

Financial Projection for Long-Term Corporate Plan of a Holding Insurance Company for The Year 2025-2029

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ABSTRACT

A company's long-term planning is essential for sustainable business growth and success, especially in the dynamic and competitive insurance industry. This study aims to evaluate the company's feasibility in achieving the desired net profit target based on analysis of current and projected financial data, industry analysis, and conformity with the assumptions and strategic initiatives outlined in the company's long-term plan. The research method used was qualitative. The results show strong growth in the company's key financial metrics. Gross written premium (GWP) is projected to increase from IDR 37.6 trillion in 2024 to IDR 54.5 trillion in 2029 at a compound annual growth rate (CAGR) of 8%. This growth is driven by strategic initiatives focused on market expansion, particularly in the property insurance and credit insurance business lines. Net profit is projected to increase from Rp3.3 trillion in 2024 to Rp6.1 trillion in 2029 at a CAGR of 13.2%, due to improved operational efficiency. The company's initiatives in implementing best practices and streamlining operations will lower its expense ratio from 20.8% in 2024 to 20.4% in 2029. The implications of this study provide strategic insights for insurance company management in formulating long-term policies aligned with market growth and operational efficiency. By aligning strategic initiatives and long-term financial planning, companies can be better prepared to face challenges and capitalize on future opportunities, thereby supporting long-term sustainability and profitability.

Keywords: Financial Projection, Financial Modeling, Insurance Company, Corporate Long-Term Planning.

INTRODUCTION

The insurance industry is a cornerstone of the global financial system, providing essential services for risk management and financial stability (Hubbard et al., 2014). In recent years, the industry has undergone significant transformation driven by technological advancements, changing customer expectations, and evolving regulatory (Grant, 2021). These factors have created a highly dynamic and competitive environment, requiring insurance companies to adapt and innovate to maintain their market position and achieve sustainable growth (Porter, 2008).

The insurance industry is a critical component of the global financial system, delivering essential services for risk management and financial stability (Yani & Lubis, 2023). Insurance

companies play a vital role in protecting individuals, businesses, and communities against unexpected losses, such as those related to health, property, and liability (Chandel & Kumar, 2016). The insurance industry is separated into two main components: life insurance and general insurance (Alderborn, 2024). Life insurance covers the risk of an individual's life or disability/accident, while general insurance, also known as non-life insurance, covers risks to other assets such as property, marine, motor vehicles, health, and more (Sasidharan et al., 2020).

Fluctuations in global economic conditions, including recessions, inflation, and interest rate changes, significantly impact the insurance industry (Tambunan & Aminda, 2021). In addition, the insurance industry in many countries, including Indonesia, has been experiencing steady growth in recent years, driven by factors such as increasing awareness of insurance benefits, economic development, and regulatory reforms (Chandel & Kumar, 2016). As the global economy faces an uncertain future and challenges in Indonesia, insurance companies must develop robust long-term corporate plans to ensure their financial viability and competitiveness (Natasha et al., 2021).

Strategic forecasting and long-term corporate planning are crucial responses to these challenges, enabling organizations to anticipate future trends, identify opportunities, and prepare for potential threats (Grant, 2021). Effective strategic forecasting allows companies to develop actionable insights about future market conditions, while long-term planning provides a structured approach to achieving strategic objectives (Hubbard et al., 2014). Therefore, this research focuses on a holding insurance company in Indonesia, examining how its Corporate Long-Term Plan for 2025-2029 can drive financial performance. To evaluate whether the company's target of Rp6.0 trillion by 2029 is realistic based on current and projected financial data, market conditions, and other relevant factors.

The company, a holding insurance company in Indonesia, was established to provide a comprehensive range of financial protection services aimed at safeguarding the economic well-being and supporting the social development of its clients. It operates through a network of subsidiaries that offer a variety of insurance products, including life, health, property, and credit insurance. The holding structure allows for strategic coordination and operational efficiencies across its diverse business units.

The company's business scope is broad and covers several key areas in the financial services sector. It is designed to leverage the synergies across its subsidiaries and align them with the strategic goals of the holding company. Additionally, the company extends its influence through its second-tier subsidiaries in the reinsurance sector (Ambos et al., 2019).

