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The Effect of Financial Performance on the Profitability of General Insurance Companies Listed on the Indonesia Stock Exchange (IDX) for the Period 2016-2022

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ABSTRACT: This research aims to examine the influence of financial performance on the profitability of general insurance listed on The Indonesia Stock Exchange (IDX) for the Period 2016-2022. The approach used in this research is a quantitative approach. The sample used in this research is insurance companies listed on The Indonesia Stock Exchange (IDX) namely a total of 14 general insurance companies in 2022, totaling 14 companies. Research data is secondary data obtained from company financial reports. Research data was analyzed using Panel Regression analysis techniques with the help of the Eviews program. The results of this research show that liquidity and premium growth has no significant effect on ROA, self-retention and RBC has a positive effect on ROA.

KEYWORDS: ROA, Liquidity, Self-Retention, Premium Growth, Risk Based Capital (RBC).

I. INTRODUCTION

Insurance companies in Indonesia experience fluctuations in alignment with global economic conditions, periods of crisis, and the economic state of the public. The abundance of insurance options has led to high competition among insurance companies, compelling them to strive to perform effectively. This is because insurance companies with poor performance can decline public trust, thereby decreasing the public's interest in using insurance services.

Table 1. Development of Registered Insurance Companies in Indonesia Registered with OJK

Type of Insurance	2016	2017	2018	2019	2020	2021	2022
General Insurance	80	79	79	79	77	77	78
Life Insurance	55	61	60	60	59	60	59
Reinsurance	6	7	7	7	7	7	8
Insurance Providers for Civil Servants and Military/Police Personnel	3	3	3	3	3	3	3
Social Insurance Program Providers	2	2	2	2	2	2	2
Total	**146**	**152**	**151**	**151**	**148**	**149**	**150**

Based on data from the Financial Services Authority (OJK), in 2017, the number of insurance companies in Indonesia increased by six life insurance companies compared to 2016 due to the addition of six new life insurance companies. However, in 2020, three insurance companies decreased compared to 2019, partly due to the revocation of the operating license of Himalaya Insurance in 2019. This revocation was due to violations such as failure to meet requirements regarding the number of independent commissioners and board members and the company's inability to meet solvency ratio, investment adequacy, and minimum equity requirements (Agarta & Dewi, 2023).

Table 2. Development of Insurance Companies in Indonesia Registered on the IDX

Type Of Insurance	**2016**	**2917**	**2018**	**2019**	**2020**	**2021**	**2022**
Life Insurance	0	0	1	2	2	2	2
General Insurance	11	13	13	13	14	15	15
Reinsurance	1	1	1	1	1	1	1
Sum	**12**	**14**	**15**	**16**	**17**	**18**	**18**

The fluctuations in insurance companies from 2016 to 2022 and the increase in the number of companies listed on the IDX have intensified competition among companies. Generally, insurance companies are expected to enhance their financial performance similarly to other financial firms. Hanafi (2013) explains that company performance is a formal effort to evaluate the efficiency and effectiveness of its activities over a specific period.

One method to assess the financial performance of insurance companies is by examining profitability. Sudana (2011) defines profitability as the company's ability to generate profit using its resources, such as assets, Capital, or sales. According to Sirait (2017), Return on Assets (ROA) can be used to illustrate a company's ability to generate profit from its available resources (assets). ROA helps determine a company's past profitability and project it into the future. A higher ROA indicates that the company is capable of generating profit effectively. Several factors can influence financial performance, including liquidity, self-retention, premium growth, and Risk-Based Capital (RBC).

The first variable in this study is liquidity. Fitriani Dorkas (2009) describe liquidity as a ratio closely related to the insurance industry's ability to meet its immediate financial obligations. Research by Fadrul Anggitya (2019) indicates that liquidity significantly positively affects profitability, specifically ROA. In contrast, Hidayat Yusniar (2021) found that liquidity does not significantly affect profitability, measured by ROA.

