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The Effect of Financial Soundness Level on Premium Growth of Companies Listed in AASI

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A B S T R A C T

This study aims to analyze the impact of financial soundness, measured through key ratios such as liquidity ratio, investment-to-liabilities ratio, investment income ratio, claims expense ratio, tabarru' fund change ratio, and risk-based capital (RBC) ratio, on the premium growth of Islamic insurance companies listed in the Indonesian Sharia Insurance Association (AASI) for the period 2018-2022. The research employs a quantitative approach, using panel data regression for analysis. The findings reveal that the investment income ratio and tabarru' fund change ratio significantly influence premium growth in Islamic insurance companies. In contrast, the liquidity ratio, investment-to-liabilities ratio, claims expense ratio, and RBC ratio do not exhibit a significant effect on premium growth. These results suggest that increasing the tabarru' fund and strategically investing it are critical for enhancing premium growth in Islamic insurance companies. This underscores the importance of effective fund management in ensuring sustainable growth within the sector.

A R T I C L E I N F O

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A B S T R A K

Penelitian ini bertujuan menganalisis pengaruh tingkat kesehatan keuangan yang diukur dengan rasio likuiditas, rasio perimbangan investasi dengan kewajiban, rasio pendapatan investasi, rasio beban klaim, rasio perubahan dana tabarru', dan rasio *risk-based capital* terhadap pertumbuhan premi perusahaan asuransi syariah yang terdaftar di Asosiasi Asuransi Syariah Indonesia (AASI) periode 2018-2022. Penelitian ini menggunakan pendekatan kuantitatif dengan menggunakan analisis regresi data panel. Hasil penelitian menunjukkan adanya pengaruh signifikan rasio pendapatan investasi dan rasio perubahan dana tabarru' terhadap pertumbuhan premi asuransi syariah di Indonesia. Sementara itu, tidak ditemukan bukti signifikansi pengaruh rasio likuiditas, rasio perimbangan investasi dengan kewajiban, rasio beban klaim, dan rasio risk based capital (RBC) terhadap pertumbuhan premi perusahaan asuransi syariah. Implikasi dari temuan ini yaitu peningkatan dana tabarru dan investasi merupakan faktor yang harus diperharikan industri asuransi Syariah jika ingin meningkatkan pertumbuhan premi perusahaan.

INTRODUCTION

The demand for and awareness of Islamic insurance services continue to rise, reflecting the industry's critical role in providing protection against risks faced by society (Safitri & Suprayogi, 2017). The Indonesian Sharia Insurance Association (AASI) reported that the performance of the Islamic insurance industry remains stable, despite concerns about a global recession. According to the Financial Services Authority (OJK), the Islamic insurance industry recorded an increase in assets from IDR 45.16 trillion in the first quarter of 2022 to IDR 45.34 trillion by the first quarter of 2023.

In contrast, the Indonesian Life Insurance Association (AAJI) had previously recorded a decline in total insurance industry revenue, decreasing by 12.7% to IDR 54.36 trillion in the first quarter of 2020, down from IDR 62.27 trillion in the same period of the previous year. This decline was driven by a drop in premium income, which accounted for 83.9% of total revenue. The life insurance industry reported a total premium income of IDR 45.6 trillion in Quarter 1 of 2022, marking a 6.9% decline. The reduction in premium income highlights a key issue that warrants further study, specifically whether financial soundness in Islamic insurance companies in Indonesia impacts premium income.

A company's financial soundness can be assessed by analyzing key financial ratios from its financial statements. Financial ratio analysis serves as a valuable tool for management to identify and address unfavorable aspects of their financial performance (Martias, 2017). As the Islamic insurance industry continues to grow in Indonesia, the provision of high-quality financial reports becomes increasingly important, as it positively impacts stakeholders' decision-making processes. Islamic insurance companies must maintain sound financial performance and transparent financial statements to boost their profitability and, in turn, foster public trust and participation in Islamic insurance products.

Previous research by Putra & Trisnaningsih (2021) found that Risk-Based Capital (RBC) and premium growth ratios have a positive effect on premium income growth in insurance companies listed on the Indonesia Stock Exchange (IDX) between 2016 and 2020. Marlina & Kasmir (2021) also showed that RBC and claims ratios significantly impact premium income, whereas Return on Investment (ROI) and liquidity ratios do not impact premium income.

This study aims to analyze the effect of financial soundness on premium growth in Islamic insurance companies. The financial soundness variables used in this research are based on regulations from the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM LK) Regulation PER-06/BL/2011, Minister of Finance Decree Number 424/KMK.06/2003, and Financial Services Authority Regulation Number 72/POJK.05/2016, all adjusted to comply with sharia principles and PSAK 408. Unlike previous research that focused on insurance companies listed on the IDX, this study targets Islamic insurance companies registered with the AASI, an area that has yet to be extensively explored. Additionally, this research covers a different period (2018-2022) compared to prior studies.

