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DETERMINANTS OF PROFITABILITY OF INSURANCE COMPANIES IN INDONESIA (CASE STUDY ON AN INSURANCE COMPANY LISTED ON THE INDONESIAN STOCK EXCHANGE)

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Abstract:

Insurance as one of the Non-Bank Financial Industries (IKNB) plays an important role in the economy and must perform well and be healthy. Profitability is one of the most important things to assess the performance of an insurance company. This study aims to determine the determinants of the profitability of insurance listed on the Indonesia Stock Exchange. This research uses multiple linear regression method. The dependent variable is Return On Assets (ROA) and the independent variable is Liquidity, Leverage, Claim Expenses, Premium Income and Company Size. The conclusion is that partially premium income has a significant effect on profitability and simultaneously liquidity, leverage, claims expense, premium income and company size have an effect on insurance company profitability.

Keywords:

Return On Asset, Liquidity, Leverage. Claim Expenses, Premium Income, Company Size

Introduction

Financial institutions are institutions that produce financial products and services. Financial institutions are one of the industries contributing to economic growth in Indonesia. To achieve

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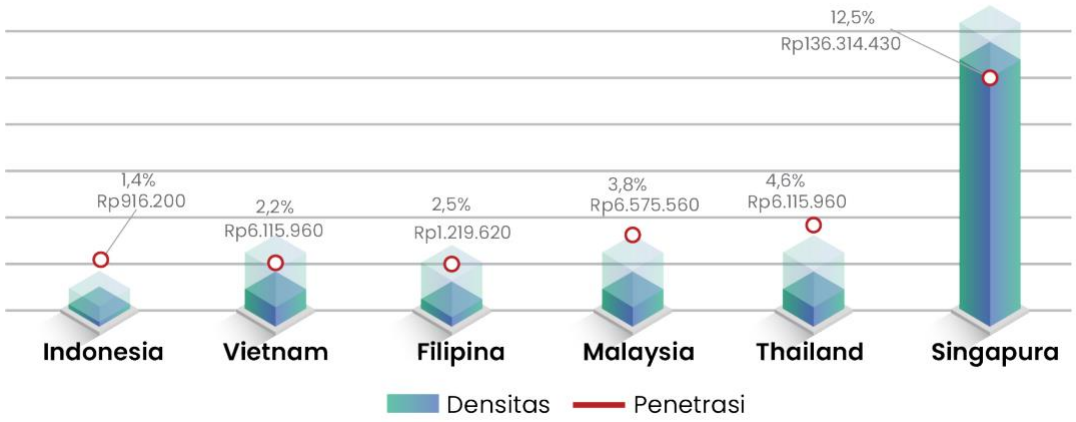
Indonesia's economic growth target, the financial services sector is one of the important sectors and is needed to finance investment and development needs.Based on Financial Service Authority the assets of the financial services sector in Indonesia reach Rp. 29,000 trillion in the June 2022 period, consisting of a capital market contribution of 54%, banking 36% and 10% from the Non-Bank Financial Industry (IKNB), one of which is insurance. based on data from OJK, the development of insurance in Indonesia in 2022, namely, the accumulation of premium income from the insurance sector from January 2022 to October 2022 reached Rp. 255.20 trillion, or grew by 1.81% in comparison to the same period in the previous year. However, the accumulation of life insurance premiums decreased by 5.76% compared to the previous period.

Despite experiencing growth, the role of the insurance industry in the economy national level is relatively stagnant. Insurance penetration in Indonesia is also relatively low compared to other ASEAN countries. Based on data in the ASEAN Insurance Surveillance Report 2022 no including mandatory/social insurance), in 2021 Indonesia's insurance penetration will be 1.4%, Vietnam 2.2%, Philippines 2.5%, Malaysia 3.8%, Thailand 4.6%, and Singapore 12.5%. Meanwhile, in terms of density, Indonesia also has a lower density level compared to these countries with a commercial insurance density of only 916,200 rupiah penetration and insurance density ASEAN countries' commercial activities in 2021 can be seen in Figure 1 :

Figure 1. Commercial Insurance Penetration and Density in some ASEAN Countries 2022