Based on the above background, the objective of this research is to analyze and evaluate the Corporate Long-Term Plan (CLTP) of insurance holding companies in Indonesia for the period 2025-2029, focusing on the strategies designed to achieve the financial target of IDR6.0 trillion by 2029. The benefits of this research are to provide strategic insights for insurance company management in developing effective long-term plans, as well as a reference for the insurance industry in facing future challenges and opportunities. This

research is expected to provide recommendations that can be applied by companies in an effort to achieve ambitious financial goals, while strengthening the competitive position in the Indonesian insurance industry.

RESEARCH METHOD

The research design for this research is structured as applied research, utilizing a case research approach. Applied research is focused on addressing a specific problem or issue, with the goal of developing practical solutions that can be implemented by the organization (Gui et al, 2017). This research goes beyond simply acquiring knowledge, and instead aims to provide practical solutions to address real-world business challenges faced by the insurance company. The methodology employed in this research is quantitative in nature. Quantitative research, as described by (Sugiyono, 2013), involves obtaining data in numerical form or converting qualitative data into numbers. According to (Sugiyono, 2013), Quantitative research involves the systematic scientific investigation of various components and phenomena and their relationships. The primary goal of quantitative research is to develop and utilize mathematical models, theories, and/or hypotheses pertaining to natural phenomena. In this research, the quantitative approach is utilized to analyze the financial data and project the company's future financial performance based on the strategic initiatives and business assumptions.

In the realm of statistics and research, understanding the concepts of population and sample is fundamental. The term "population" encompasses the entire set of items or entities under research, while "sample" refers to a subset of the population selected for examination (Nugroho et al., 2024). Data, on the other hand, is a compilation of information that provides insights into specific conditions or phenomena (Nugroho et al., 2024). This thesis employs secondary data, which is data previously collected and recorded by other researchers or institutions. Secondary data is invaluable for research due to its accessibility and the wide-ranging perspectives it offers.

In this research, secondary data is meticulously gathered from various reputable sources to evaluate the impact of strategic initiatives on the financial performance of a holding insurance company. The data collection process is comprehensive, involving several key activities:

1. Extraction of financial statements, annual reports, and other relevant financial disclosures. Historical financial statements and annual reports will be scrutinized to extract data on revenues, expenses, assets, liabilities, and equity figures.
2. Collection of industry reports, market analyses, and benchmarking studies for comparative purposes. Industry reports and market analysis documents will be sourced to provide a macro view of the insurance sector's performance and positioning.

The data analysis process for this research involves the following steps:

1. Evaluate the current state of the insurance industry, including market trends, competitive landscape, and growth prospects.
2. Establish key assumptions, such as market growth rates, pricing trends, cost structures, and the expected impact of strategic initiatives, to serve as the foundation for the financial projections.
3. Develop pro forma financial statements, including income statement, balance sheet, and cash flow statement, for the period of 2025-2029 based on the strategic initiatives and key assumptions.
4. Consolidated financial model to project the company's overall financial performance, including revenue and profitability, over the 2025-2029 period.

Insurance ratios are critical metrics that provide valuable insights into insurance companies' financial health and operational performance. These ratios will be analyzed to assess the company's financial performance and identify areas for improvement. These ratios help stakeholders understand various aspects of an insurer's performance, including profitability, solvency, and efficiency. Below is an overview of key insurance ratios based on guidance from the minister of SOE along with references to relevant literature:

1. Profit Margin

Profit Margin is calculated as:

$$\text{Profit Margin} = \frac{\text{Net Income}}{\text{Revenue}}$$

Net Income for the Year is calculated of total revenue minus the total cost of goods sold, operating income and expenses, non-operating income and expenses, and taxes for the year. Revenue is calculated of the total income from the main activities or operations of the company during the year.

3. Return on Equity (ROE)

ROE is calculated as:

$$\text{ROE} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

Return on Equity is a crucial financial performance metric that measures how efficiently an insurance company utilizes its shareholders' equity to generate profits. It provides insight into the company's profitability relative to the capital invested by its shareholders. ROE is calculated by dividing the company's Net Income, which represents its total earnings after expenses, taxes, and other deductions, by its Equity, which is the residual interest in the company's assets after subtracting liabilities and represents the ownership stake of the shareholders.

4. Loss Ratio

The loss ratio is a measure of the claims paid by an insurance company compared to the premiums earned. It is calculated as:

$$\text{Loss Ratio} = \frac{\text{Net Claims Incured}}{\text{Net Premium Earned}}$$

A lower loss ratio indicates better profitability as it suggests that the company is paying out less in claims relative to the premiums it collects (Rejda & McNamara. 2021).

