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# The factors of the affect the income growth in insurance companies listed in indonesia stock exchange 2015-2019

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## Abstract.

These research examining the liquidity, solvency, efficiency, and company size that affect the growth of insurance company earnings. By utilizing multiple linear regression method, these research purposing to test simultaneously and partially the hypothesis of the research. There are some factors investigated in this study that affected company growth of listed insurance companies there are liquidity, solvency, efficiency and company size. The result of the multiple linear regression analysis presents evidence that liquidity, solvency, efficiency, and company size simultaneously affect profit growth of listed insurance companies over the period 2015- 2019. Alongside, partially test resulting each of factors also have affected the profit growth of insurance companies listed on the Indonesia Stock Exchange in 2015-2019.

**Keywords:** Liquidity; solvency; efficiency; firm size; company profit.

## 1. Introduction

The increasingly competitive development of the world of business in Indonesia demands that every company be able to carry out company management to be more professional. This is due to the emergence of a large number of competitors in the world of business, both domestic and foreign competitors, resulting in each company striving to continue to boost the company's performance for the existence and survival of the company, including insurance companies.

The insurance companies in Indonesia have developed quite rapidly after the government issued deregulation in 1983 and strengthened by the Law no. 2 in 1992 which is concerning about Insurance Business. With the deregulation, the government made it easier in terms of licensing, thus encouraging the growth of new companies, and in turn increasing national production.

The life insurance industry in Indonesia is to keep growing. In 2010 the insurance industry contributed about 1.95% to the country's gross domestic product. The gross premium collected reaches Rp125.1 trillion, up 17.5% from the previous year. The number of gross premiums received by the insurance industry in 2010 was a combined gross premium from the loss insurance, social insurance, and life insurance industries. This result shows a significant increase from the previous year which only reached 1.90% in 2008 and 2009. The biggest contribution to national income is provided by the life insurance industry, which is 60% (Ningsih, 2014).

In 2019, one of the state-owned insurance companies PT Jiwasraya (Persero) Tbk experienced a default on insurance claims that reached up to Rp16 trillion. The BUMN Minister stated that Jiwasraya's current condition had difficulties in paying claims to policyholders of Rp. 16 trillion and a lack of solvency of Rp28 trillion. Based on the results of the audit of the Public Accountant Firm (KAP) Price water house Coopers (PwC) on the 2017 financial report, it corrected the interim financial report from a profit of Rp2.4 trillion to only Rp 428 billion (cnnindonesia.com). Jiwasraya's profit in 2016 amounted to IDR 1.7 trillion, while in 2017 Jiwasraya's profit fell by IDR 428 billion. This shows that Jiwasraya's default occurred due to a decline in company profits.

BPK RI reported the main cause of JIWASRAYA's default was an error in managing investments in the company. JIWASRAYA is puts funds in underperforming stocks very often. These risky stocks resulted in a negative spread and created liquidity pressure on PT Asuransi Jiwasraya which led to default (Kompas.com).

Another cause of the insurance company recorded a decrease in profit was PT Asuransi Kresna Mitra Tbk (ASMI) by 42.02% on an annual basis or year on year in the first quarter of 2019 from IDR 47.86 billion to IDR 27.74 billion. PT Asuransi Tugu Pratama Indonesia Tbk (TUGU) also posted a 2.12 percent decrease in net profit to the US $ 12.46 million from the same position last year of US $ 12.47 million. PT Asuransi Harta Aman Pratama Tbk (AHAP) also recorded a 222.99% increase in losses from IDR 4.22 billion to IDR 13.63 billion (financial.kontan.co.id). The following table is the growth of insurance company profits for 2015-2019.

