

Insurance Companies and Multi Level Marketing (MLM) Practices in Indonesia

Nishrina Divaya Gustika¹, Shafanda Hawari Putri², Shagiva Adryna Putri³

¹²³Padjadjaran University, Jl. Raya Bandung-Sumedang KM.2, Sumedang, Jawa Barat, 45363

Info Articles

Abstract

History Article:
Received 18 September 2020
Accepted 30 Oktober 2020
Published 20 Januari 2021

Insurance is one of the needs that is currently in great demand by the public. Insurance is a form of risk transfer by paying or transferring risk to the insurer, namely the insurance company. People are now starting to realize the importance of insurance. Likewise, there are more and more insurance companies in Indonesia. The number of insurance companies makes the competition even tighter so that several sales methods with Multi Level Marketing (MLM) appear. The purpose of writing this article is to find out how insurance and MLM practice in Indonesia. The method of writing this article is a literature study method, which uses previous journals to obtain data and materials and then performs a descriptive analysis.

Keywords :
Insurance;
Multi Level Marketing;
Insurance Company;

Address Correspondence:

E-mail : nishrina19001@mail.unpad.ac.id

INTRODUCTION

Life on earth is a life filled with extraordinary things. In this world, humans carry out various social activities, both social interaction and other activities. In carrying out their social activities, humans are always in contact with one another. This human relationship is not necessarily always going to run smoothly or there is no accident. In this relationship sometimes there is a risk of accidents that will be borne by humans.

Likewise with other human activities. In carrying out other activities, humans can easily be exposed to the risk of accidents or other unexpected things. For example, when people travel out of town using motorized vehicles. There is the possibility of humans having road accidents or experiencing vehicle damage on the road. This incident was an unexpected event. No human being intentionally harms himself or damages his property.

In life, humans experience the dynamics of life. Where is this life experienced by humans every day. Like there are humans who give birth, die, go to the hospital, and so on. The incidence of illness and death is an event that cannot be predicted when humans come. Humans may feel healthy today, but the next day they will be dead. Or it could be that at this time you still feel healthy, a few hours later you feel sick and have to be hospitalized. The dynamics of human life is never known. It is true that humans have planned what to do today, but God's unknown plan will be a shadow that humans do not see what will happen to themselves in the future.

Humans, of course, have families in carrying out their lives. However, it is also possible that humans will choose to live alone and do not want to build a family. It is a choice that no one else can interfere with. What is certain in this life is that humans must begin to prepare themselves for protection against all possible risks. The risk of sudden accidents, death, illness, and other risks must be included in human planning in carrying out life. Human self-protection against himself can be done with insurance. Insurance is a form of risk

control that can be carried out by humans by transferring risk from one party to another which is commonly referred to as an insurance company. There are many insurance companies in Indonesia, such as Prudential, Allianz, and others. By having this insurance, humans can use their insurance when unwanted things happen in their lives. When these things happen, humans can immediately claim insurance so that the costs that must be incurred during an emergency can be minimized.

Currently, many people have started to care about their life insurance. There is more and more competition in insurance companies. However, this is used as an opportunity by bad people to commit acts of lies. Many people are finally deceived and become victims of insurance and no longer believe in insurance frills. This also has an impact on insurance companies that are truly trusted.

Therefore, in this article, we will discuss more about how insurance practices in Indonesia. The purpose of writing this article is to increase knowledge for people in Indonesia about insurance practices in Indonesia so that people can determine which insurance is right and which insurance should not be followed by the community. It is hoped that with this article, the public will be more concerned with their condition and their risk in the future and reduce the act of lying in the name of Insurance.

THEORETICAL BASIS

Insurance is a company under the Financial Services Authority that provides services in providing guarantees or compensation in future events. Insurance can simply be said as a form of risk transfer from one party, namely the insured party to another party, namely the insurer where in this case the insurer is the insurance company. Insurance in running its business has elements that must be done. These elements include :

1. There is an insured party The insured party is the party who pays the premium or money to the insurer or the insurance company. The

insured party can be regarded as a customer who gives money to the insurance company for future guarantees.

