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Beyond Regulation: How Board Competence Drives Effective Compliance Risk Management in Insurance Brokerage Firms

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Abstract

This study aims to examine the influence of board of directors' competencies on compliance risk management in insurance brokerage firms (PPA). The competencies evaluated encompass five key dimensions: relevant and adequate knowledge, understanding of applicable regulations, strategic management capability, experience in non-bank financial institutions and/or other relevant sectors, and possession of insurance broker certification. A quantitative approach was employed using a survey method, targeting board members of insurance brokerage firms located in Jakarta, Bogor, Depok, Tangerang, and Bekasi (Jabodetabek). Data were collected through structured questionnaires and analyzed using multiple linear regression. The findings reveal that, collectively, the board's competencies have a significant impact on compliance risk management. Moreover, several individual competency dimensions demonstrate a positive and statistically significant effect on the effectiveness of managing compliance risks. These results highlight the critical importance of enhancing directors' competencies to minimize regulatory violations and penalties, while also supporting the effective implementation of risk management practices within the insurance brokerage industry.

1. Introduction

The Financial Services Authority (*Otoritas Jasa Keuangan*/OJK) is the regulatory body mandated to oversee the integrity and stability of Indonesia's financial services sector through an integrated system of regulation and supervision. Its jurisdiction spans across banking, capital markets, insurance, pension funds, financing institutions, and other non-bank financial service institutions. This integrated approach ensures that each financial entity—including insurance brokerage firms—operates in accordance with prevailing laws and standards to protect public interests and maintain financial system resilience.

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Pursuant to Indonesian Law Number 21 of 2011 concerning the Financial Services Authority and Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (P2SK), the insurance sector is defined as a specialized field involving companies that provide insurance services—whether general, life, or reinsurance—and companies offering supporting or intermediary services. Insurance and reinsurance brokerage companies (PPA and PPR) fall within this intermediary category and are authorized to operate as limited liability companies (PT) or cooperatives. As of December 31, 2023, there are 192 registered intermediary firms comprising 151 insurance brokerage companies (PPA) and 41 reinsurance brokerage companies (PPR) operating in Indonesia.

In a limited liability company structure, the board of directors holds full responsibility for managing the company in accordance with its objectives and regulatory obligations. According to Law Number 40 of 2007 concerning Limited Liability Companies, the board of directors functions as a central organ with authority to direct operations, make strategic decisions, and represent the company both inside and outside legal proceedings. This authority also entails fiduciary duties, requiring each director to act in good faith, with full responsibility, and in the best interest of the company. Failure to do so may result in personal liability for any losses incurred due to negligence or misconduct.

Within the regulatory framework governing insurance intermediaries, OJK imposes specific competency requirements for members of the board of directors. Based on Financial Services Authority Regulation (POJK) No. 24 of 2023 concerning Licensing and Institutional Requirements for Insurance Brokerage, Reinsurance Brokerage, and Insurance Loss Assessment Companies, directors of PPA must hold at least a level-two intermediary certification—one level below the highest qualification—from a recognized professional certification body. Additionally, under POJK No. 27/POJK.03/2016, individuals appointed to key positions in financial institutions must undergo a fit and proper test and obtain formal approval from OJK prior to assuming office.

Despite these regulatory safeguards, compliance issues remain prevalent. According to OJK data from January to December 2023, a total of 693 administrative sanctions were imposed on PPA companies. These sanctions included a variety of penalties ranging from written warnings and administrative fines to restrictions on business activities and license revocations. The breakdown of these sanctions shows that a significant portion were due to late or incomplete report submissions, regulatory violations, or noncompliance with licensing provisions.

Table 1

Type of Sanction	Number	Percentage (%)
Warning Sanction 1	208	30.01
Warning Sanction 2	62	8.95
Warning Sanction 3	27	3.90
Sanctions Restricting Activities	4	0.58
Written Warning Sanction	53	7.65
Business License Revocation	3	0.43
Administrative Fine	125	18.04
Additional Warning Letters	85	12.26
Coaching Sanctions	85	12.26
Total	**693**	**100.00**

(Source: OJK, 2024)

These penalties underscore systemic weaknesses in internal controls, particularly in relation to compliance with laws and regulations. Many of these sanctions are directly attributable to management failures, including the inability of company directors to implement effective compliance frameworks. According to POJK No. 44 of 2020 and the OJK Circular Letter No. 13 of 2021, insurance brokerage firms are required to identify, monitor, and manage five primary types of risk: strategic, operational, compliance, reputational, and legal risk. Among these, compliance risk—which refers to the potential for regulatory breaches due to failure in adhering to applicable laws—is particularly relevant in the context of insurance intermediaries.