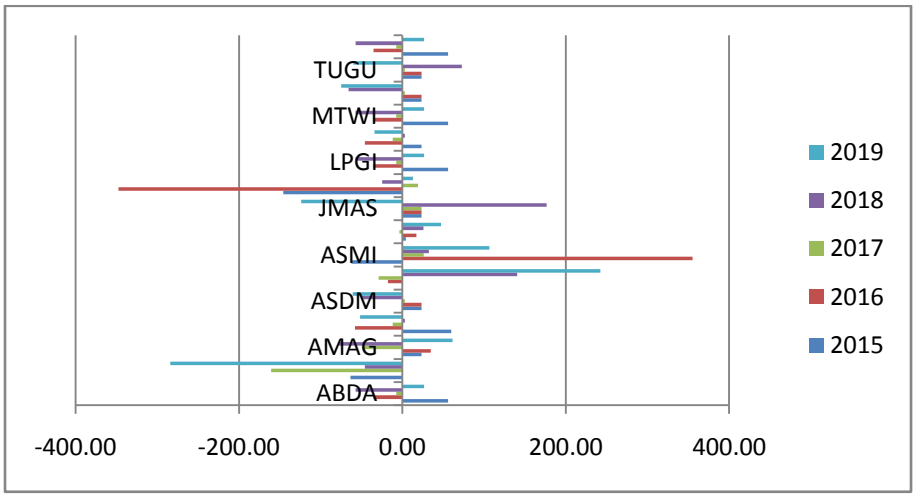


**Figure 1: insurance company profit growth 2015-2019**

Based on Figure 1.1 above, it illustrated the profit growth of insurance companies has fluctuated where there has been a decrease and an increase during the 2015-2019 period where the highest average decline in profit occurred in 2019.

One of the analytical tools most often used to measure a company's financial performance is financial ratios. Additionally, financial ratio can be defined as an index that relates two financial numbers which is obtained by dividing one

number by another in one period or several periods. There are several types of financial ratio, namely liquidity ratios, solvency ratios, and activity ratios. Liquidity Ratio is one of the financial ratios to measure a firm's capability to reduce its short-term liabilities. The measurement of liquidity uses the current ratio. Current ratio (CR) is the measure most commonly used to determine the capability to take over its short-term liabilities. If the current ratio is low, it would be the company lacks the capital to pay off debts. However, if the ratio measurement resulting high number, it can be concluded that the firm in good performance. This results highlighting a low current ratio will reduce the company's profit growth, on the other hand, a higher current ratio will increase the company's profit growth.

Research on the effect of the current ratio on profit growth was investigated by Ningsih (2014), Rachmatika (2015), Paramu (2017), Mahaputra (2015), and Jannah (2019) which published that the current ratio had an influence positively and significantly to company profit growth.

From the prior study over the debt to equity ratio influencing profit growth which is finding by Rachmatika (2015), Wahyuni (2017), Febrianty (2017), Amar (2017), and Mahaputra (2015) pointed the debt to equity ratio positively and significantly effect on the firm's profit growth.

The recent contribution of Herni (2016) and Adita and Mawardi (2018) regarding to total asset turnover on profit growth confirmed that total asset turnover had a significant influence to company profit growth.

Other previous scholars include Fernando (2017), Chasanah (2017), Puspasari et al. (2017), Sevira and Achyani (2019), was conducted the research on the effect of company size on profit growth which resulting positive and significant effect on company profit growth.

## 2. Research method

### 2.1 Research design

This research is a correlation, Nowss (2016: 133) states that the research wants to find the most important variables related to the problem. In this study, the researcher wanted to see the effect of Liquidity, Solvency, Efficiency, and Company Size on Profit Growth of Listed Insurance Companies from the Indonesia Stock Exchange over the period 2015-2019.

### 2.2 Research population

This study using the population ofall listed insurance companies on the Indonesia Stock Exchange (IDX) for the period 2014-2018. The population taken is 50 companies. This study uses a population study (census) meaning the population is the same as the sample to be studied. From these criteria, 16 companies were sampled in this study with an observation period of 5 years, so 80 observational data were obtained (16 companies x 5 years = 80 data).

### 2.3 Research method and hypothesis testing

The analytical method used is the multiple liner regression analysis methods that aim to presents evidence of the effect of Liquidity, Solvency, Efficiency, and Firm Size on Profit Growth in Insurance Companies listed on the IDX over 2015-2019. By utilizing the regression model which is free from error over the classical assumptions test, the hypothesis testing of partially or simultaneously can be conducted directly.

Regression analysis is an attempt to explain and evaluate the relationships between one or more independent variables against one dependent variable. This research was performance to determine the effect of four

independent variables on a dependent variable. Therefore, these study's use multiple linear analyses (Ghozali, 2013: 158). The multiple linear regression equation used is as mentioned below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

***Description:***

| | | |
|---|---|---|
| Y | = | Profit Growth |
| $X_1$ | = | Liquidity |
| $X_2$ | = | Solvency |
| $X_3$ | = | Efficiency |
| $X_4$ | = | Company Size |
| $\alpha$ | = | Constant |
| $\beta_1, \beta_2, \beta_3, \beta_4$ | = | Regression Coefficient |
| $e$ | = | Standard Error |

## 3. Finding and discussion

### 3.1 Descriptive analysis

The descriptive analysis used to determine such values which are minimum, maximum v, average, standard deviation value (the degree of deviation from the spread of data from each variable), and the amount of data analyzed. In the Table 4.1 illustrated the descriptive statistical analysis of every variable.

