance business line is addressed immediately. In 2020, the credit insurance business experienced a fairly high surge in claims even though premium income actually declined. Economic pressures due to the COVID-19 pandemic have disrupted people's ability to repay loans, thus affecting the credit insurance business line. Currently, credit insurance claims still have the potential to grow, considering that the threat of bad credit has not disappeared considering that the economy has not fully recovered.

Researchers took previous research from Michael Chernew, David M Cutler, and Patricia Seliger Keenan about Increasing Health Insurance Costs and the Decline in Insurance Coverage. The authors provide two of the most important potential explanations for the decline in coverage that have been explored in the literature: increased Medicaid eligibility and decreased tax subsidies. Specifically, we generated measures of generosity of children's Medicaid coverage following the approach of Cutler and Gruber (1996a), using information from the Intergovernmental Health Policy Project (1988; 1990; 1991) and the National Governors Association (1990; 1999). They measured Medicaid eligibility by the fraction of healthcare expenditures HIUs were eligible for Medicaid, based on family composition, which captures the role of Medicaid eligibility in the context of family health insurance decisions. This is calculated by applying state regulations to CPS data to assess generosity at the state level and adding controls for the fraction of family health spending associated with each child's age. Their primary measure of changes in health insurance premiums is based on data from the American Health Insurance Association and the Kaiser Family Foundation/Health Research and Educational Trust Survey of Employer-Sponsored Health Benefit (KPMG Survey 1988, 1989, 1998) and Kaiser Family Foundation (1999). This survey obtains information about the types of policies offered and the premiums. The researchers measured the availability of charitable care in each metropolitan area as the number of public hospital beds and education per thousand inhabitants, obtained from the American Hospital Association (AHA) and ARF. They included this variable as an interaction with time period, to examine whether the effect of availability of charitable care changed over time. State regulations in the 1990s set many restrictions on insurance prices that could affect coverage (Simon 2000). We show with a dummy variable whether states have passed rating reforms, which limit price variability across groups, or imposed coverage issues, which require insurers to sell at least some policies to all groups, for the small group insurance market.

The problems identified are how the world of Asuransi Indonesia has surprisingly changed in recent years and the factors that contributed to the decline in the value of PT. Indonesian reinsurance, especially during covid-19. The purpose of this study is to answer research problems, namely to find out the impact of the decline in Indonesian stocks and the changes in the last few years and gain knowledge from the world of stocks in the health sector. This research is useful for researching a better understanding of insurance companies must be able to respond to market needs quickly and efficiently. Declining stock values and comparison sites flooded the market, putting additional pressure on profits and creating a greater need for traditional insurers to deliver more profitable business. But relying heavily on legacy systems, many of the traditional insurers lack the agility that newer web-based online insurers can offer. There is also a global dynamic as insurers are constantly evolving in new geographies, so they need the flexibility to scale quickly. The growing demand for electronic commerce and the increased collaboration between partners, make it a challenging yet attractive environment for insurance companies. To compensate, they need new applications that will integrate easily with their existing IT and legacy systems.

Strategic Management Theory

Strategic management theory means defining strategy in an organization. It is also defined as the process by which managers make a choice from a set of strategies for the organization that will allow it to achieve better performance. Strategic management is an ongoing process of assessing businesses and industries in which an organization is involved assessing its competitors and improving objectives to meet all current and future competitors. The strategic management process has the following four steps:

a) Environmental Scanning- Environmental scanning refers to the process of gathering, examining and providing information for strategic purposes. It helps in analyzing the internal and external factors affecting the organization.
b) Strategy Formulation- Strategy formulation is the process of deciding the best course of action to achieve organizational goals and hence achieve organizational goals.
c) Strategy Implementation- Strategy implementation includes designing organizational structures, distributing resources, developing decision-making processes, and managing human resources.
d) Strategy Evaluation- Strategy evaluation is to assess internal and external factors that are the root of the existing strategy, measure performance, and take corrective/improvement actions.

Need Theory

The theory of needs by Abraham and the theory of economic inequality can be used in this research. The financial crisis is very problematic for any country for various reasons, but one problem remains that there is a way out but that does not mean that the Prosperous countries also do not have problems. Prosperous countries use insurance as protection for their assets and their lives, whereas in countries experiencing financial crises usually experience an external financing gap due to large capital outflows and debts they have to pay. exceed their foreign exchange reserves (Ushuluddin et al., 2014). This financing gap often persists even after a crisis the government has made domestic policy adjustments. In an open economy, a financial crisis in one country usually has a negative effect on individuals, companies, and political elites in another country even if these countries do not face financial crises themselves. Financial and (external) economic runoff from crises to creditor countries are the two main mechanisms through which economic exposure may be important for creditor countries.