The board of directors is entrusted with the responsibility of ensuring that risk management systems are effectively implemented. This includes not only developing and supervising risk mitigation strategies but also fostering a culture of compliance within the organization. The effectiveness of compliance risk management is thus heavily dependent on the competence of the board, including their knowledge of industry regulations, strategic management capabilities, professional experience, and relevant certifications.

Prior research has emphasized the importance of leadership competencies in corporate governance and risk oversight across various financial sectors. However, there is limited empirical evidence specifically linking board-level competencies to compliance risk management in insurance brokerage firms. Given the critical nature of this issue—particularly in light of the high volume of regulatory sanctions—there is a pressing need to better understand the relationship between directors' competencies and compliance performance.

This study seeks to address this research gap by examining how specific dimensions of board competence—including regulatory knowledge, industry experience, strategic skills, and certification—impact the effectiveness of compliance risk management in Indonesian insurance brokerage companies. By doing so, the study aims to contribute to the literature on financial sector governance and inform policy and practice in strengthening organizational compliance through improved leadership capacity.

2. Methods

The object of the research scope is the Insurance Brokerage Company (PPA). The research sample is PPA domiciled in Jabodetabek, while the respondent in this study is one of the Directors of the PPA concerned. Thus, the number of respondents is the same as the number of samples. According to Sugiyono (2019), Population refers to a broad area that includes things or people with a certain number and quality that researchers study to obtain conclusions. The population is all PPAs that have obtained permits from the OJK, totaling 151 companies. The sample is part of the population, so sampling must reflect/represent the population. Population conditions greatly affect how many samples should be taken from the population during research. When the population is more uniform, the sample is smaller, and vice versa.

The appropriate sample size in the study ranges between 30 and 500 (Sugiyono 2019). For multivariate analysis (correlation or multiple regression), the number of samples must be at least ten times the number of variables studied. So that the sample in this study is in line with the theory, namely PPA domiciled in Jakarta, Bogor, Depok, Tangerang, Bekasi (Jabodetabek), because the population in Jabodetabek already represents the entire population of PPA. Data collection in this study used a purposive sampling technique. Purposive sampling is a method of selecting samples that is adjusted to certain criteria (Sugiyono 2019). The sampling criteria in this study were PPA Offices domiciled in Jakarta, Bogor, Depok, Tangerang, Bekasi (Jabodetabek),

as many as 148 samples. Of the 148 forms sent to respondents, 148 respondents returned them completely.

3. Results and Discussion

Hypothesis Testing

1. Coefficient of Determination

To determine the magnitude of the contribution of the independent variable of Directors' Competence, a determination coefficient test was carried out as follows:

KD = r2 X 100%
Information :
KD = Coefficient of Determination
rxy2 = Square of correlation coefficient

Table 2. Determination Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,895a	,801	,794	1,083

a. Predictors: (Constant), Insurance Broker Certification, Experience, Knowledge, Strategic Management, Legislation

Based on the results of the regression analysis in table 2 above, the Adjusted R Square value is 0.794. This shows that 79.4% of the variation in Compliance Risk Management can be explained by the independent variables used in this study, while the remaining 20.6% is influenced by other variables outside the model.

2.Anova Test (F Test)

The F test is used to determine whether there is a significant relationship between the variables of Board of Directors' Competence and the dependent variable, namely Compliance Risk Management.

Table 3. Anova test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	669,654	5	133,931	114.2	,000b
Residual	166,421	142	1,172	78	
Total	836,074	147			

From table 3 above, it can be seen that the sig. value is 0.000 < 0.05, which means that the Competence of the Board of Directors has a significant effect on Compliance Risk Management.

3. Individual Parameter Significance Test (t-Test)

The t-test is used to determine whether there is a significant relationship between the variables of Knowledge, Legislation, Strategic Management, Experience, and Insurance Broker Certification with the dependent variable, namely Compliance Risk Management.