The second variable in this study is self-retention. Yuliana (2007) explains that self-retention is a ratio that compares net premiums and gross premiums. Fadrul Simorangkir (2019) found that self-retention significantly positively affects ROA. However, Hidayat Yusniar (2021) show that self-retention does not significantly impact ROA.

The third variable is premium growth. Agustin et al. (2018) describe premium growth as a measure of the change in net premium income this year compared to the previous year. William & Coline (2022) find that premium growth has a significant positive effect on ROA, whereas Hidayat & Yusniar (2021) find no significant effect on ROA.

The fourth variable is Risk-Based Capital (RBC). Hidayat Yusniar (2021) define RBC as a measure that indicates a company's financial security or health. A higher RBC suggests better financial conditions for the company. Sumartono Harianto (2018) found that RBC positively affects ROA, whereas Fadrul Simorangkir (2019) found no significant effect of RBC on ROA.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Signal theory posits that owners need to be informed about managerial performance. This theory explains why businesses are motivated to disclose voluntary financial information (Sihombing et al., 2023). According to Renald Suganda (2018), the signal theory is used to understand managerial actions in conveying information to investors, which can ultimately influence investor decisions regarding the company's condition.

Hartanto (2021) explains that Agency Theory describes the relationship between two parties within a company: the agent and the principal. Agency Theory involves delegating authority by company owners or shareholders to management to operate the company according to an agreed-upon contract. Management will act in the interests of the company owners if both parties share a common interest in enhancing the company's value.

The Effect of Liquidity, Self-Retention, Premium Growth, and Risk-Based Capital on the Profitability of General Insurance Companies Listed on the Indonesia Stock Exchange (IDX) for the Period 2016-2022

According to Dewi et al. (2019), Return on Assets (ROA) is a ratio that measures how efficiently a company manages its assets to generate profit. Masyitah et al. (2018) define liquidity as a ratio used to assess a company's ability to pay off its short-term obligations as they come due. The current ratio is a measure used to determine the capability to meet short-term liabilities (Kasmir, 2016).

Yuliana (2007) explains that self-retention represents the ratio of net premiums to gross premiums. This ratio measures how much premium is retained internally compared to the premiums received directly. A higher self-retention ratio indicates higher net premium income, positively influencing the company's financial performance.

Satria (1994) describes premium growth as an indicator of the stability of a company's operations. High premium growth suggests that the risks borne by the company are increasing, which may jeopardize the company's financial health.

Hidayat Yusniar (2021) define Risk-Based Capital (RBC) as a measure that indicates a company's financial security or health. A higher RBC suggests a better financial condition for the company.

HYPOTHESIS DEVELOPMENT

The hypotheses in this study include the following:

H_1: Liquidity affects ROA.

H_2: Self-Retention affects ROA.

H_3: Premium Growth affects ROA.

H_4: Risk-Based Capital affects ROA.

RESEARCH METHODOLOGY

This research employs a quantitative approach with a causal design. The population of this study consists of all general insurance companies listed on the Indonesia Stock Exchange (IDX) in 2022, totalling 14 companies. The data analyzed includes annual financial statements and supporting notes. Based on the predefined criteria, 12 samples were selected.

Table 3. Research Sample

No	Code	Company
1	ABDA	PT. Asuransi Bina Dana Arta
2	AHAP	PT. Asuransi Harta Aman Pratama Tbk.
3	AMAG	PT. Asuransi Multi Artha Guna Tbk.
4	ASBI	PT. Asuransi Bintang Tbk.
5	ASDM	PT. Asuransi Dayin Mitra Tbk
6	ASJT	PT. Asuransi Jasa Tania Tbk.
7	ASMI	PT. Asuransi Maximus Graha Persada Tbk.
8	ASRM	PT. Asuransi Ramayana Tbk.
9	LPGI	PT. Lippo General Insurance Tbk
10	PNIN	PT. Paninvest Tbk.
11	TUGU	PT. Asuransi Tugu Pratama Indonesia Tbk.
12	VINS	PT. Victoria Insurance Tbk.