Covid-19 Effect of Insurance in the World of Health

Covid-19 in Indonesia appeared on March 2, 2020, the first case of covid-19 was detected in Indonesia; as of 8 May 2020, there were 12,776 cases and 930 deaths reported in 34 provinces (Markov, 2020). However, model studies estimate that of all cases of infection, only 2 percent are reported. Without treatment or vaccines, Indonesia and many other countries rely on limiting physical interactions to slow the spread of COVID-19. The interventions implemented in Indonesia include: quarantine for people suspected of being infected, restrictions on domestic and international travel, prohibition of gathering in groups and crowds, as well as closing schools, factories, restaurants and public spaces (Rebecca Growe, MSW, LCSW and Julia Martin Burch, 2020). Various efforts taken to suppress the spread of the virus have had a negative impact on the economy. Indonesia has experienced economic growth of 5 percent or higher over the past decade. However, by 2020, that figure is expected to fall to around 2 percent. The worst-case scenario forecast even presents a more significant decline in growth of minus 3.5 percent in 2020. The increase in virus transmission from cities to villages is estimated to occur due to the weakening of a number of aspects of life in urban areas due to the implementation of restrictions on physical interaction and quarantine of the main areas (Heriyanto, 2019) . The virus has created an income gap for families across the country. The most important lesson from the COVID-19 Pandemic is the importance of working together on issues that affect all of humanity. We are much stronger united than divided.

Competitors PT. Indonesian Reinsurance

1. Prudential Insurance

   Prudential Insurance is one of the insurance companies operating in Indonesia, providing several types of insurance including life insurance, health insurance and investment. Prudential Insurance operated in Indonesia in 1995.

2. BNI Life Insurance

   BNI Life Insurance or BNI Life Insurance, is a subsidiary of PT. Bank Negara Indonesia (Bank BNI). BNI Life Insurance is engaged in life insurance. This insurance was established on November 28, 1996 under the name BNI Jiwasraya Life Insurance.

3. Jasindo Insurance

   Asuransi Jasindo or PT. Indonesia Insurance Services is one of the State-Owned Enterprises engaged in the insurance sector.

4. Sinarmas Insurance

   Sinarmas Insurance is one of the general insurance companies in Indonesia. The insurance products are health insurance, car insurance, motor vehicle insurance, travel insurance, and other types of insurance.

5. Jiwasraya Insurance

   PT. Asuransi Jiwasraya is one of the State-Owned Enterprises engaged in the insurance sector.

6. Mercury Insurance

   Mercury Insurance or PT Asuransi Raksa Pratikara is a company that was founded in 1975 and is engaged in insurance.

7. Cigna Insurance

   Cigna Insurance (Cigna Indonesia) or PT Cigna Insurance is a life insurance company registered and supervised by the Financial Services Authority (OJK). Founded in 1990.

8. Bintang Insurance

   Bintang Insurance or PT Bintang Insurance Tbk, is a general insurance company established on March 17, 1955.

9. AIA Insurance

Aia Insurance or AIA Financial is a life insurance company registered and supervised by the Financial Services Authority. AIA Financial is a subsidiary of the AIA Group.

10. Generali Insurance

    Generali Insurance or Generali Indonesia is an insurance company for children and families. Generali Insurance was founded in 1831.

Research Hypothesis

1. The decline in the value of PT Reasuransi's shares was based on two factors, namely external and internal.
2. PT Reasuransi is affected by intense competition among other insurance service providers
3. The pandemic caused PT. Reinsurance runs a deficit, because many sick people are scattered.

METHODS

Descriptive quantitative research, namely research that aims to interpret all empirical evidence regarding a particular phenomenon with data in the form of abstracted numbers and analogies from a specific subject (Chandrarin, 2018). The subject of this research is PT Reasuransi Indonesia. The purpose of this study is to determine the influence of competitors and Covid-19 which is believed to have contributed to the decline in insurance stocks.

The data sources used are secondary data from advertisers, the Central Bureau of Statistics from annual reports and academic research documents about insurance. The type of data used in this study is a time series and the data is taken sequentially or periodically based on the specified time period, 2016-2020 (Chandrarin, 2018). The type of data collection method used in this survey is the documentary method, which is a data collection method carried out to provide accurate evidence by tracing sources and related documents in the form of budget targets and reports. Insurance Budget Implementation Report along with the share price of PT. Indonesian Reinsurance. (Chandrarin, 2018).

RESULTS AND DISCUSSION

Table 1. Data Analysis

Years	ROA	ROE	Stock Price
2016	4.20	12.53	5476.87
2017	2.16	5.96	6178.93
2018	2.40	7.03	6355
2019	2.51	7.17	4905.39
2020	0.93	3.13	6016.86

Source: Central Bureau of Statistics from annual reports and research documents about insurance

Table 2. Test (R^2)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.393[a]	.155	-.691	769.91544

Source: Processed Data

a. Predictors: (Constant), ROE, ROA

The effect of ROA and ROE on stock prices is 15.5%, 84.5% is influenced by other variables.