Source: OJK and AISR

In connection with investment in insurance, investment growth rate conventional insurance companies, the average for the 2018-2022 period reached 3.52%. In general, the largest total investment in conventional insurance companies comes from corporate investment life insurance amounting to 517.08 trillion rupiah or 82.29%, while investment from companies general insurance amounted to 92.88 trillion rupiah or 1.78% and reinsurance companies amounted to18.44 trillion rupiah or 2.93%. Relating to investment results from life insurance companies conventional experienced a slight movement, especially in 2022, which fell to 3.95% from the previous 5.26% in 2021 and investment returns from general insurance companies and conventional reinsurance also experiences downward movement until 2022 amounting to 5.16%. A decline in general insurance and reinsurance investment returns occurred in 2020, stock investment decreased significantly from 167.6 billion rupiah in 2019 to 19.83 billion rupiah in 2020. Looking at the graph below, Return on Investment (ROI) of

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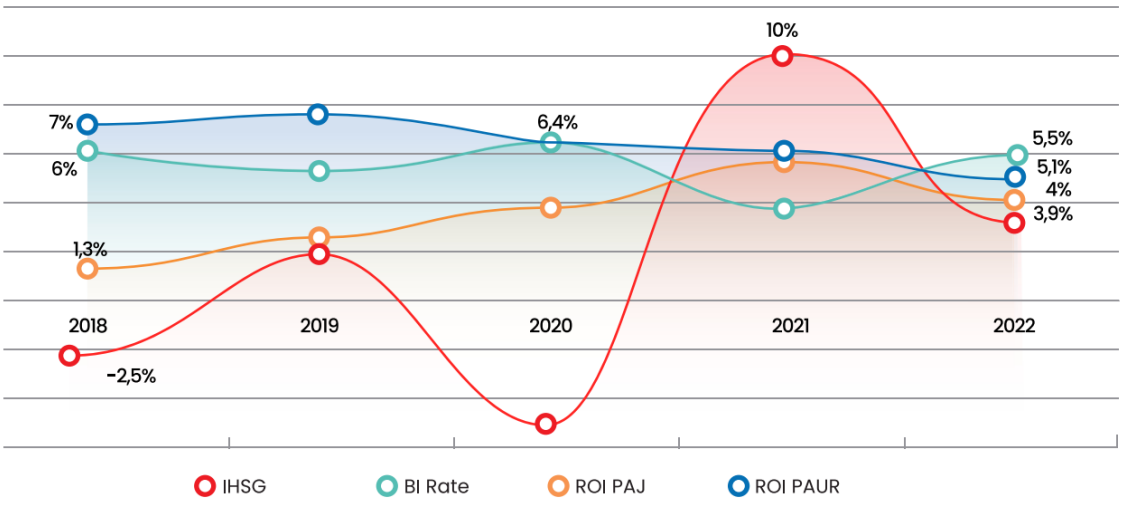
conventional life insurance tends to increase over the years 2021, but experienced a decline in 2022, meanwhile for general insurance ROI and Conventional reinsurance tends to experience downward movement until 2022. For life insurance companies where the risks are insured for the long term has an average return below the BI rate, so it is necessary to strengthen investment strategies and the capability to increase investment returns in the future. Depiction on the comparison of IHSG growth and BI interest rates on insurance company ROI conventional life and roi of general insurance and conventional reinsurance companies in 2018 until 2022 can be seen in figure 2:

Figure 2. Comparison of IHSG Growth and BI Interest Rates on Return On Investment (ROI) Conventional Life Insurance Companies and ROI of General Insurance and Reinsurance Companies Conventional 2018 - 2022



Source: OJK and Bank Indonesia

The number of insurance companies in Indonesia in 2017 was 152 companies and in 2022 it decreased to 149 companies, while for insurance supporting companies in 2017 there were 239 in 2022 to 223. Banking, insurance and finance companies have the same role, namely offering financial services, insurance offers services in the form of guarantees to customers against the risk of uncertainty, with increasingly intense competition between financial institutions, encouraging insurance companies to have good financial conditions, one of which is the profitability ratio. Based on the financial statements of 8 (eight) insurance companies listed on the Indonesia Stock Exchange, the Return On Assets (ROA) of insurance companies is between 2-9%. Apart from Return On Assets, the data also shows that the movements of the insurance company's premium growth ratio and Risk Based Capital for the 2019-2021 period have decreased. Insurance companies must maintain their soundness, especially profitability in order to increase public confidence in the industry and Insurance products

