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Is There Relationships of Investment, Risk, Efficiency Levels of Financial Performance in Sharia Insurance in Indonesia?

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ABSTRACT

The purpose of this study is to analyze the effect of Premium Growth, Investment Return, Leverage, Loss Claim Ratio. Healthy level with the value of Risk-Based Capital, and the Level of Efficiency on the Growth of Return On Assets (ROA) in Sharia Insurance Companies in Indonesia. The sample in this study was 34 Sharia Insurance Companies in Indonesia in 2013-2017. This study uses panel data regression analysis with Eviews version 9. sample data collection technique using purposive sampling. The results of this study indicate that simultaneously the independent variable influences the effect of Premium Growth, Investment Return, Leverage, Loss Claims Ratio, Healthy Level with Risk-Based Capital, and Efficiency Level has a significant effect on Return on Assets (ROA). Partially the results show that Investment Results, Leverage, Loss Claims Ratio, and Efficiency Levels influence Return On Assets (ROA), while Premium Growth and Soundness with Risk-Based Capital values have no effect on Return On Assets (ROA) with a significance level.

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1. Introduction

The development of insurance in Indonesia has progressed very rapidly after the government issued deregulation in the 1980s. It was completed with the issuance of Law of the Republic of Indonesia Number 2 of 1992 concerning Insurance Business which was later updated with Law of the Republic of Indonesia Number 40 of 2014 concerning Insurance. The regulation is the government's effort to support the existence of insurance companies in Indonesia. Also besides, the development of the insurance industry is inseparable from the hard work of insurance businesses in developing the insurance industry and the role of the Financial Services Authority as a regulator and supervisor in issuing policies to support the development of health insurance industry and be able to protect the interests of policyholders. It is expected that with the development of insurance companies in Indonesia, it will also increase the national premium, it will also develop Indonesia's economic growth every year.

Since its birth in 1994, Islamic insurance continues to grow and develop. By emphasizing that sharia insurance has a more humane, alleviating, fair, and reassuring system, sharia insurance providers try to attract as many people as possible. The result, there is an increase in the Islamic insurance business from year to year. The increase is summarized in the data presented by the Indonesian Sharia Insurance Association (AASI). From these data, an increase in the sharia insurance business can be seen from the increase in the number of sharia insurance companies, increased assets, investments and gross contributions. In comparison, in the fourth quarter of 2014, the growth of sharia insurance in terms of assets reached more than Rp22 trillion. While in the fourth quarter of 2015, there was an increase reaching more than Rp26 trillion. That means there is an increase of 18.58% in terms of assets[1].

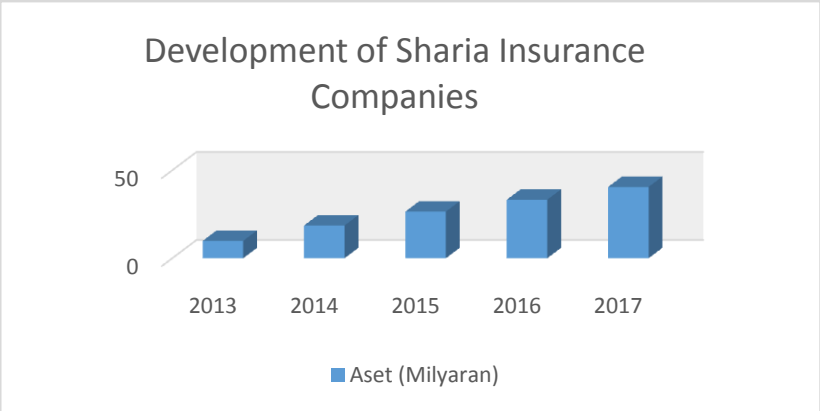

Fig 1. Growth Chart of Sharia Insurance Company 2013 – 2017

Based on Figure 1 with the increase, it is expected that Islamic insurance will continue to grow and become more attractive to many people. Reporting from the Financial Services Authority or OJK Indonesia, until July 2017 at least sharia insurance continues to experience growth that continues to rise every year. In 2017, there were Rp 37.30 trillion of assets owned by the Sharia insurance industry. This is much higher than the previous year which was only 31.80 trillion rupiahs.

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This is 17.30% higher than in the same period in 2016. Of these insurance assets, most customers prefer Islamic life insurance.