4. Expense Ratio

The expense ratio measures the insurer's operating expenses as a proportion of its earned premiums. It is calculated as:

$$\text{Expense Ratio} = \frac{\text{Expense}}{\text{Net Premium Earned} + \text{Investment Income}}$$

This ratio assesses how efficiently an insurance company is managed. A lower expense ratio indicates better operational efficiency (Vaughan & Vaughan. 2014). Expenses are the expenses incurred by the insurance company in conducting its business, covering acquisition costs, administration costs, management fees, and other operational expenses as part of overall financial performance.

5. Combined Ratio

The combined ratio is the sum of the loss ratio and the expense ratio. It provides a comprehensive measure of an insurer's overall underwriting profitability. It is calculated as:

$$\text{Combined Ratio} = \text{Loss Ratio} + \text{Expense Ratio}$$

A combined ratio below 100% indicates an underwriting profit, while a ratio above 100% indicates an underwriting loss (Cummins & Phillips. 2005).

6. Yield on Investment (YOI)

YOI is calculated as:

$$\text{YOI} = \frac{\text{Investment Income}}{\text{Average Total Investment Asset}}$$

Investment Income is the income received in the form of interest, rent, and other investment income. Average Total Investment Assets: Assets in the form of capital investments, stock purchases, time deposits, and other securities that comply with OJK (Financial Services Authority) regulations with the objective of earning profits.

RESULTS AND DISCUSSION

On a consolidated basis, GWP (Gross Written Premium) is projected to grow at a CAGR (Compound Annual Growth Rate) of 8%, reaching IDR 54,5 trillion by 2029. This GWP growth is primarily driven by the property business line (12,6% CAGR) and credit line (18,5% CAGR). PT DEF is expected to have the highest growth rate among all insurance affiliates, with a CAGR of 13,6%, followed by PT DEF with a CAGR of 8.9%. The loss ratio is anticipated to improve from 71,2% in 2024 to 67,9% in 2029, driven by the development of superior underwriting capabilities and improvements in product portfolio composition (reduction in the proportion of KUR). This leads to a strong growth in underwriting profit at an 11,5% CAGR (2024-2029), reaching IDR 11,4 trillion by 2029. The investment income is expected to be 5,7% in 2029, with investment income projected to reach IDR 6,7 trillion by 2029.

Employee costs are expected to grow at a 7% CAGR (2024-2029), with the development of shared services contributing to reduced employee costs and other operational expenses. The improvement in the loss ratio and controlled growth in operational expenses led to faster growth in PAT (Profit After Tax) compared to revenue, with a CAGR of 13% (2024-2029), reaching IDR 6,1 trillion by 2029. The consolidated underwriting profit growth for a holding insurance company is projected to grow by 13% per year. In terms of portfolio mix, by 2029, Consolidated will focus on non-mandated business, contributing 33% from General Insurance with a growth rate of 14% per year and 9% from Life & Health Insurance with a growth rate of 3% per year. The proportion of underwriting profit in non-mandated business is expected to grow to 77.3%. In comparison, the mandated business proportion is expected to be 22.7%, compared to 2024, where the non-mandated business proportion is 61.9%, and the mandated business proportion is 38.1%. For the Mandated Business from KUR & PEN, it is assumed that there will be no growth in guarantee volumes, while IW & SW will grow by only 4% per year and reinsurance by 6% per year.