Table 4. t-test

Variables	Beta Unstandardized Coefficients	t value	Sig Value
Adequate and relevant knowledge (X1)	1,489	8,270	**,000**
Understanding of laws and regulations (X2)	1,821	9,039	**,000**
Ability to carry out strategic management (X3)	1,716	8,207	**,000**
Experience in the field of LJKNB and/or other relevant fields (X4)	,216	,984	,327
Insurance broker certification (X5)	,386	1,778	,077

The decision rule in hypothesis testing using the t-test is based on a comparison between the t-count and the t-table values. If the t-count is less than the t-table, the null hypothesis (H_0) is accepted, indicating that the independent variable does not have a significant effect on the dependent variable. Conversely, if the t-count exceeds the t-table, H_0 is rejected, signifying a significant influence of the independent variable on the dependent variable. This test is two-tailed; thus, the sign (positive or negative) of the t-count is not considered in determining significance. The degrees of freedom (df) used for the t-table are calculated using the formula df = N – k, where N is the number of observations and k is the number of variables. In this study, with 148 observations and 5 independent variables, the degrees of freedom are 143 (148 – 5). At a 95% confidence level ($\alpha = 0.05$), the critical value from the t-distribution table is 1.655.

For variable X_1 (adequate and relevant knowledge), the t-count is 8.270, which is greater than the t-table value. Therefore, H_0 is rejected, indicating that this variable has a significant and positive influence on compliance risk management. Similarly, variable X_2 (understanding of legislation) yields a t-count of 9.039, which also exceeds the t-table value, confirming a significant effect. Variable X_3 (ability to carry out strategic management) presents a t-count of 8.207, again surpassing the critical threshold and demonstrating a significant relationship with compliance risk management.

However, variable X_4 (experience in the LJKNB field and/or other relevant fields) has a t-count of 0.984, which is lower than the t-table value. Thus, H_0 is accepted for this variable, implying that experience in this field does not significantly affect compliance risk management. Finally, variable X_5 (insurance broker certification ownership) shows a t-count of 1.778, which is only slightly higher than the t-table but not sufficient to reach significance. As a result, H_0 is

accepted, and it is concluded that certification ownership does not have a significant impact on compliance risk management. Next, based on the results obtained from data processing in this study, the following things are found.

Table 5. Hypothesis Testing

Hypothesis	Conclusion
H1: Adequate and relevant knowledge has a positive effect on Compliance Risk Management.	H1 accepted
H2: Understanding of laws and regulations has a positive effect on Compliance Risk Management.	H2 accepted
H3: The ability to carry out strategic management has a positive effect on Compliance Risk Management.	H3 accepted
H4: Experience in the field of non-bank financial services institutions (LJKNB) and/or other relevant fields has a positive influence on Compliance Risk Management.	H4 rejected
H5: Ownership of insurance broker certification has a positive effect on Compliance Risk Management.	H5 rejected

The Influence of Adequate and Relevant Knowledge on Compliance Risk Management

The analysis of the data in Table 5 reveals that adequate and relevant knowledge has a positive and significant influence on compliance risk management. According to the Upper Echelon Theory, the knowledge possessed by individuals in top management plays a crucial role in strategic decision-making, including compliance management. Hambrick and Mason (1984) emphasized that characteristics such as education, experience, and domain-specific knowledge significantly affect how executives perceive and respond to organizational challenges. Adequate knowledge enables management to design responsive policies, identify compliance gaps early, and implement effective corrective actions. Moreover, in the context of Agency Theory, knowledge also helps mitigate agency conflicts by ensuring that management understands regulatory obligations and aligns its actions with stakeholders' interests (Jensen & Meckling, 1976).

This study supports the findings of prior research conducted by Zhang et al. (2021), Gupta et al. (2022), and Al-Shaer and Zaman (2023), which affirm that organizations with highly knowledgeable leadership are more likely to experience lower levels of regulatory violations. Managers with a legal or compliance background tend to enhance risk mitigation processes. Increased investment in management training and education on compliance regulations has been shown to significantly reduce the risk of sanctions. Furthermore, a knowledgeable board of directors contributes positively to the overall effectiveness of compliance oversight.

The Influence of Understanding of Legislation on Compliance Risk Management

The findings also indicate that a strong understanding of legislation has a positive and significant impact on compliance risk management. Management's comprehension of relevant laws and regulations is vital in identifying areas vulnerable to violations and in formulating appropriate preventive strategies. Leaders who are well-versed in legal frameworks are better equipped to anticipate compliance challenges and to institute policies and procedures that ensure adherence to applicable regulations. A thorough grasp of legal standards enables organizations to adapt swiftly to regulatory changes and to implement proactive risk management measures.