According toMehari (2013) the increasingly diverse needs of the community to obtain insurance protection have led to an increasingly diverse range of insurance products offered by life insurance companies. This is the reason for the large potential of the insurance market, especially life insurance. The emergence of a variety of insurance products causes companies engaged in insurance to compete fiercely. Improved services and also the quality of insurance products are strategies by the insurance company to be able to compete[6], [7]. The services provided by insurance companies to insurance participants in submitting claims are very influential on the image of insurance companies in the eyes of insurance participants. Because of that purpose this research "relationships of investments, risk, efficiency levels of financial performance in shariah insurance companies in Indonesia".

2. Literature Review

2.1 Islamic Financial Institutions

Islamic Financial Institutions are financial institutions that carry out their activities based on Islamic sharia principles. Islamic Financial Institutions consist of Bank Financial Institutions and Non-Bank Financial Institutions (Insurance, Pawn shops, Mutual Funds, Capital Markets, BPRS, and BMT). Islamic Financial Institutions themselves have 2 different types of characteristics, including bank financial institutions and non-bank financial institutions [8].

2.2 Sharia Insurance

Based on the Fatwa of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) No. 21 of 2001, Sharia Insurance is a mutual assistance between a number of people or parties through investments in the form of assets and or tabarru' which provides a pattern of return to face certain risks through contracts that are in accordance with sharia. Namely, the principle of life to protect and help each other based on Islamic brotherhood among fellow members of Sharia Insurance participants in the face of disaster (risk)[9].

2.3 Financial performance

Financial performance is an analysis conducted to see the extent to which a company has carried out using the rules of financial implementation properly and correctly. Like by making a financial report that meets the standards and requirements in SAK (Financial Accounting Standards) or GAAP (General Accepted Accounting Principle)[10], [11].

2.4 Return on Assets (ROA)

According to [12] the ratio of net income to total assets measures the return on total assets (ROA) after interest and taxes. ROA or ROI in this study is to measure the ratio between net income after deducting interest expenses and taxes (Earning After Taxes or EAT) generated from the company's main activities with the total assets (assets) owned by the company to carry out the company's overall activities and expressed as a percentage.

2.5 Efficiency Level

Efficiency can also be defined as the ratio between output and input, or the amount produced from one input used. An enterprise can be said to be efficient if it uses a smaller number of input units when compared to the number of input units used by other companies to produce a greater number of outputs.

According to [13]efficiency can also be defined as the ratio between output and input, or the amount produced from one input used. A company can be said to be efficient if it uses a smaller number of input units when compared to the number of input units used by other companies to produce a larger amount of output. Efficiency can also be interpreted as the ratio between input and output.

Three factors cause efficiency, namely: if with the same input can produce greater output, smaller inputs can produce greater output, and with larger inputs can produce an even greater output. Then when a company has a greater output value compared to its input. If suppose to have a value of 1 or more than 1, then it can be said that the company already has good efficiency. And so affect the financial performance obtained in the form of profits or income from a company or related companies.

2.6 Risk-Based Capital (RBC)

Risk-Based Capital is a measure that informs the level of financial security or health of an insurance company. The greater the health ratio of Risk-Based Capital of an insurance company, the healthier the financial condition of the company. Risk-Based Capital of an insurance company is also capital that must be guaranteed by insurance companies to the government to guarantee the availability of funds for payment of insurance claims, the amount of funds that must be guaranteed according to the Ministry of Finance is at least 120%, this percentage is calculated from the total claim burden, especially in the event of the company concerned bankrupt or collapse.

Every changes that occur at the Soundness Level with Risk-Based Capital Value may be possible if it is not followed by Financial Performance. If the sharia insurance company does not have a minimum healthy level of 120% and even declines it may not influence the financial performance of the company. Then the minimum set now for the ratio is 120%, if the value set can exceed 120% then the soundness level can be said to have an influence on the income of the company concerned. Islamic insurance companies must continue to provide improved health assessments with Risk-Based Capital in directing the company both internally and externally to protect the company and all stakeholders [14].

2.7 Leverage Risk

Insurance companies can succeed by taking a risk of reasonable leverage or bankruptcy if the risk is uncontrolled. However, empirical evidence further supports the view that leverage risk reduces company performance. This is a financial ratio that shows the percentage of company assets financed with debt. Leverage is measured as total liabilities to total assets. In this study, the ratio of total liabilities to total assets is taken as an independent variable [4].