LITERATURE REVIEW

The Agency Theory

The Agency Theory highlights the fact that in every organization, individuals (agents) act on the trust given by another individual or group of individuals (principal). In a corporate organization, the relationship between shareholders as principals and managers as agents in the relationship (Hasan, 2020). The principal delegates responsibility for decision making to the agent, it can also be said that the principal gives a mandate to the agent to carry out certain tasks in accordance with the agreed work contract. The authority and responsibility of the agent and principal are regulated in the employment contract by mutual consent (Lisa, 2012).

Financial soundness Level of Sharia Insurance Companies

According to the National Sharia Council (DSN) and the Indonesian Ulema Council (MUI), Sharia insurance is a system based on mutual protection and assistance among a group of people, where participants invest in the form of assets or tabarru' (donations) to address certain risks through contracts that comply with Sharia principles. The evaluation of financial soundness in Islamic insurance differs from that of conventional insurance. Islamic insurance companies undergo two types of evaluations: one based on solvency levels and another assessing financial soundness beyond solvency.

The financial soundness beyond solvency is measured through several ratios in line with Bapepam LK Regulation Number: PER-06/BL/2011. These ratios include the liquidity ratio, investment balance to liability ratio, net investment return ratio, claim expense ratio, and tabarru' fund change ratio. Solvency-based measurement is reflected through the risk-based capital (RBC) of tabarru' funds (Safitri & Suprayogi, 2017). Additionally, the financial soundness of Islamic insurance companies is assessed according to Financial Services Authority Regulation Number 72/POJK.05/2016 concerning the financial soundness of Insurance and Reinsurance Companies operating under Sharia principles, as well as PSAK 408.

Premium Growth

Premium is the amount of funds paid regularly from policyholders to insurance companies as a form of return for services for transferring risks from policyholders to insurance companies (Badruzaman, 2019). The premium growth ratio shows how much the current year's premium increases compared to the previous year (Afif et al. 2016).

Based on Insurance Law Number 40 of 2014 of the Republic of Indonesia. Premium is a measure that is not set by the insurance institution or reinsurance organization and agreed by the policyholder to be paid in connection with the protection arrangement or reinsurance understanding, or a cash measure decided based on hidden regulatory arrangements and guidelines. Compulsory protection program to obtain benefits.

RESEARCH METHODOLOGY

This research adopts a quantitative approach with descriptive analysis, aiming to examine the effect of financial soundness on the financial performance of Islamic insurance companies. According to Sugiyono (2007), descriptive research involves the analysis of a population, total sampling, or a census without statistical hypothesis testing. The population for this study consists of 58 Islamic insurance companies registered with the Indonesian Sharia Insurance Association (AASI) from 2018 to 2022. The study utilizes secondary data, which is sourced from relevant financial reports available on the AASI website (https://aasi.or.id/). The secondary data used were collected from the financial statements of the Islamic insurance companies listed with AASI.

Research Model

$Y_{it}=\beta_0+\beta_1X_{1it}+\beta_2X_{2it}+\beta_3X_{3it}+\beta_4X_{4it}+\beta_5X_{5it}+\varepsilon_{it}$

Y_{it} : Premium growth of insurance companies (variable dependent)
β_0 : Intercept (constant)
β_1, β_2 , …. : Regression coefficient that shows the effect of the independent variable on the dependent variable
X_1 : Liquidity Ratio
X_2 : Investment to Liability Balance Ratio
X_3 : Investment Income Ratio
X_4 : Claims Expense Ratio
X_5 : Tabarru' Fund Change Ratio
X_6 : Risk Based Capital Ratio
ε_{it} : Error term

Table 1: Research Variables and Measurements

Research Variables	Measurements
Variable Dependent (Y)	Premium Growth = (Increase Decrease in Premium)/(Previous year premium) x 100%
Liquidity Ratio (X1)	Liquidity Ratio = (Current wealth)/(Current liabilities) x 100%
Investment to Liability Balance Ratio (X2)	Investment to Liability Balance Ratio = (Investment, cash and bank)/(Technical provision+claims payable) x 100%
Investment Income Ratio (X3)	Investment Income Ratio = (Net investment income)/(Average investment) x 100%
Claims Expense Ratio (X4)	Claims Expense Ratio = (Net claims expense)/(Net contributions) x 100%
Tabarru' Fund Change Ratio (X5)	Tabarru' Fund Change Ratio = (Change in tabarru^‘ fund (n)-change in tabarru^’ fund (n-1))/(Change in tabarru^' fund (n-1)) x 100%
Risk Based Capital Ratio (X6)	RBC Ratio = (Solvency level)/(Minimum solvency level limit) x 100%

RESULT AND DISCUSSION

Classical Assumption Test

Normality Test

The results of the normality test in this study indicate that the variable data used after outliers are normally distributed as evidenced by the significance value seen from the Asymp. Sig. (2-tailed) which is greater than the 0.05 significance level, which is 0.200, means that the data is normally distributed.