2. There is a guarantor The insurer is the insurance company itself. In insurance, the insurer has an obligation to pay costs or compensation that must be incurred when losses or risks occur to the insured.
3. Incident Events are everything that happens to humans. Events referred to in insurance are events that can be claimed at a premium by the insurer, such as accidents.
4. Interest In addition to events, interests that are at risk of unexpected events can be included in insurance. The interests that can be claimed at the cost of insurance are the interests that existed at the beginning of the agreement.

When someone joins an insurance, he certainly feels the function of insurance itself. This insurance has several functions including :

1. Gives a Sense of Comfort and Calm
The insured party will feel comfortable and calm because they already have savings stored in the insurance company and can be claimed at any time if there are unexpected events.
2. Source of Savings
Saving is important because saving money can be used for events that are not planned. However, savings that are kept alone or stored in a bank have the risk of being taken or used to buy other things that should not be used for it. In contrast to insurance, insurance money can only be claimed for events that have been listed in the policy so that other events cannot use the money in the insurance.
3. As Other Income
When unexpected events occur in the community, they may be in a position of no income. Therefore, insurance can be one other source of income that can be used by the community to pay for losses for events that occur.
4. Risk Spreader
The spread of risk referred to in insurance is when risk events occur in the community, the insurer can share the risk with the insured so that the risk that must be paid is borne by several people.
5. Fair distribution of fees

When the distribution of premiums in the policy has been carried out by experts such as actuarial experts so that the costs that have been divided have been divided fairly and equally.

Insurance also has several characteristics that are involved in carrying out insurance. The characteristics of insurance include :

1. Agreement
Insurance is an agreement between two parties who cooperate with each other, in this case the insured and the insurer who bind and trust each other so that there is consensus for both parties in carrying out insurance.
2. Reciprocal
Reciprocity that occurs in insurance companies is that both parties carry out the tasks that should be done. This task is carried out when unexpected risks occur in the life of the insured.
3. Consensual
Consensual is an agreement from the insurance parties, namely the insured and the insurer so that the parties have clear and tangible evidence of the agreement between the two.
4. Association
This association relates to the insured's premium. The premium that can later be used by the public is the premium previously collected by the community itself to the insurance company.
5. Nature of insurance company The nature of this insurance company is the nature in which the implementation of insurance follows the rules and regulations that apply within the insurance company. The insured party is related to the insurance company and must follow what happens in the insurance company's provisions.
6. Good Luck
Indirectly, what happens in insurance is chancy. The agreements made by the insurer are events that do not necessarily occur in life. So, it can be said that this insurance is chancy in its operation.

In carrying out its duties insurance has a purpose. The objectives of insurance include the following:

1. Economic Goals

The economic purpose of insurance is that insurance is a company where a company is indeed engaged in the economy so that it can be ensured that insurance also has economic goals like other economic companies.

2. Social Goals

The social purpose of insurance is a social sense or a sense of sensitivity to events that occur to the insured. The insured party experiences an event or risk that is not good so that the human social sense is to want to help. Likewise, the principle held by insurance companies is that insurance companies are also human beings who have a social spirit so that they help others who are in trouble.

There are several types of insurance that can be used or followed by the community when joining as a member of the insurance. The types of insurance include:

1. Health Insurance

Health insurance is insurance related to human health. People can not predict when he will be very sick. Therefore, this insurance can be used as expenses that can be used for hospitalization, medicine, etc. so that the proceeds can be used for coverage.

2. School Insurance

School insurance is a form of guarantee made by parents to their children for school fees. Costs used for children in the future will be prepared in the form of insurance.

3. Life Insurance

This life insurance is related to the risk of death that will come to the community. People do not know when death will come to him. Therefore, when death comes to him, the insurance he has can be used by his children or his family so that he can continue his life well.

