

ASSA Recognition Award 2020

CATEGORY	:	Investment Governance Recognition Award
ORGANISATION	:	BPJS Ketenagakerjaan - Indonesia
CONTACT PERSON	:	Mr Irvansyah Utoh Banja Deputy Director of Public and Inter-Institutional Affairs
NAME OF PROJECT	:	Investment portfolio strategy; optimal and secure in delivering social protection benefits
OBJECTIVE AND NATURE OF PROJECT	:	<p>Good governance principle of investment process has given efficiency on BPJS Ketenagakerjaan cost ever since March 2017. Reducing fee for transactions not only for equity and bonds but also for mutual funds are one of the ways of efficiency.</p> <p>The percentage reduction in cost for each instruments are:</p> <ol style="list-style-type: none"> 1. Investment associate for equity transactions with purchase fees from 0.20% decreased to 0.12% and sales fees from 0.30% to 0.22%. 2. Investment associate for bond transactions with purchase fees from 0.05% decreased to 0.025% and sales fees from 0.05% to 0.025%. 3. Investment associate for mutual fund, management fees range from 2% to 4% reduced to a maximum of 1%. <p>BPJS Ketenagakerjaan portfolio managing with Dynamic Asset Allocation refers to current condition even though Technical Asset Allocation has been carried out every quarter to achieve the target. The outcome from this process is:</p> <p>A. BPJS Ketenagakerjaan <i>Compound Annual Growth Rate</i> (CAGR) of investment fund, in the last five years, is 20,3%. Start from IDR 206,05 trillion (USD 14,93 billion) in 2015 and by the end of 2019 reach the number of IDR 431,67 trillion (USD 31,05 billion) or in other words there were increasing of percentage around 109,4 % in the last four years.</p> <p>B. The five major funds managed by BPJS Ketenagakerjaan, each have different characteristics. Nevertheless BPJS Ketenagakerjaan not entirely contribute maximum returns but optimizes returns with the aim to balance and match between assets and liabilities for the long term. For the current year, BPJS Ketenagakerjaan take from contributions and as a reserve of funds will use deposit placement.</p> <ul style="list-style-type: none"> • Old day security and Pension security use provident fund scheme, with several purposes: <ul style="list-style-type: none"> – We use interval five years each, start form 1 until 5 years tenor until maximum 25 until 30 years.

	<ul style="list-style-type: none"> - Bonds portfolio determined with maturity concept since more than 90% of the bonds portfolio is in the Hold To Maturity book. - Equity and Mutual Funds adjusted base on risk indicators (β) and liquidity (market capitalization). The higher the risk and the smaller the liquidity will be adjusted over a longer period of time. - Property and direct investment are included in intervals of 25 until 30 years. • Work accident security and Death security use insurance scheme to maintain the funds, since its: <ul style="list-style-type: none"> - More aggressive because it uses the principle of insurance. - As a reserve funds, it will use technical reserve budget. <p>C. Fixed income base, which consist of deposits and bonds, has contributed around 70% - 71% or in numbers around IDR 306,6 trillion (USD 22,06 billion) in Total Portfolio and give Total Return around 80% - 81% or in numbers around IDR 23,42 trillion (USD 1,68 billion).</p> <p>D. Through the numbers, there is a growth that has doubled from 2015 until 2019. Last year, five major funds managed by BPJS Ketenagakerjaan has raised funds reach up to IDR 431,67 trillion (USD 31,05 billion) while the yield has achieved IDR 29,16 trillion (USD 2,09 billion) with Yield On Investment (YOI) around 7,34%. Until December 31st 2019, BPJS Ketenagakerjaan had placement on:</p> <ol style="list-style-type: none"> 1. Deposit (government and private) of IDR 46,86 trillion (USD 3,37 billion) or 10,86% from total, 2. Bonds (government and private) of IDR 259,77 trillion (USD 18,69 billion) or 60,18% from total, 3. Equity of IDR 82,43 trillion (USD 5,93 billion) or 19,09% from total, 4. Mutual fund (government and private) of IDR 40,32 trillion (USD 2,90 billion) or 9,34% from total, 5. Property and Inclusion of IDR 2,29 trillion (USD 164,72 million) or 0,54% from total. <p>E. According to the government constitution number 24 on 2011, it is said that the interest rate for <i>old-day benefit</i> from BPJS Ketenagakerjaan must higher or equal to government bank counter rate in one year period. Since 2016, BPJS Ketenagakerjaan has consistently provided interest rate above government bank counter rate. With the difference in interest rate from 2016 – 2019 it is 2,13%; 2,83%; 1,07%; and 1,08%.</p>
<p>WHY IT SHOULD BE RECOGNISED</p>	<p>: BPJS Ketenagakerjaan already established governance in operational making decision and free of interference. BPJS Ketenagakerjaan investment associate, should comply with the specified requirements that has been set both quantitatively and</p>

qualitatively. The valuation criteria for each instruments associate are:

1. For securities valuation is determined by considering the capital, liquidity, profitability, transaction activities and research factors.
2. Whereas investment manager ratings are based on performance, Asset Under Management (AUM), market share, services, commitment, credibility, experience, and mutual fund scores.
3. Bond valuation can be divided into two category, securities and banking.
 - a. Securities quantitative aspects are capital, liquidity, profitability, and transaction activity. While for qualitative aspects are research, order execution, offering price, settlement completion, compliance, experience and credibility.
 - b. Banking quantitative aspects are capital, liquidity, productive assets, profitability, and transaction activity. While for qualitative aspects are research, order execution, offering price, settlement completion, compliance, experience and credibility.
4. For deposit placements, the factors to consider are capital, quality of productive assets, profitability, liquidity, ownership, management, Good Corporate Government (GCG) , eksternal and Government auditor's opinion, and non-financial.
5. Private Equity Fund valuation for Investment Manager based on two factors. Quantitative aspects are financial performance, asset under management, and market share. While for qualitative aspects are services, commitment, experience and credibility also scoring for Private Equity Fund (includes managed funds, total investment commitment, and return projection).
6. REITs valuation for Investment Manager based on two factors. Quantitative aspects are financial performance, asset under management, and market share. While for qualitative aspects are services, commitment, experience and credibility also scoring for REITs (includes REITs asset occupancy rate, commitment of REITs percentage ownership by Investment Manager, return projection, and REITs asset value).

The investment instrument management accomplished by BPJS Ketenagakerjaan is as follows:

1. Equity Portfolio
 - Analyze based on fundamental, technical and risk factors of the issuer.
 - Currently the funds are managed by BPJS Ketenagakerjaan and can only be used legally for invests on the domestic market, hopefully in the future it is expected to be able invest in foreign markets in line with the increase in managed funds.

- Consideration on liquidity aspects of shares included in the category of blue chips or first-level shares that are reflected in the LQ45 constituents. Equities in this category have the potential for consistent growth in the future and they are market leaders in their respective sectors.
- Placement of investment funds is diversified into 34 issuers, of which around 98% is contributed by LQ45 Index (45 highest liquidity constituent issuers) while around 2% is contributed from 9 issuers who are former LQ45 constituents.
- Not only capital gains in equity investments but also dividend yield consider to asset selection. Returns come from dividends In 2018, BPJS Ketenagakerjaan received a dividend of IDR 1,78 trillion (USD 122,92 million) while dividend revenue in 2019 increased by 22.12% to IDR 2.18 trillion (USD 156,82 million).
- Dividend return in 2019 has reached 6,71%, if compared with Jakarta Composite Index (JCI) return in 1 year period, which reached 1,7%, then BPJS Ketenagakerjaan returns were higher compared to JCI.

2. Bond Portfolio

- BPJS Ketenagakerjaan has 57.42% government issued bonds, this has exceeded the minimum limit of 50% or in accordance with Financial Services Authority (OJK) regulation No. 1.
- Bond placements by BPJS Ketenagakerjaan consist of:
 - 1) Government at 86.19%,
 - 2) State-owned enterprise / regional owned enterprise at 13.17% and
 - 3) Private sector at 0.64%.
- Return from bonds in 2019 is IDR 20,07 trillion or USD 1,44 billion which is equal to yield around 8,35%. Compared to 7,06% yield on Indonesian government bonds, BPJS Ketenagakerjaan provides a higher yields.
- BPJS Ketenagakerjaan takes the part in stabilizing domestic bonds simultaneously with the Ministry of Finance, Financial Services Authority (OJK), and the Central Bank of Indonesia.

3. Time Deposits Portfolio

- Deposit placements are prioritized for banks that have healthy performance, provide competitive interest rates and support increased BPJS Ketenagakerjaan membership. At present the placement of deposits are:
 - 1) Regional banks has the largest portion of 66.23%,
 - 2) SOEs bank at 30.98% and,
 - 3) The private sector at 2.80%.
- Assisting economic growth in the region through the support of time deposits that can be channeled to the real sector because it is used to maintain the position of deposits in the

Loan to Deposit (LDR) ratio. Regional banks can increase loans that contribute to economic growth in each region.