Multicollinearity Test

The multicollinearity test results in this study indicate that the tolerance value is> 0.10 and has a VIF value < 10. This is indicated by the tolerance value of the liquidity ratio of 0.945 and the VIF value of 1.059, the tolerance value of the investment balance ratio with liabilities of 0.569 and the VIF value of 1.759, the tolerance value of the investment income ratio of 0.916 and the VIF value of 1, 092, tolerance value of claim expense ratio of 0.880 and VIF value of 1.136, tolerance value of tabarru' fund change ratio of 0.965 and VIF value of 1.036, and tolerance value of risk-based capital ratio of 0.630 and VIF value of 1.587.

Autocorrelation Test

Based on the results of the autocorrelation test with the Run Test, it shows that the Asymp. Sig. (2-tailed) of 0.739> 0.05. So, it can be concluded that the regression model is free from autocorrelation problems or no autocorrelation occurs. Thus, the autocorrelation problem can be resolved using the Run Test.

Heteroscedasticity Test

The results of the Heteroscedasticity test with the Park Test show that all the independent variables studied have a significant value above 0.05. So it can be concluded that there is no heteroscedasticity in the regression model. In the sense that the variants of all variables show independent variables that can be used to influence the dependent variable.

Hypothesis Testing and Discussion

Tabel 2: Partial Significance Test

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	62.695	17.070		3.673	.000		
	Rasio Likuiditas	-.034	.023	-.159	-1.504	.137	.945	1.059
	Rasio Perimbangan Investasi dengan Kewajiban	-.030	.028	-.142	-1.041	.301	.569	1.759
	Rasio Pendapatan Investasi	-4.026	1.970	-.219	-2.044	.044	.916	1.092
	Rasio Beban Klaim	-.099	.089	-.122	-1.120	.266	.880	1.136
	Rasio Perubahan Dana Tabarru'	-.572	.205	-.292	-2.792	.007	.965	1.036
	Rasio Risk Based Capital	.002	.004	.072	.558	.578	.630	1.587

a. Dependent Variable: Pertumbuhan Premi

Source: SPSS, Processed by researchers 2024

1. **Liquidity ratio affects premium growth**

The test was conducted using panel data regression analysis with SPSS 26. The results indicate that the liquidity ratio has a significance value of 0.137, which is greater than the threshold of 0.05, suggesting no significant effect of the liquidity ratio on premium growth. Yuliana (2008) defines the liquidity ratio as the comparison between current assets and current liabilities, measuring a company's ability to meet its short-term obligations.

This finding aligns with the research by Marlina & Kasmir (2021), which also found that the liquidity ratio does not significantly impact premium growth in insurance companies. The liquidity ratio reflects how well a company's management maintains short-term financial stability and meets obligations, such as insurance claims and operational expenses. However, premium growth is primarily driven by factors such as market expansion, customer acquisition, and the increased marketing of insurance products.

Premium growth is also influenced by external factors, including macroeconomic conditions, market competition, regulatory policies, and customer preferences. While Islamic insurance companies may exhibit healthy liquidity levels, premium growth may still lag if economic conditions and market competition are unfavorable.

2. **The ratio of investment balance to liabilities has no effect on premium growth**

The test was conducted using panel data regression analysis with SPSS 26. The significance value of 0.301, which is greater than the threshold of 0.05, indicates that the investment balance ratio to liabilities has no significant effect on premium growth.

The results of this study align with the findings of Safitri and Suprayogi (2017), who also reported that the investment balance to liabilities ratio does not significantly affect the profitability of Islamic insurance companies. While the investment balance to liabilities ratio is an important metric for evaluating a company's ability to meet long-term obligations, its impact on premium growth appears minimal, as premium growth is more influenced by external factors.

Although this ratio is a key measure in risk management, effective risk management does not necessarily lead to an increase in premium growth. External factors such as market dynamics, customer demand, and macroeconomic conditions play a more significant role in driving premium growth in Islamic insurance companies.

3. Investment income ratio affects premium growth

The test was conducted using panel data regression analysis with SPSS 26. The significance value of 0.044, which is less than the 0.05 threshold, indicates that the investment income ratio has a significant influence on premium growth. This finding contrasts with the research by Yuliantoro et al. (2019), which found no significant relationship between the investment ratio and premium income in insurance companies. Similarly, the studies by Marlina & Kasmir (2021) and Putra & Trisnaningsih (2021) also concluded that the Return on Investment (ROI) or investment ratio did not have a positive effect on increasing premium income.