4. Accident Insurance

This accident insurance is used for accidents that fall unexpectedly. People don't know when the accident happened to them, so when an accident happens to them, people can use the

insurance for maintenance costs during the accident.

5. Old Age Insurance

Everyone wants a comfortable old age and enjoy it with their children and grandchildren. However, all the risks that exist have not provided certainty that the old age can be enjoyed comfortably by everyone. The existence of insurance provides comfort and peace of mind that life in old age will be guaranteed and there will be no shortage because there are savings that can be used at any time for life in old age.

Multi-Level Marketing

Currently, the economic life in the community is very developed. Many large companies have been established in Indonesia. If we look at urban areas, there are already many skyscrapers that are part of well-known companies in Indonesia. The more companies there are in Indonesia, the company's competition is getting tougher.

Competition in the business world causes all ways to get consumers or customers. Many do promotions by using social media or by using the help of others. These people help out by a company to keep the company running and keep getting customers.

Like wise with insurance companies. There are more and more insurance companies in Indonesia. Not only well-known companies are engaged in insurance. Currently, many pioneering companies are also engaged in the insurance sector. The number of people in Indonesia is also increasing which causes the risks that exist in humans to increase.

Multi-level marketing (MLM) is one type that is included in the way of selling. MLM has a concept like these agents and agents who will later move and invite people to continue to do or have more customers. The simple picture is when we are in a public place and there are people who invite us to join or use a product, that person is incorporated into MLM. People who work like that will get

money or salary when they successfully invite people to join their products.

The performance of this MLM is like leveling up. This is in line with the name, namely level. When a person can invite a lot of people, then he will rise to a higher level and succeed in getting a bigger salary. So are the people who are invited. When that person succeeds in inviting other people to join his product or use his product, that person will get points and the higher the points, the more that person can move up to a higher level. There are several systems that are carried out in MLM, namely:

1. Binary

As the name implies that binary is something that is based on two. The MLM system is like that too. When someone manages to spread his wings to two people, then those two people will automatically be under him. So that two people who are invited to become his down line. Likewise, it will continue to move like that.

2. Breakway

Breakway is an MLM system where someone who joins MLM can invite unlimited people. That person will invite as many people as possible to join and get a level increase. However, in this system there is a level limit that can be obtained by the community, which is up to 10 levels.

3. Matrix This matrix is a system that looks more complicated when compared to other systems. In this system, someone who joins will spread his wings to 5 people or 7 people. The level is in the range of level 5 to level 50.

4. Unilevel This unilevel system is almost the same as the breakway system where one can spread his wings to infinity. The difference is the number of levels. The level in this unilevel is in the range of 5-10 levels.

In carrying out its work, MLM will be so aggressively inviting someone to join. The initial cost of joining MLM is usually not large. Only in the tens to hundreds of thousands. There is no limit to the age that can join MLM, so even small children can become MLM.

This MLM system has been widely developed in Indonesia. There are many companies that use the MLM system. This is because many companies have been established in Indonesia and the competition is getting tougher. Therefore the MLM system is also widely used in insurance companies.

METHOD

The method used in collecting data in this article is a literature study, where the author uses existing research journals to obtain data and reference sources. After the data is collected, the writer presents the material qualitatively, namely descriptive analysis. Here are the author's steps in compiling this article:

1. Looking for Ideas and Themes That Will be Raised in This Article

Looking for ideas and themes, the author does this by reading journals and reading materials that are compatible with insurance. Determination of this theme is done by the author to make it easier to find the following materials.

2. Creating an Article Outline

Making the outline of this article is done by the author by writing a general description of the content and composition of the article to be made.

3. Looking for Data Sources

The sources of this data were searched by the author by looking for previous journals or journals that match the theme of the material to be raised in this article.

4. Analyze the Data That has been Found

The data that has been found is then analyzed. This data analysis was carried out in order to get results for writing the next article.

5. Article Writing

Article writing is done by developing an existing article framework. The existing article framework was developed in accordance with the data obtained in the data search.