- Return from deposit in 2019 is IDR 3,34 trillion or USD 240,2 million which is equal to yield around 8,31%.

BPJS Ketenagakerjaan have social responsibility by continuing to provide social assistance to their surrounding. Several programs formed by BPJS Ketenagakerjaan are as follows:

1. Gerakan Nasional (National Movement) Lingkar program .

- The cost for one month GN Lingkar participant is IDR 16.800 (USD 1,21). This program is a movement to build solidarity from private businesses, SOE's company / regional company and community initiatives to assist informal or vulnerable workers through GN Lingkar.
- The total number of people who already have experience of this programs since 2017 – 2019 is 1.2 million people. It is hoped that more people who are enrolled in GN Lingkar program will be able to support the growth of BPJS Ketenagakerjaan membership of each Regional Government (province, district and city) in Indonesia which informal or vulnerable workers contributed more than 97% worker in Indonesia.
- The directors of BPJS Ketenagakerjaan have met with several governors, regents, and stakeholders to find out about the continuity of GN lingkaran program. Majority of them, especially the head of regional will take 2,5% from their dividend on regional banks to help GN lingkaran program. Based on dividend payments ini 2019, can provide protection to 574 thousand people for one-year contribution.

2. Housing benefit program.

- As an additional program for BPJS Ketenagakerjaan participants in the form of housing finance facilities and or other benefits. For example:
 - 1) Home ownership loan
 - 2) Down payment for housing
 - 3) Renovation home loan
- As of December 31st 2019, a total of IDR 1.08 trillion (USD 77,48 million) had been realized where 57,9% of funding comes from SOE's banks.

Another regulations that has been prepared by BPJS Ketenagakerjaan, if there are macroeconomic changes that have a significant impact that causes BPJS Ketenagakerjaan is unable to meet its obligations by making an investment crisis protocol regulations.

BPJS Ketenagakerjaan adopt seven economic indicator to establish the Risk and Threat Assessment (RTA), which consists

	<p>of: Jakarta Composite Index (JCI); Foreign Exchange Rate; Indonesia Government Bond 10Year; Credit Spread; VIX (Volatility Index); CRP (Credit Risk Premium); Bank Indonesia interest rate</p> <p>While the indicator to compose Business Impact Analysis (BIA) are as follows:</p> <ol style="list-style-type: none"> 1. Old Day Security – Solvability Perspective. To determine measure solvency by comparing total assets with total liabilities in the long period of time. 2. Old Day Security – YOI / SBC Government Bank. To determine the difference between BPJS Ketenagakerjaan YOI and YOI of government banks in a period of 1 year in accordance with regulations. 3. Old Day Security – Liquidity. To determine contributions added by current year time deposits with current year liabilities. 4. Pension Security – Asset / Actuarial obligations. To determine total pension assets with participant liabilities in the long term. 5. Work Accident Security – Asset / Technical reserve. To determine total assets with technical reserves budget. 6. Death Security – Asset / Technical reserve. To determine total assets with technical reserves budget. 7. BPJS Funds. Related to operating fees by Ministry of Finance regulation compared to operating costs in 1 year period. <p>Entirety BIA indicators are used for stress testing with fuzzy logic modelling which running down worst case till 16 literacy scenario.</p>
<p>SUMMARY OF THE PROJECT</p>	<p>:</p> <ol style="list-style-type: none"> I. In managing worker funds, BPJS Ketenagakerjaan has implemented good governance by using dynamic asset allocation as its system with considering asset liability management. The condition determined to become BPJS Ketenagakerjaan associate have been prepared by not leaving BPJS Ketenagakerjaan social responsibility to surrounding environment. To maintain asset safeness, BPJS Ketenagakerjaan has prepared an investment crisis protocol in the event of matters relating to the Indonesian economy. II. BPJS Ketenagakerjaan attempts to implement ISSA guidelines on investment in the Social Security Funds as follows: investment structures, principles, and beliefs; investment strategy; investment processes; monitoring investment management; and investment governance and investment performance. III. Monitoring and supervision has been carried out continuously to ensure compliance with the

		<p>implementation of investment activities with Regulations, GBKI, Strategic Asset Allocation and Tactical Asset Allocation. All investment activities have been individually documented, safe and well managed by investment managers as supporting evidence and reporting basis.</p>
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