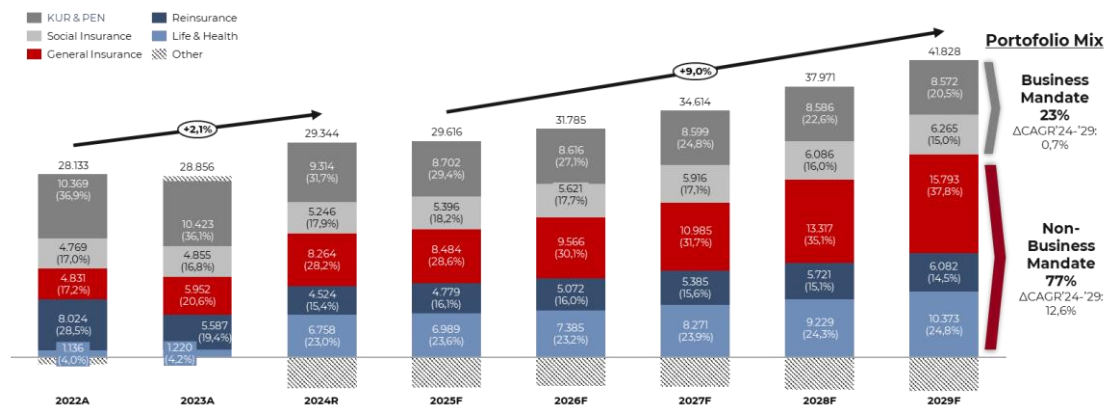


Figure 1. Underwriting Income of Holding Insurance Company per Line of Business (IDR Billion)

*Notes: Other including elimination for consolidation

Table 1. Profit or Loss Statement 2024 – 2029 (IDR Billion)

	2024	2025	2026	2027	2028	2029	CAGR 2024-2029
Underwriting Income	29.344	29.616	31.785	34.614	37.971	41.828	7,3%
Underwriting Expense	22.625	23.135	24.113	26.023	28.473	31.302	6,7%
Underwriting Profit	6.623	6.900	8.230	9.230	10.231	11.398	11,5%
Operating Profit	13.047	13.364	14.794	16.053	17.771	19.474	8,3%
Profit Before Tax	4.363	4.808	5.595	6.213	7.129	8.104	13,2%
Tax Income Expense	(1.084)	(1.464)	(1.618)	(1.731)	(1.874)	(2.017)	13,2%
Profit After Tax	3.279	3.344	3.977	4.482	5.255	6.087	13,2%

Implementation Plan & Justification

The proposed financial projection and long-term corporate plan for the insurance company are backed by an analysis of the industry, the company's internal strengths and weaknesses, and the key assumptions driving the financial projections. The management

should develop a detailed implementation strategy to ensure effective implementation and alignment with the company's goals (Maulyan & Sandini, 2023). According to (Janes & Sutton, 2017), The fifth and final stage of the strategic management process involves closely monitoring external changes, assessing the company's progress, and making necessary adjustments. This serves as the decision point for maintaining or modifying the company's vision, mission, objectives, strategies, business model, and/or execution methods. Establish key performance indicators and milestones to closely monitor progress and make timely adjustments as needed to ensure the successful implementation of the long-term corporate plan. The proposed key performance indicators are as follows:

Table 2. Proposed Key Performance Indicators (KPI)

No.	KPI	Units	Definition
1	Profit After Tax (Net Profit)	Rp	Represents the total earnings of the company after all expenses, taxes, and costs have been deducted from total revenue.
2	Combined Ratio	%	Measure of an insurance company's profitability, calculated by summing the loss ratio and the expense ratio
3	Investment Income	Rp	Reflects the return on the company's investments, which has already considered interest, dividends, realized and unrealized gains and losses.
4	Expense Ratio	%	Measures the efficiency of the company's operations, with a lower ratio
5	Return on Equity	%	Measure of financial performance calculated by dividing net profit by average shareholders' equity.

KPI List	Unit	2024	2025	2026	2027	2028	2029
1 Net Profit	IDR Trillion	3,3	3,3	4,0	4,5	5,3	6,1
2 Max. Combined Ratio	%	94%	93%	90%	89%	89%	88%
3 Investment Income	IDR Trillion	5,5	5,6	5,7	5,9	6,3	6,7
4 Expense Ratio	%	20,8	20,7	21,2	21,1	20,9	20,4
5 Return on Equity	%	6,9	6,6	7,3	7,6	8,4	9,1

Figure 2. Detail of Strategic Direction 2025-2029

The strategy should outline specific action steps, timelines, resource allocation, and performance monitoring mechanisms to translate the long-term plan into actionable business outcomes that directly contribute to the achievement of the company's strategic objectives (Hope & Player, 2012). The management team must develop a detailed implementation plan to translate the long-term plan into actionable business outcomes to execute the strategic

initiatives and achieve the company's financial goals (Martinelli et al., 2014). The implementation plan should address the execution of each strategic initiative, including strengthening core capabilities, expanding market presence, utilizing SOE synergies, implementing best practices, and streamlining operations. Figure 3 shows the detailed timeline and action plan for each initiative strategy.