Based on the results of research conducted at insurance companies in several countries, there are several differences in research results, including research on insurance companies in Palestine conducted by Abdeljawad et al (2020), namely that there is a significant effect of the premium growth ratio on return on assets. According to Malik (2011), who examined 34 insurance companies in Pakistan, stated that company capital and size had a significant effect

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on profitability, while Aemiro (2013) stated that for insurance companies in Ethiopia, that size, leverage and assets had a significant effect on profitability, while Pervan (2012)) concluded based on the results of his research for insurance companies in Bosnia and Herzegovina that company age, market share and performance have a significant positive effect on profitability and claim ratio has a significant negative effect. Alamjali (2012) concluded based on the results of his research that liquidity and size had a significant positive effect on profitability in insurance companies in Amman while for Romania based on research results from Bartica (2014) that the determinants of financial performance in the insurance industry are financial leverage, size, underwriting risk and solvency margin. Based on the results of Dogan's research (2013) that insurance companies in Istanbul have a significant positive relationship between size and profitability. The research results for insurance companies in Indonesia also have differences in research results, namely the results of research from Agustin et al (2018) concluded that the premium growth ratio has no significant effect on return on assets, while Sastri et al (2017) states that risk based capital has a significant effect on return on assets and the results of research from Apendi et al (2019) stating that risk based capital has no effect on return on assets and Noprika et al (2020) concluded that the claim expense ratio has no significant effect on return on assets as well as the results of Sorong's research (2019) shows that the claims expense ratio can mediate the ratio of premium growth to return on assets and the results of research by Sitompul et al (2021) state that the Debt to Equity Ratio and Receivable Turnover have a negative effect and the Current Ratio has a positive effect on the Return On Assets of conventional insurance companies listed on IDX. Barrezueta et al (2019) studied insurance companies in Ecuador which showed that the claims expense ratio had a significant effect on Return on Assets.

Based on the results of these studies, there are still different results, resulting in a research gap phenomenon from the results of the research that has been carried out. Based on the background that has been stated, the problems discussed in this study are the Determinants of Profitability of Insurance companies in Indonesia (Case studies of Insurance companies listed on the Indonesian Stock Exchange).

Literature Review

Profitability is one of the factors to assess the merits of a company's performance. The factors that can affect the profitability of a company include ROA, ROE, NPM. In assessing company profitability Return on Equity (ROE) Return on Assets (ROA) and Net Profit Margin (NPM) are profitability ratios that are sufficient to represent other ratios in assessing company profitability, because in measuring the profitability of a company these three ratios have taken into account equity, assets and sales. ROA is important for Insurance because ROA is used to measure a company's effectiveness in generating profits by utilizing its assets.

According to Horne & Wachowics (2012: 37) that profitability consists of Gross Profit Margin, Net Profit Margin, Return On Assets. Syamsudin (2016), Return On Assets is an indicator for measuring a company's ability to generate profits from all the assets available in the company while according to Kasmir (2019), return on Assets is a ratio that shows the rate of return on assets used by the company.

Liquidity relates to the ability to meet financial obligations in the short term. Based on Harahap (2012) the liquidity ratio is a ratio that describes a company's ability to meet short-term obligations. Rafi & Syaichu (2019) states that liquidity does not have a significant effect on

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the profitability of Islamic insurance companies in Indonesia but contradicts research conducted by Isayas et all (2020) which states that there is a positive and significant effect between liquidity and profitability in insurance companies in Ethiopia.

The Debt to Equity Ratio is one of the financial ratios that fall into the category of debt ratios. The debt position in a company indicates the amount of money from various entities (groups of people) used to generate profits. DER is used to measure the proportion of total company liabilities and common stock equity to finance the company's total assets (John D: 2017.Alshadadi et all (2021) states that the debt ratio affects the profitability of insurance companies in Saudi Arabia and Isayas et all (2020) which concludes that there is a positive and significant relationship between leverage and profitability.

Claim expense in an insurance company is an obligation that must be paid to a customer if a customer suffers a loss so that when an insurance company has a high claim burden, the obligation to pay claims will also increase which can affect the income received by the company. Irene et all (2020) which states that claims burden has a significant effect on Profitability.

Premium income at the insurance company is the fund paid by the insured in return for services from the protection provided by the insured in accordance with the agreement. In the Financial Accounting Standards No. 36 the definition of premium is insurance company income other than investment returns.Rivaldo & Wahasusmiah (2021) states that premium income does not have a significant effect on the profitability of general insurance companies registered with the Financial Services Authority.