Source: processed by the author

Data analysis is performed using quantitative methods, precisely panel data regression analysis.

RESULTS AND DISCUSSION

Based on the panel data linear regression analysis results through the Chow, Hausman, and Lagrange Multiplier Tests, the best model is the Common Effect Model. The findings of the Common Effect Model are as follows:

Table 4. Common Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.014272	0.011009	-1.296403	0.1986
Liquidity	0.000352	0.000346	1.019132	0.3113
Self-Retention	0.038092	0.015446	2.466099	0.0158
Premium Growth	0.007303	0.011467	0.636895	0.5260
RBC	0.004188	0.001551	2.699604	0.0085
R-squared		0.208292		
Adjusted R-squared		0.168206		
F-statistic		5.196079		
Prob(F-statistic)		0.000909		

Source: Results of data processing using reviews 12 (2024)

Equation of the panel data regression results:

Y = -0.01427 + 0.00035*X1 + 0.03809*X2 + 0.00730*X3 + 0.00419*X4

1. Value of the constant coefficient -0.01427 < the probability value is 0.05, the constant has no meaning.
2. Value of the regression coefficient of the variable liquidity (X_1) 0.00035 and siginificant 0.3113, liquidity has not effect on ROA.
3. Value of the regression coefficient of the variable self-retention (X_2) 0.038092 and siginificant 0. 0158, self- retention has a significant positive on ROA.
4. Value of the regression coefficient of the variable premium growth (X_3) 0.007303 and siginificant 0.5260, premium growth has not effect on ROA.
5. Value of the regression coefficient of the variable RBC (X_4) 0. 004188 and siginificant 0.0085, RBC has a significant positive on ROA.

DISCUSSION

Liquidity does not affect ROA. Thus, hypothesis (H1) is rejected. This result is consistent with Khalimah (2019), who found that liquidity does not impact the financial performance of insurance companies. This is because fluctuations in liquidity levels do not affect financial performance; investors assess the liquidity of insurance companies from the cash ratio perspective. Companies with high cash ratios signal a positive indicator for investors to purchase stocks, as a high cash ratio indicates the company can meet claim obligations and attract higher premiums. This finding contrasts with Sumartono Harianto (2018).

Self-Retention positively affects ROA; thus, hypothesis (H2) is accepted. This finding aligns with Sumartono & Harianto (2018) and Khalimah (2019), which state that net retention premiums are part of the sum assured for each risk borne by the company without reinsurance support. A high retention ratio indicates that the company holds sufficient funds to cover specific risk positions, suggesting that a higher retention ratio is associated with better financial performance. Therefore, the retention ratio affects financial performance. This result is inconsistent with Agustiyani (2019).

Premium growth does not affect ROA. Thus, hypothesis (H3) is rejected. This finding aligns with Mardhiyah (2019), who states that significant changes in premium separate forms do not accompany changes in premium growth. This may be due to a declining assessment of premium growth, which has yet to become a reliable benchmark for investors and customers.

Risk-based Capital positively affects ROA; thus, hypothesis (H4) is accepted. This finding is consistent with the research of Sumartono Harianto (2018), which indicates that a high RBC value signifies that the company's solvency meets government standards. Companies with high RBC are considered solvent or healthy, leading to high financial performance. This result contrasts with the study by Fadrul Simorangkir (2019).

CONCLUSION

1. As measured by the current ratio (CR), liquidity does not affect ROA.
2. Self-retention has a positive and significant effect on ROA.
3. Premium growth does not affect ROA.
4. RBC has a positive and significant effect on ROA.

SUGGESTION

1. For future research, it is recommended that further studies include additional variables affecting ROA, such as claims burden, company size, efficiency impacting financial performance, and other external factors like inflation. This will provide more updated and valuable conclusions. Additionally, future research should expand beyond insurance companies listed on the IDX.
2. Investors should analyze financial ratios to assess insurance performance and evaluate the problems and developments related to ROA.

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