RESULTS AND DISCUSSION

As previously mentioned, insurance is a form of controlling risk by transferring the risk to another party where the other party is an insurance company. In this insurance, the benefit of either the insured or the insurer depends on an uncertain event (Siswadi, 2018).

Insurance is not a form of gambling or betting. There are also many insurance companies in Indonesia and they are allowed so that they are not prohibited by the state. In carrying out insurance there are several principles, namely:

1. The Principle of Good Faith

The purpose of the principle of good faith is a race of trust between the two parties, namely the insured and the insurer. The insurer believes that the insured party will pay all his obligations as well as the insured party believes that later the insurer will pay for the risks that occur in accordance with the agreed agreement.

2. Principle of Balance

In insurance, the insured party will get compensation for the risks experienced. However, in insurance there is a principle of balance where this balance is seen from what risk occurs, how much risk occurs so that the insurance calculation is issued according to the risk experienced.

3. Principle of Subrogation

In a risk, there is a possibility that the risk occurs because it is caused by a third person. Therefore, if the risk occurs because of a third person, the insured party can ask for compensation from the insurance and third parties involved in the occurrence of the risk.

4. Insurable Interest Principle

In insurance, not all interests can be included in the insurance category. There are several provisions so that only certain interests can be claimed by insurance.

In an insurance company, the concept is simply that the insured pays a sum of money to the insurer or the insurer. So, in insurance matters it is not uncommon to mention the existence of premiums, policies, and insurance claims.

Insurance premium is a sum of money that must be submitted to the insurer. While claims are money that can be withdrawn or used to pay for the risks that occur. Insurance must be based on an agreement between the two parties. The agreement is written in the form of a policy.

One of the principles of insurance is the existence of insurable interests, in which the principle states that not all interests can be claimed by insurance. Some objects that can be insured are objects that have economic value, therefore the object of the economy is objects of value and importance. In addition, insurance can also be given to life insurance and accident insurance.

Currently, there are more and more insurance companies in Indonesia. The number of insurance companies is in line with the increasing technology in Indonesia, one of which is motor vehicles. Motor vehicles and the risk of accidents are two things that cannot be separated so that currently there are many insurances available in Indonesia.

Human awareness of insurance is already increasing. However, it is undeniable that public knowledge about insurance is still small. Now, insurance can be a dangerous thing for society. Now, it is happening in a crowded place where people invite to join an insurance with certain agreements. Case it is sometimes unsafe for society.

In such circumstances it is often said as Multi-Level Marketing or MLM. The MLM sales method is a method that is currently widely used considering the increasingly high business competition. This MLM concept is an agency. Where someone who is a member of this MLM will become an agent of company X. The task of this agent is to find customers so that customers want to use their products.

This is in line if a company X is an insurance company. So it can be said that the person who is incorporated is an insurance agent. The person's job is to invite people to join the insurance company. The concept in the insurance company is an agreement between the insurance company

and the insured.

Even in the MLM concept, insurance agents provide an understanding to the public how the performance of insurance itself. The insurance agent will also make an agreement in the name of the company as the policy. The insured will also pay a premium to the insurance company. However, in this MLM there is a possibility that the company does not interfere. Other possibilities are that the MLM party also does not practice honesty, such as falsifying the policy where the policy is ultimately not entered into the company so that it cannot be claimed.

In the insurance agreement, it is regulated in Law No. 40 of 2014 Article 31 that in carrying out insurance transactions one must:

1. Carefully carried out by both parties.
2. Done quickly, simply, easily, and fairly.
3. The insurer is obliged to provide correct information to the insured party without any lies.
4. Do not carry out activities that cause delays
5. Regulations related to claims will be regulated by the Financial Services Authority (OJK)
6. Provide compensation to the insured if there is a risk
7. Make payments if the insured dies (Sumiati, 2017).