These results are aligned with Agency Theory, which posits that a well-informed management can reduce information asymmetry and align managerial actions with shareholder expectations. Prior research by Johnson and Li (2022), Cheng et al. (2023), and Wong and Tan (2021) similarly concludes that directors with strong legal acumen tend to foster higher compliance levels. Their capability to devise comprehensive compliance strategies contributes to lower incidences of regulatory breaches and improved readiness in adapting to evolving legal environments.

The Influence of Strategic Management Ability on Compliance Risk Management

The study also demonstrates that the ability to perform strategic management has a positive and significant effect on compliance risk management. According to the Upper Echelon Theory, the strategic capabilities of top executives influence the direction and effectiveness of organizational decision-making. Leaders who possess strong strategic management skills are more adept at embedding compliance risk considerations into broader business strategies. They can better allocate resources, monitor regulatory developments, and ensure that compliance becomes an integral part of corporate planning.

Strategic management also enhances an organization's ability to design and implement preventive and corrective mechanisms tailored to compliance challenges. These findings support the Agency Theory perspective, which argues that capable management can resolve principal-agent conflicts by ensuring regulatory alignment and fostering long-term stakeholder value. Empirical support for this relationship is evident in studies by Zhang and Lee (2022), Anderson et al. (2023), and Cheng and Wong (2021), who assert that strong strategic leadership correlates with proactive compliance planning and reduced regulatory risks.

The Influence of Experience in the LJKNB or Other Relevant Fields on Compliance Risk Management

Contrary to expectations, the findings indicate that professional experience in the LJKNB (non-bank financial industry) or other relevant fields does not significantly influence compliance risk management. This result deviates from the Upper Echelon Theory, which holds that prior experience equips leaders with insight into industry-specific dynamics, enhancing their ability to navigate compliance challenges. Similarly, the outcome contradicts the assumptions of Agency Theory, which maintains that experienced executives are better positioned to act as effective agents for shareholders by reducing information asymmetry and improving governance.

The study suggests that the influence of experience is outweighed by other more critical factors—namely, adequate knowledge, understanding of legal frameworks, and strategic management competence. These elements appear to play a more decisive role in shaping compliance outcomes than experience alone. These findings contrast with prior research by Johnson and Wang (2022), Cheng et al. (2023), and Miller and Smith (2021), which highlighted the value of professional experience in developing risk mitigation frameworks, particularly within highly regulated sectors such as finance and insurance.

The Influence of Insurance Broker Certification Ownership on Compliance Risk Management

Lastly, the study finds that ownership of insurance broker certification does not significantly affect compliance risk management. Although certification indicates that individuals have undergone formal training and met professional standards in regulation and risk analysis, this

alone does not appear to translate into more effective compliance management. This finding contradicts the Upper Echelon Theory, which posits that formal qualifications influence strategic behavior and organizational performance. It also runs counter to Agency Theory, which assumes that certified professionals are better positioned to align management practices with regulatory expectations.

Despite the theoretical expectation that certification improves compliance readiness, the results show that such credentials do not necessarily enhance leaders' capacity to identify, evaluate, or respond to compliance risks. These conclusions are not in line with studies by Cheng and Lee (2022), Anderson et al. (2023), and Wong and Tan (2021), who emphasized the role of certified professionals in developing robust compliance infrastructures. While certification may contribute to professionalism, this study suggests that it may be insufficient in isolation and must be supported by broader strategic competencies and regulatory knowledge to be impactful.

4. Conclusion

Based on the findings discussed in the research results and analysis sections, several key conclusions can be drawn. First, adequate and relevant knowledge has a positive and significant impact on compliance risk management, enabling more informed and effective regulatory oversight. Second, a strong understanding of legislation also contributes positively to compliance risk management, allowing organizations to better navigate complex legal environments. Third, the ability to perform strategic management plays a vital role in enhancing compliance, as it supports the integration of regulatory considerations into broader organizational planning and decision-making. However, professional experience in the non-bank financial industry (LJKNB) or other relevant sectors does not appear to have a significant influence on compliance risk management. Similarly, ownership of insurance broker certification, while an indicator of professional competency, does not significantly impact an organization’s ability to manage compliance risks. These conclusions suggest that knowledge, legal understanding, and strategic capability are more critical factors in compliance management than experience or certification alone.

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