According to (Kubitza et al., 2019)Insurance companies can succeed by taking reasonable leverage risk or can go bankrupt if the risk is a risk out of control. However, empirical evidence further supports the view that leverage risk reduces company performance. This is a financial ratio that shows the percentage of company assets financed with debt. Leverage is measured as total liabilities to total assets.

The use of debt does not always harm the company or shareholders as long as the proportion does not exceed a

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certain limit. Companies that use debt are companies that have financial leverage. The greater the proportion of debt used by companies, the owners of capital themselves will bear greater risk. then the greater the risk borne by the company, the less revenue or profits will be obtained by the company. because usually the income is used to pay several outstanding debts. and therefore the higher the financial leverage, the higher the beta equity.

2.8 Claim Loss Ratio

The claim ratio is something very specific for the insurance business. Debt claims are a percentage of premium income. This is also known as the claim loss ratio, the claim ratio measures the number of claims in a period and divides it by the premiums received for the same period. Insurance is a business managing liquidity risk and it is important to have a thorough understanding of claims that occur in comparisons [16].

The claim ratio is something very specific for the insurance business. Debt claims are a percentage of premium income. This is also known as the loss claim ratio. Claim ratio measures the number of claims in a period and divides by the premium received for the same period. If the value is higher than expected or the established norm, then further investigation is needed to find out why it happened. It is important to investigate whether there is a threat to insurance fraud. If the ratio is lower than expected, it can indicate an irrelevant product or difficulty in claiming, can affect customer satisfaction, and need further investigation. if the insurance company customers can pay a premium set by the company, then the consumer can be claimed by the insurance company. because the income from the premium paid can claim problems from the consumer. therefore it will affect the company's revenue or influence the company's financial performance [16].

2.9 Investment Results

The results that will be achieved with good decision making will be real and long-lasting. The amount of revenue sharing depends on the condition of the company, the healthier and the greater the profits obtained by the insurance company, the greater the portion of profit sharing given to participants. This means that the greater the premium received by the insurance company, the greater the funds that can be invested to get a large return on investment, where the greater the return on investment, the greater the profits obtained by the company[17][18].

A portfolio is a collection of integrated investment forms to obtain investment returns. The main purpose of forming a portfolio is nothing but getting optimal results with minimal risk. Investment returns are obtained from investments by diversifying portfolios to obtain optimal profit sharing. Return on investment plays an important role in the income of Islamic insurance companies. Therefore, for a business to be successful and profitable, it must be based on good, wise, and careful decisions[19].

2.10 Premium Income

The premium income comes from payments that must be made by each participant in sharia life insurance which is made regularly to the sharia life insurance company related to the agreement in the contract. This theory states that the higher the age and the longer the agreement period, the greater the tabarru' value. This means that if the insurance company receives a premium from a large insurance participant, the funds that can be invested will also be even greater [20].

According to [21]Sharia insurance premium income is insurance premium income obtained through the sale of insurance participant's insurance products and services. Premium income is the amount of official premium income from the sale of an insurance policy that is usually measured in one year. This income is the biggest factor affecting insurance company profits. Therefore, determining the premium has an important role in the company's strategy. The premium rate determined by the insurance company is based largely on the amount of risk that the insurance company will bear for the policy issued. If the insurance company consistently misjudges the risk that will be borne, then the specified premiums will not be enough to pay the promised claims and benefits.Tables are written with Times New Roman font size 8. The title of the table is written with font size 8 above the table without blank space. The table is numbered in Arabic numerals. There is one single space line between the table and the paragraph.

3. Methods

3.1 Population and Sample

The population of this study is the whole of the object of research, namely, all general insurance companies and sharia units and life insurance companies and sharia units that have been registered at the Financial Services Authority (OJK) and the Indonesian Life Insurance Association (AAJI) and have complete data in the Financial Statements every year (in 2013-2017) there are 58 companies. Samples based on certain criteria in the study are referred to as sampling techniques with a purposive sampling method [22]. Based on the above criteria, the sample of insurance companies that were the object of research amounted to 34 companies out of a total of 58 companies.

3.2 Method of collecting data

Data collection methods used in this study were obtained and obtained by the documentation method, literature study method and using company financial reports.