In contrast, the results of this study suggest that the investment income ratio has a negative effect on premium growth. According to PSAK 408 regarding Accounting for Islamic Insurance Transactions, investment funds consist of *wakalah* investment funds recorded off-balance sheet and *mudharabah* investment funds recorded on-balance sheet. Due to these separate records, participant investment funds managed by Islamic insurance entities cannot be fully compared, leading to incomplete information for customers. This lack of transparency regarding investment funds may be one reason potential customers are less inclined to pay premiums to Islamic insurance companies.

4. Claims expense ratio has no effect on premium growth

The test was conducted using panel data regression analysis with SPSS 26, showing a significance value of 0.266, which is greater than 0.05. This indicates that the claim expense ratio does not have a significant influence on premium growth. This finding aligns with the research by Putra & Trisnaningsih (2021), which also concluded that the claim ratio has no positive effect on increasing premium income. However, it contradicts the studies by Marlina & Kasmir (2021) and Yuliantoro et al. (2019), which found that the claim ratio has a significant impact on increasing premium income.

In this study, the results suggest that the claim expense ratio does not affect premium growth in Islamic insurance. The concept of risk sharing in sharia insurance differs from conventional insurance, where the risk is collectively borne by all participants rather than by the insurance company. Each participant contributes to a shared fund that is used to pay claims for those who face disasters. Therefore, even when claim expenses increase, the impact on premiums is less significant compared to conventional insurance.

5. The ratio of changes in tabarru' funds affects premium growth

The test was conducted using panel data regression analysis with SPSS 26, showing a significance value of 0.007, which is less than 0.05, indicating that changes in the *tabarru'* fund ratio significantly influence premium growth. This finding contradicts the research by Safitri & Suprayogi (2017), which found no significant effect of the *tabarru'* fund ratio on the profitability of Islamic insurance companies. While both profitability and premium growth measure the performance of Islamic insurance companies, this study reveals that the ratio of changes in *tabarru'* funds significantly impacts premium growth.

The results show that the ratio of changes in *tabarru'* funds negatively affects premium growth. Islamic insurance operates under different principles than conventional insurance, applying the concepts of *tabarru'* (mutual assistance), *mudharabah* (profit-sharing), and *wakalah* (representation) in managing contributions, referred to as premiums. In contrast, conventional insurance companies manage premium funds for their benefit, with any profits generated from investments typically retained by the company and not shared with participants.

An increase in *tabarru'* funds may negatively impact premium growth because customers perceive it as less advantageous. In Islamic insurance, customers benefit only when they make claims against the *tabarru'* fund, which may lead to dissatisfaction for those who expect financial returns rather than solely seeking mutual assistance.

6. Risk-based capital ratio has no effect on premium growth

The test was conducted using panel data regression analysis with SPSS 26, and the significance value of 0.578, which is greater than 0.05, indicates that there is no significant influence of the risk-based capital (RBC) ratio on premium growth. The results show that the RBC ratio does not affect the premium growth of Islamic insurance companies. This finding aligns with the research by Yuliantoro et al. (2019), which also found no significant effect of the RBC ratio on premium income in Islamic insurance companies.

However, this research contradicts studies by Marlina & Kasmir (2021) and Putra & Trisnaningsih (2021), which found that the RBC ratio significantly affects premium income. In Islamic insurance, the risk management and capital management functions are often separated from operational activities. A dedicated team is responsible for managing risk-based capital, focusing on risk assessment and capital management, while the sales and marketing teams focus on driving premium income. As a result, policies and strategies related to managing RBC may not always have a direct impact on premium growth.

CONCLUSIONS

This study aimed to examine the effect of financial soundness, as measured by various ratios, on the premium growth of Islamic insurance companies listed in the Indonesian Sharia Insurance Association (AASI) for the period 2018-2022, using panel data regression analysis with the SPSS 26 software. Based on the testing and discussion, the following conclusions were drawn:

1. The liquidity ratio has no significant effect on the premium growth of Islamic insurance companies.
2. The investment balance to liabilities ratio does not influence the premium growth of Islamic insurance companies.
3. The investment income ratio significantly affects the premium growth of Islamic insurance companies.
4. The claim expense ratio has no significant effect on the premium growth of Islamic insurance companies.
5. The ratio of changes in tabarru' funds has a significant impact on the premium growth of Islamic insurance companies.
6. The risk-based capital (RBC) ratio does not have a significant effect on the premium growth of Islamic insurance companies.

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