Company size is a measure that represents the size of a business entity based on several conditions such as total assets. According to Brigham & Houston, company size is the size of a company as assessed by total assets, total sales, total profits, tax expenses and other factors. Isayas et all (2020) which concludes that there is no significant effect between company size and company profitability Insurance in Ethiopia.

Methodology

In this study, the research variables are divided into dependent variables, namely Return On Assets and independent variables consisting of Debt to Equity Ratio (DER), Current Assets (CR), Claim Expenses, Premium Income and Company Size (Size). The population in this study are all banks in Indonesia that are listed on the Indonesia Stock Exchange

The procedures and methods used in collecting research data are using secondary data. The analysis model used is multiple linear regression analysis with panel data (pooled data). The equation model used to test the hypothesis is as follows:

$$\text{Prof} = \propto + \beta 1\text{CR} + \beta 2\text{DER} + \beta 3\text{Claim Expenses} + \beta 4\text{Premium Income} + \beta 5\text{Size} + \varepsilon$$

Result and Discussion

To select the most appropriate model to use in managing panel data, there are several tests that can be carried out according to Gujarati (2012: 253) in Sandra Dewi (2018), namely the Statistical F Test (Chow test), Hausman Test, Lagrange Multiplier Test. After selecting the model, then the classical assumption test is carried out.

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The objects in this study are insurance companies listed on the Indonesia Stock Exchange and 9 insurance companies that meet the criteria are as follows:

1. Panin Financial (PNLF)
2. Panin Invest (PMN)
3. Tugu Insurance (TUGU)
4. Victoria Insurance (VINS)
5. Multi Artha Guna Insurance (AMAG)
6. Harta Aman Pratama Insurance (AHAP)
7. Mitra Dayin Insurance (ASDM)
8. Ramayana Insurance (ASRM)
9. Bintang Insurance (ASBI)

Before carrying out the regression, in this study an analysis of the best model assumptions was carried out using 3 methods, namely the common effect, fixed effect, and random effect. The following are the stages.

Common Effect Model

Table 1. Common Effect Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.257109	5.503720	0.228411	0.8205
X1	-0.000170	0.002013	-0.084675	0.9330
X2	-0.039435	0.006755	-5.837548	0.0000
X3	-6.812612	2.762200	-2.466372	0.0181
X4	1.624601	0.721329	2.252233	0.0300
X5	0.096206	0.048408	1.987401	0.0539

R-squared	0.517328	Mean dependent var	2.282222
Adjusted R-squared	0.455446	S.D. dependent var	4.249695
S.E. of regression	3.136014	Akaike info criterion	5.247348
Sum squared resid	383.5488	Schwarz criterion	5.488236
Log likelihood	-112.0653	Hannan-Quinn criter.	5.337149
F-statistic	8.360027	Durbin-Watson stat	2.082002
Prob(F-statistic)	0.000019		

From the results of data processing that has been done, the results obtained *R*2 seen from R-squared are worth 0.517328, this value means that the dependent variable or X can explain 51.73% of the independent variable or Y. Then the rest is explained by other variables that are not involved in in models.

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Fixed Effect Model

Table 2. Fixed Effect Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.922307	6.489540	-0.604404	0.5501
X1	0.001293	0.003621	0.357049	0.7236
X2	-0.007195	0.010655	-0.675315	0.5046
X3	-3.772939	4.402262	-0.857046	0.3982
X4	5.161514	2.468742	2.090746	0.0451
X5	0.055886	0.047651	1.172822	0.2501
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.718079	Mean dependent var		2.282222
Adjusted R-squared	0.586516	S.D. dependent var		4.249695
S.E. of regression	2.732669	Akaike info criterion		5.109636
Sum squared resid	224.0244	Schwarz criterion		5.711857
Log likelihood	-99.96681	Hannan-Quinn criter.		5.334138
F-statistic	5.458061	Durbin-Watson stat		3.433083
Prob(F-statistic)	0.000049			

From the results of data processing that has been done, the results obtained *R*2 seen from R-squared is worth 0.718079 this value means that the dependent variable or X can explain 71.80% of the independent variable or Y. Then the rest is explained by other variables that are not involved inside models.