Table 3. Test F

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	216945.218	2	108472.609	.183	.845[b]
	Residual	1185539.575	2	592769.787		
	Total	1402484.793	4			

Source: Processed Data

a. Dependent Variable: Stock Price

b. Predictors: (Constant), ROE, ROA

Sig. 0.845 > 0.05 means that there is no significant effect between ROA and

ROE on stock prices.

Tabel 4. Partial test

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	6269.325	878.967		7.133	.019
	ROA	-315.207	3644.315	-.622	-.086	.939
	ROE	39.976	1248.611	.230	.032	.977

Source: Processed Data

a. Dependent Variable: Stock Price

The number of regression coefficient ROA is -315,207. every 1% addition of ROA, the share price will increase by -315,207. a negative value indicates ROA has a negative effect on stock prices

The number of regression coefficient ROE 39,976. every 1% addition of ROE, the share price will increase by 39,976. a positive value indicates ROE has a positive effect on stock prices

According to the annual report of Pt Reasuransi Indonesia, insurance in 2019 will be reviewed by FIO in the Insurance Industry Annual Report next year. Based on financial results reported by insurance companies up to the first half of 2019, the outlook for the Indonesian insurance industry suggests some pressure for growth and profitability (IndonesiaRe, n.d.). Results for the first half of 2019 (latest data available) for the L&H sector show a decline in underwriting performance with a pre-tax operating margin of 3.1 percent compared to 24.7 percent for the same period in 2020. Meanwhile capital and surplus sector L&H sectors increased from the end of 2020, increasing tensions are seen with the ratio of net written premiums to capital and a surplus of 159.1 percent at 30 June 2019, up from 136.4 percent at the end of 2020 and up from 118.9 percent at 30 June 2020. Despite profitability the P&C sector and policyholder surplus increased through the second quarter of 2019, net returns on invested assets continued to decline, potentially contributing to an increase in holdings of non-investment grade bonds by the end of the second quarter of 2019 (IndonesiaRe, nd).

While the mid-year financial results were unable to deliver results for the rest of 2019, challenges remain for the US insurance industry over the next few months. The industry faces a number of constraints, including low interest rates, rising inflation risk, and the potential for realization of unknown asset losses. The continuing low interest rate environment continues to affect the insurance industry, with near to medium term implications for certain investment products and strategies. The key benchmark interest rate, the Federal Funds rate, is expected to be held near zero through 2023. For annuities and many non-term life insurance products, interest rate cuts have historically led to a reduction in the benefits offered, affecting sales. Furthermore, the investment portfolio shows a continuous shift to alternative asset classes such as infrastructure, private equity funds, venture capital, and hedge funds. The industry is consistently increasing its share of this by limiting deviations from established standards, consumers may be forced to forego the benefits of innovative new products by using a completely different approach. Some of these drawbacks can be offset if the standard contract is not binding on the insurance company. Alternatively, standardization may only apply to certain parts of the entire insurance contract. Either approach will make collusion more difficult and will allow for the continuous development of new and innovative products. There are alternative ways to promote the efficiency of the insurance market without standardizing insurance products. In many countries consumers are protected from adverse contract terms and conditions through consumer protection laws. In addition, if consumers have difficulty comparing insurance contracts, they may be willing to pay to have this task done for them, for example, an independent insurance broker. Finally, regulations can increase product comparability by requiring standards for the presentation of important information (not the terms of the contract itself).

CONCLUSION

The high level of concentration in the health insurance market is largely the result of consolidation (ie, mergers and acquisitions), which can lead to the exercise of market forces and in turn, to the detriment of consumers and service providers. Both existing and proposed consolidations of health insurance companies should raise serious antitrust concerns. Conceptually, mergers and acquisitions can have both beneficial and detrimental effects on consumers.

However, only the latter was observed. It appears that consolidation has resulted in the ownership and exercise of the monopoly power of health insurance companies, the ability to raise and maintain premiums above competitive levels instead of passing any accrued benefits to consumers. As each country begins to reopen and it becomes safer to be with other countries, Introverts or individuals struggling with social anxiety or those who already feel insecure after trauma may have an easier time with social distancing. Reintegration will also be more difficult for those who strictly maintain social distancing during COVID-19, perhaps because health conditions or age pose additional risks if they catch the virus.

To meet the demands of today's consumers, insurance companies need to ensure that each new service is mobile or tablet friendly so that customers can access their policies from anywhere, anytime. As a result, many insurance companies are now providing device-friendly solutions that meet the needs of the mobile generation. Each new product needs to be integrated with existing and complex backend systems that manage multiple policies and large amounts of data. Understanding the cost implications is also another key consideration and in the past, insurers have found themselves locked into multi-year technology investments, which has made insurers wary of starting a new line of business, or launching a new product or service. For example, the upfront costs and capital investment required to bring new products and services to market can be very high, but disabling their existing legacy systems is also very expensive, as a result, risk-adverse IT departments are reluctant to tamper with or modify their systems and because it is slow to introduce new technology or respond to changes or new service requests from businesses.

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