When a company offers its services through MLM, the system that moves will start from an explanation given by the insurance or MLM party from an insurance to someone. After going through the explanation process, when someone is interested, he or she will join the insurance. The joining process will be through an agreement. This agreement can be said to be a contract between the two of them to carry out insurance. So, this MLM principle does not violate the rules.

In the practice of MLM on insurance, of course, like any other MLM where everyone will expand their network to others related to insurance. The advantage of this MLM-based insurance is that the company can expand its network without having to meet directly with customers. MLM is profitable

for the company. But it also provides benefits to society. People do not need to come directly to the insurance company which may be located far from where they live.

However, MLM has a negative impact on customers. If the customer is not careful and does not do a re-check before taking insurance, the customer could be trapped in the wrong insurance. Because today there are many frauds through various kinds of social media or ways that are sometimes unexpected for the public. Likewise, this insurance MLM can be a form of lying in order to make a profit.

The insurance company did not meet directly with customers. This becomes a form of vulnerability if one day there is someone who claims that he is following insurance but the bank does not recognize this customer. Therefore, this MLM practice must be full of caution for both parties. Insurance is not the purchase of an item that can then be simply forgotten. Insurance is related to a person's future life so that it must be considered and safeguarded. Don't let this one mistake cause chaos in the customer's life.

From these things, MLM does not violate the rules. MLM is also not prohibited by the state, but this MLM practice is not recommended for the public to follow. Because insurance deals with uncertain events and relates to time in the future, people must be able to determine which insurance is trusted to use.

CONCLUSION

In carrying out their lives, people do many activities. This activity is carried out by the community either for work or just to adapt to the environment. Activities carried out by humans have risks or the possibility of an unexpected risk or event.

Human life is a life that does not know what the future holds. Humans can plan but God's destiny decides. Therefore, humans could only be on guard and prepare everything properly.

There are more and more insurance companies in Indonesia, as well as public awareness of self-insurance. Many people are interested in taking insurance to protect the risks that may occur in the future. The increase in insurance companies has an effect on insurance company competition.

In insurance companies, now many are using MLM. The practice of MLM in this insurance company shows that in the insurance company there are insurance agents who work in it and look for customers to take insurance at the company. The practice of MLM in this insurance company is not prohibited by the state but is also not recommended by the state.

This MLM practice has the advantage that insurance companies do not need to meet face-to-face with therapy customers, their network has expanded. Likewise with customers, they do not need to come all the way to the insurance company just to register for insurance. However, this is very vulnerable because between the insurance company and the customer is bridged by a third party which allows a lie to easily occur.

People who will use insurance must know in depth how the insurance company they will follow. In addition, the public must also know how the level of trust of the insurance company is so that many harmful things do not happen in the future.

The author also provides suggestions in this article, namely:

1. Public knowledge about insurance and MLM must continue to be improved.
2. The public must always be aware of existing insurance companies and those who offer offers because not all insurance companies offered are trusted insurance companies.
3. Before joining as an insurance member, it is better for the public to find out more about the insurance company that will be followed, both from the level of trust and other levels.

THANK-YOU NOTE

In compiling this article the author would like to thank:

1. Allah SWT who has given confidence and strength so that the author can finish this article well.
2. My parents who always support me in whatever I do.
3. Lecturer who has always provided useful materials so that this article can be compiled to completion.
4. All parties who helped compile this article, namely the author's friends. Without friends who helped write this article it would be a long time.

REFERENCE

- Agustiranda, et al. (2019). The Effect of Premium Income, Claim Payments and Risk Based Capital on Profit Growth in the Company. *Scientific Journal of Business and Applied Management*. 14(1). 1-12.
- Students. (2018). Legal Principles in Insurance Practices as a Solution to Avoid Losses on Events Occurring in Insurance Institutions. *Umm Qura Journal*. 11(1). 152-160.
- Sumiati. (2017). Insurance Practices With Multi Level Marketing System Based on Law Number 40 of 2014 concerning Insurance. *Journal of the Honor of Law*. 1(2). 206-215