Random Effect

Table 3. Random Effect Model Test Results

			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			2.732669	1.0000
Weighted Statistics				
R-squared	0.517328	Mean dependent var		2.282222
Adjusted R-squared	0.455446	S.D. dependent var		4.249695
S.E. of regression	3.136014	Sum squared resid		383.5488
F-statistic	8.360027	Durbin-Watson stat		2.082002
Prob(F-statistic)	0.000019			
Unweighted Statistics				
R-squared	0.517328	Mean dependent var		2.282222
Sum squared resid	383.5488	Durbin-Watson stat		2.082002

Based on the results of data processing that has been carried out, the results obtained *R*2 seen from R-squared are worth 0.5173 this value means that the bound ustaka or X can explain 51.73% of the independent ustaka or Y. Then the rest is explained by other ustakas who are not involved in in models.

In the Common Effect Mode table, Random Effect and Fixed Effect Model data shows that the one with the highest R-squared level is in the Fixed Effect Model which is equal to 71.80%. The next stage of data processing in this study is to test this selection with the Chow test and the Hausman test.

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Selection of the Regression Model

In the panel data regression model, there are three types of models, namely the regression Common Effect Model, Fixed Effect Model and Random Effect Model. So it is necessary to do a model selection test in order to obtain efficient estimates. The results of the model selection test are as follows:

Chow Test

This test is processed to see which model is better between the Common Effect Model and the Fixed Effect Model using hypothesis testing

Tabel 4. Chow Test Table

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.373617	(9,30)	0.0366
Cross-section Chi-square	24.197038	9	0.0040

The Chi-Square distribution value of the results obtained using Eviews 12 is 24.197038 with a probability of 0.0040 (≤ 5%) the model used is the Fixed Effect Model

Hausman Test

This test is processed to see which model is better between the Fixed Effect Model and the Random Effect Model by using hypothesis testing, namely:

Table 5. Hausman Test Table

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	19.829565	5	0.0013

** WARNING: estimated cross-section random effects variance is zero.

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
X1	0.001293	-0.000170	0.000010	0.6441
X2	-0.007195	-0.039435	0.000079	0.0003
X3	-3.772939	-6.812612	13.586577	0.4096
X4	5.161514	1.624601	5.699609	0.1385
X5	0.055886	0.096206	0.000491	0.0689

The Chi-Square distribution value from calculations using Eviews 12 is 19.829565 with a probability of 0.0013 less than 5%) so the model used is the Fixed Effect Model.

Regression Test

Overall the results of panel data regression testing using the Fixed Effect Model method are as follows:

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Table 6. Fixed Effect Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.257534	7.165494	-0.315056	0.7531
X1	0.486873	0.998393	0.487657	0.6263
X2	-0.901988	0.610927	-1.476426	0.1414
X3	0.343140	0.084293	4.070779	0.0001
X4	-0.022437	0.049465	-0.453588	0.6506
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.668142	Mean dependent var	23.77203	
Adjusted R-squared	0.595336	S.D. dependent var	13.69440	
S.E. of regression	8.711452	Akaike info criterion	7.331296	
Sum squared resid	14874.32	Schwarz criterion	7.969414	
Log likelihood	-835.7556	Hannan-Quinn criter.	7.588411	
F-statistic	9.177050	Durbin-Watson stat	1.960046	
Prob(F-statistic)	0.000000			

The Fixed Effect Model test table can show the regression equation as follows:
Y = C + X1 + X2 + X3 + X4 +X5
Y = -3.922 + 0.001 X1 -0.007 X2 -3.77 2X3 + 5.161 X4+0.055X5

Y = Return On Assets
C = Coefficient
X1 = Liquidity Coefficient
X2 = Debt to Equity Ratio Coefficient
X3 = Claim Expense Coefficient
X4 = Premium Income Coefficient
X5 = Firm Size Coefficient

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Hypothesis Testing

Partial Test

The partial test results in this study are listed in the following table:

Table 7. Partial Test Table

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Description
C	-3.922307	6.489540	-0.604404	0.5501	Not significant
X1	0.001293	0.003621	0.357049	0.7236	Not significant
X2	-0.007195	0.010655	-0.675315	0.5046	Not significant
X3	-3.772939	4.402262	-0.857046	0.3982	Not Significant
X4	5.161514	2.468742	2.090746	0.0451	Significant
X5	0.055886	0.047651	1.172822	0.2501	Not signifcant

Test on Liquidity (Current Ratio)