3.3 Data analysis method

According to [23] panel data is a type of data that is a combination of time series data with cross-section data. Therefore, panel data has a combination of the characteristics of the two types of data, namely: consists of several objects and covers several periods.

4. Methods

TABLE 1
CHOW TEST

	STATISTIC	D.F.	PROB.
CROSS-SECTION F	7,336473	(29,91)	0,0000
CROSS-SECTION CHI-SQUARE	153,082101	29	0,0000

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It can be seen from the Chow test results above that the Chi-square Cross-section probability value > significance value (0.0000 < 0.05), then H0 is rejected and Ha is accepted. It can be conclude that the model chosen based on the Chow Test is the Fixed Effect Model.

TABLE 2
HAUSSMAN TEST

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	29,373006	6	0,0001

Can be seen based on the results of the Hausman test above obtained by the probability of a random Cross-section probability < significance value (0.0001 < 0.05), then H0 is rejected and Ha is accepted. It can be conclude that the model chosen based on the Hausman test is the Fixed Effect Model.

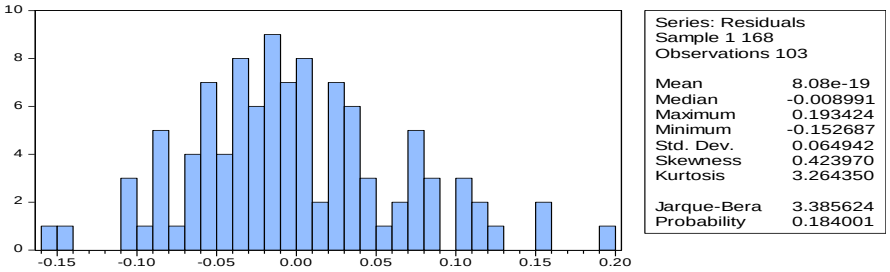

Fig 2. Normality Test

Based on the normality test table that has been transform earnings growth data into a logarithmic form (logpl) it is known that the probability value of Jaque-Bera> significant value (0.184001> 0.05) is concluded that the data are normally distributed and the data can proceed to the next test.

TABLE 3
MULTICOLLINEARITY TEST RESULTS

	PRM	INV	LVR	CLR	RBC	EFS
PREMI	1,000000	-0,023456	-0,063524	0,031566	-0,128620	0,158901
INV	-0,023456	1,000000	0,072910	0,073258	-0,014801	-0,105662
LVR	-0,063524	0,072910	1,000000	-0,015430	-0,307649	-0,294558
CLR	0,031566	0,073258	-0,015430	1,000000	0,081532	-0,016285
RBC	-0,128620	-0,014801	-0,307649	0,081532	1,000000	-0,050697
EFS	0,158901	-0,105662	-0,294558	-0,016285	-0,050697	1,000000

It can be seen that there is no correlation between the independent variables premi, investment, leverage, claim lost ratio, risk based capital, and efficiency > 10. The highest correlation value is between premi and efficiency of 0.158901 where the correlation value is 0.158901 < 10 it was concluded that H0 was accepted and Ha was rejected which meant that in the model there were no symptoms of multicollinearity.

TABLE 4
HETEROSKEDASTICITY TEST: WHITE

F-statistic	0,502237	Prob. F(6,113)	0,8056
Obs*R-squared	3,116971	Prob.Chi-Square(6)	0,7940
Scaled explained	3,157097	Prob. Chi-Square(6)	0,7889

Can be seen based on the results of the white test that the probability value of Chi-Square Obs * R-squared> significance value is 0.7940 > 0.05 which can be concluded that H0 is accepted means that there is no heteroscedasticity so that it can proceed to the next test.

TABLE 5
AUTOCORRELATION TEST RESULTS
Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2,161723	Prob. F(2,111)	0,1199
Obs*R-squared	4,498768	Prob. Chi-Square(2)	0,1055

It can be seen based on the results of the autocorrelation test above that the Chi-Square Obs * probability value R-squared > significance value is 0.1055 > 0.05 so it can be conclude that there is no autocorrelation symptom in the data model above. Because the probability value is 0.000000 < 0.05, it can be conclude that the variable Premiums, Investment Results, Leverage, Claim Loss Ratio, Health Level with Risk-Based Capital, and Efficiency Level together have a significant influence on Return On Assets.