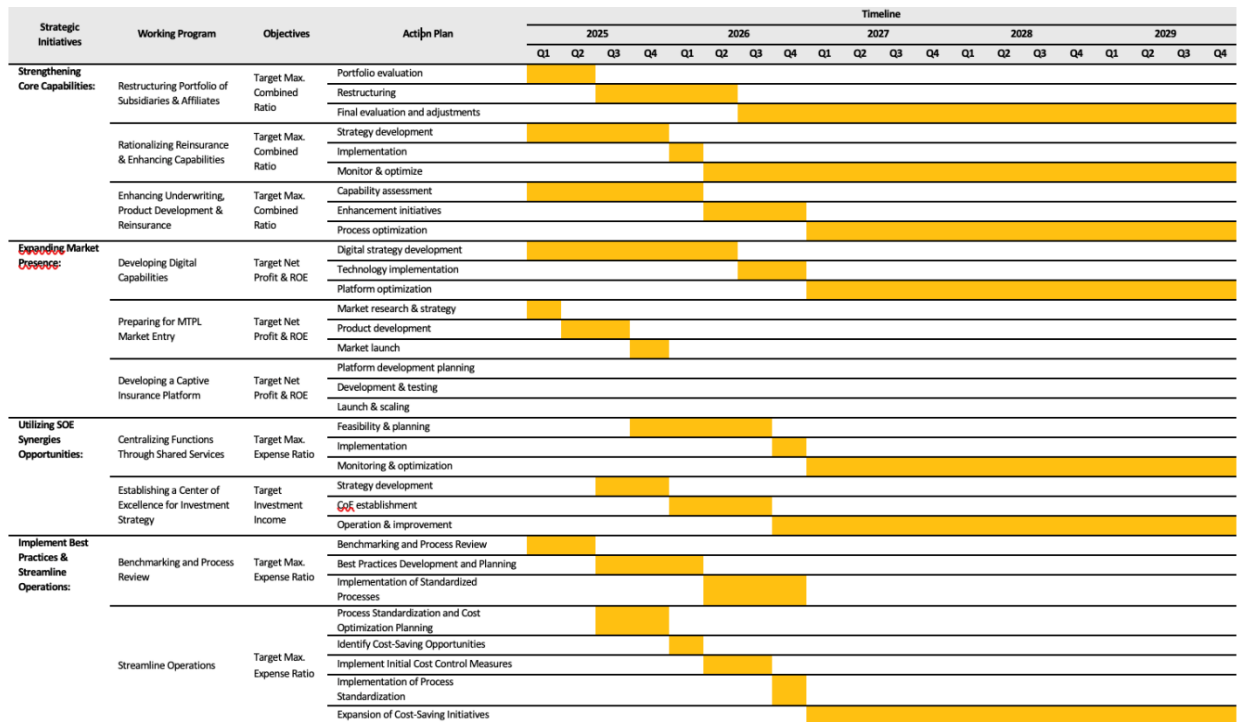


Figure 3. Detail Proposed timeline and action plan for initiative strategy 2025-2029

The detailed timeline and action plan for the company's strategic initiatives, as depicted in the figure, suggest a comprehensive approach aimed at enhancing financial performance through several key initiatives from 2025 to 2029. By restructuring portfolios, advancing market entry strategies, and streamlining operations, the company is positioned to improve both revenue growth and operational efficiency. This holistic strategy, focusing on cost-saving initiatives, enhancing digital capabilities, and improving core processes, has the potential to positively impact the company's financial projections (Mishra et al., 2023). The planned development phases and targeted completion milestones indicate that, once executed, these initiatives could drive significant financial benefits, including increased profitability, reduced operational costs, and better resource allocation, leading to stronger overall financial health over the forecasted period (Sarokin & Bocken, 2024).

CONCLUSION

The conclusion of this research has developed financial projections and a long-term corporate plan for an insurance company in Indonesia for the period 2025-2029. The results show that the company has the feasibility to achieve a net profit target of IDR6.0 trillion by 2029 by aligning the assumptions and strategic initiatives outlined in the long-term plan. In

addition, the company needs to consistently monitor performance by setting relevant KPI targets and implementing action plans of each strategic initiative. Other practical recommendations include an emphasis on periodic evaluation of strategy implementation to ensure that the actions taken remain aligned with the set objectives. The findings of this research provide valuable insights for insurance company management to make informed decisions and develop effective strategies for sustainable growth in the coming years.

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