The statistical test for the Liquidity variable (Current Ratio) is 0.357049 while the probability is 0.7236 > 0.05 (α) which means statistically Liquidity has no significant and positive effect on Return On Assets. Furthermore, the coefficient value is 0.001293. This result is the same as the results of research from Rafi & Syaichu (2019) which states that liquidity does not have a significant effect on the profitability of Islamic insurance companies in Indonesia but contradicts research conducted by Isayas et all (2020) which states that there is a positive and significant effect between liquidity and profitability in insurance companies in Ethiopia. Companies that have good conditions because of their high liquidity Of course it will benefit none other than the company itself. Opportunity Collaboration with third parties to obtain additional capital will of course easy to obtain and will encourage companies to increase activities its operations. With good operational activities, the company can do well. It is also easy to run your business in accordance with the vision that has been set, namely achieving large profits. Liquidity value High illustrates that an entity has quality in managing its finances which have a good impact on the entity's profitability.

Testing on Leverage (Debt to Equity Ratio)

The statistical test for the Debt to Equity Ratio (DER) variable is -0.675315 while the probability is 0.5046 > 0.05 (α) which means statistically the DER data has no significant and negative effect on Return On Assets. Furthermore, the coefficient value is -0.007195. This has a conflicting effect with the results of research from Alshadadi et all (2021) which states that the debt ratio affects the profitability of insurance companies in Saudi Arabia and Isayas et all (2020) which concludes that there is a positive and significant relationship between leverage and profitability. This can happen because a high level of leverage will have a high risk which is characterized by greater debt costs.

Testing of Claim Expenses

Statistical test for Claim Expense variable is -0.857046 While the probability is 0.3982 > 0.05 (α) which means statistically Claim Expense has no significant and negative effect on Return On Assets. Furthermore, the coefficient value is -3.772939. This can happen because a high level of claim expenses Claim expense can affect the decline in insurance profitability because it is based on the theory of the expense concept, which is a decrease in economic benefits from

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the use of expenses in an asset. This result contradicts the results of research from Irene et all (2020) which states that claims burden has a significant effect on Profitability.

Test on Premium Income

The statistical test for the premium income variable is 2.090746 while the probability is 0.0451 <0.05 (α) which means that statistically the premium income has a significant and positive effect on return on assets. Furthermore, the coefficient value is 5.161514. This is because the insurance company's profits will be obtained from how well they manage risk and are able to charge premiums to their customers. The greater the premium amount paid and the fewer insurance companies are asked to redeem the claim, the greater the spread the insurance company produces.This contradicts the results of research from Rivaldo & Wahasusmiah (2021) which states that premium income does not have a significant effect on the profitability of general insurance companies registered with the Financial Services Authority.

Test of Company Size

Statistical test for the variable company size is 1.172822 while the probability is 0.2501 > 0.05 (α) which means statistically company size has no significant and positive effect on return on assets. Furthermore, the coefficient value is 0.055886. This can happen perhaps because profit is not only caused by the size of the assets but how optimally the company can manage its assets so that it can generate maximum profits. The results of this study are the same as the results of research from Irene et all (2020) which states that company size has no effect on company profitability Isayas et all (2020) which concludes that there is no significant effect between company size and company profitability Insurance in Ethiopia.

F Test (Simultaneous)

Table 8. F Test Table

Cross-section fixed (dummy variables)			
R-squared	0.718079	Mean dependent var	2.282222
Adjusted R-squared	0.586516	S.D. dependent var	4.249695
S.E. of regression	2.732669	Akaike info criterion	5.109636
Sum squared resid	224.0244	Schwarz criterion	5.711857
Log likelihood	-99.96681	Hannan-Quinn criter.	5.334138
F-statistic	5.458061	Durbin-Watson stat	3.433083
Prob(F-statistic)	0.000049		

The results of the hypothesis test show a Prob (F-statistic) of 0.000049, because the probability is <5%, the hypothesis is accepted, namely that there is a significant effect of Current Ratio, Debt to Equity Ratio, Claim Expenses, Premium Income and Company Size on Return On Assets.

Conclusion

Based on the results of the discussion, it can be concluded that partially what determines the profitability of insurance companies listed on the Indonesia Stock Exchange is premium income which is the main operational and business income of insurance companies so that insurance companies are advised to innovate products and services and increase synergies between insurance industry players. with its ecosystem so that it can increase the amount of

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insurance premium income. Simultaneously the level of liquidity. Leverage, claim expenses, premium income and company size affect the profitability of insurance companies.

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