TABLE 6
SIMULTAN SIGNIFICANCE TEST (F-STATISTICS)

R-squared	0,885916	Mean dependent var	0,232441
Adjusted R-squared	0,842038	S.D. dependent var	0,096853
S.E. of regression	0,038494	Akaike info criterion	-3,443043
Sum squared resid	0,134841	Schwarz criterion	-2,636817

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Log likelihood	254,6332	Hannan-Quinn criter,	-3,115483
F-statistic	20,19027	Durbin-Watson stat	1,589707
Prob(F-statistic)	**0,000000**		

TABLE 7
RESULTS INDIVIDUAL PARAMETERS

Variable	Coefficient	Std.Error	t-Statistic	Prob.
PRM	0,002531	0,004929	0,513488	**0,6089**
INV	0,031772	0,005000	6,354739	**0,0000**
LVR	0,010930	0,005492	1,990178	**0,0496**
CLR	0,011051	0,005280	2,093091	**0,0391**
RBC	-0,002324	0,003448	-0,673993	**0,5020**
EFS	-0,001517	0,000708	-2,143725	**0,0347**
C	0,337109	0,015310	22,01887	**0,0000**

The results showed that the Premium Growth variable did not affect Financial Performance, so this study rejected the first hypothesis (H1) which states that Premium Growth had a significant effect on Financial Performance. This is evidenced by the results of hypothesis testing 0.6089 > 0.05 which is a probability value that is greater than the significance value of 5%. This is in line with research conducted by Markonah et al. (2019) and Adusei (2019) which shows that premium growth has no significant effect on financial performance.

The results showed that the Investment Results variable influences Financial Performance, so this study accepts (H2) which states that Investment Results have a significant effect on Financial Performance. This is evidenced by the results of the hypothesis test 0.0000 <0.05 ie the probability value is smaller than the significance value of 5%. And in line with other research conducted by Nainggolan and Soemitra (2020) and Wahyuddin and Mauliyana (2021) which states that Investment Results have a significant effect on Financial Performance.

The results showed that the Leverage variable influenced Financial Performance. So this research accepts (H3) which states that the Leverage variable has a significant influence on Financial Performance. This is evidenced by the results of hypothesis testing 0.0496 > 0.05, namely the probability value that is smaller than the significance value of 5%. This is in line with research conducted by Purnomo (2018) and Pedrosa (2019) which shows that leverage affects financial performance.

The results showed that the Claim Loss Ratio variable influenced Financial Performance. So this research received (H4) which states that the variable Claim Loss Ratio has a significant effect on Financial Performance. This is evidenced by the results of the hypothesis test 0.0391> 0.05 namely the probability value that is smaller than the significance value of 5%, This is in line with research conducted by Karim and Komarudin Mutaqin (2020) and Lasisi (2018) which states that the Claim Loss Ratio has a significant positive effect on financial performance.

The results showed that the variable Health Level with the Value of Risk-Based Capital did not influence Financial Performance. So this research rejects the first hypothesis (H5) which states that the Soundness Level with Risk-Based Capital does not significantly influence Financial Performance. This is evidenced by the results of the hypothesis test 0.5020> 0.05 which is a probability value greater than the significance value of 5%. This is in line with research conducted by Muttaqin, et. al. (2019)and Rahayu (2017) which shows that the Soundness Level with Risk-Based Capital does not have a significant effect on Financial Performance.

The results showed that the Efficiency variable influenced Financial Performance. So this research accepts (H6) which states that the Efficiency Level variable has a significant influence on Financial Performance. This is evidenced by the results of hypothesis testing 0.0347> 0.05, which is a probability value that is smaller than the significance value of 5%. This is in line with research conducted by Fiordelisi & Ricci, (2014) and Muttaqin, et al. (2019)which states that the level of efficiency has a significant positive effect on financial performance.

5. Conclusions

Based on the results of simultaneous panel data regression tests (F test) it is known that the value of Probability (F-statistic) 0.000000 <0.05, then there is an effect simultaneously or together between the independent variables Premium Growth, Investment Results, Leverage, Claim Loss Ratio, Soundness Level with Risk-Based Capital Value and Efficiency Level on Return on Assets.Also, partially (t-test) Investment Results, Leverage, Claim Loss Ratio, and Efficiency Level significantly influence Return On Assets. Meanwhile, Premium Growth, Soundness Level with Risk-Based Capital does not have a significant effect on Return On Assets.

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