**Table 4.1descriptive statistics analysis**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Profit Growth | 80 | -347,36 | 355,29 | -3,9775 | 88,49362 |
| Liquidity | 80 | 102,00 | 298,00 | 187,9226 | 46,28861 |
| Solvency | 80 | 45,06 | 516,62 | 163,4384 | 89,19978 |
| Efficiency | 80 | 25,08 | 94,89 | 53,1813 | 18,57714 |
| Company Size | 80 | 11,60 | 16,63 | 14,1576 | 1,05421 |
| Valid N (list wised) | 80 | | | | |

Source: Secondary Data Processed, 2020

Regarding to Table 4.1, it is performing that the descriptive statistics value (minimum, maximum, average, and standard deviation) of the variables studied. Hence, the Profit Growth variable, the minimum value is -347.36, the maximum value is 355.36, and the average value is -3.977 with a standard deviation of 88.493. For the liquidity variable, the minimum value is 102.00, the maximum value is 298.00, and the average value is 187.92 with a standard deviation of 46.288. For the Solvency variable obtained a minimum value of 45.06, a

maximum value of 516.62, and an average value of 163.43 with a standard deviation of 89.199. For the efficiency variable, a minimum value of 25.08, a maximum value of 94.89, and an average value of 53.181 with a standard deviation of 18.577 was obtained. For the company size variable, the minimum value is 11.60, the maximum value is 16.63, and the average value is 14.15 with a standard deviation of 1.054.

### 3.2 Classic assumption test

In order to confirm the error of testing data, the classic assumption test will examine the normality test. The results of the test stated that the regression model residuals of this regression model were normally distributed. Then, it performs the Multicollinearity test, Autocorrelation test, and Heteroscedasticity test. The test results showing there are no Autocorrelation, heteroscedasticity, and multicollinearity, which concluded that the data can be continued to hypothesis testing.

### 3.3 Hypothesis test results

The main ground of this study is to conducts the regression analysis which is determined the influence of the independent variables and the dependent variable. In this research, the multiple linear regression analysis is utilized to find a regression coefficient which presents evidence of the hypothesis result will accepted or rejected. The results of the multiple regression analysis presented in Table 4.5 below.

**Table 4.2 Multiple linear regression analysis test results**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | R | R Square |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 264,457 | 3,747 | | 0,442 | 0,195 |
| | Liquidity | 0,703 | 0,185 | 0,455 | | |
| | Solvency | -0,083 | 0,065 | 0,093 | | |
| | Efficiency | 0,236 | 0,148 | -0,160 | | |
| | Company Size | -28,222 | 0,084 | -0,144 | | |

Source: Secondary Data Processed, 2020

From the result of statistical calculations using the SPSS program in Table 4.5, the multiple linear regression equation of this study can be derived as follows:

$$.Y = 264{,}457 + 0{,}703X_1 - 0{,}083X_2 + 0{,}236X_3 - 28{,}222X_4 + e$$

### 3.4 The effect of liquidity, solvency, efficiency, and company size on profit growth

The findings of regression analysis of first hypothesis present the examination of the liquidity, solvency, efficiency, and company size simultaneously influence profit growth. The simultaneous regression test confirm the regression coefficient value of the Liquidity variable (X1) of $\beta 1 = 0.703$, the regression coefficient value of the Solvency variable (X2) is $\beta 2 = -0.083$, the variable regression coefficient value Efficiency (X3) is $\beta 3 = 0.236$, and the regression coefficient value variable company size (X4) of $\beta 4 = -28{,}222$. Hypothesis testing shows that if $\beta 1, \beta 2, \beta 3, \beta 4 \neq 0$ then Ha is accepted, meaning that Liquidity, Solvency, Efficiency, and Firm Size jointly affect Profit Growth.

### 3.5 The effect of liquidity on profit growth

The evidence of regression analysis of second hypothesis determined the liquidity affect to profit growth. From the partial test published the regression coefficient value of the Liquidity variable (X1) of $\beta 1 = 0.703$. Hypothesis testing shows that if $\beta 1 \neq 0$ then Ha is accepted, it convinces that Liquidity affects Profit Growth. Moreover, the coefficient value is 0.703, which mean that liquidity has a positive effect on profit growth. It can be drawn that the greater the liquidity, the higher the company's profit growth.

The current ratio is the most commonly used measure to determine the capability to take over current obligations. If the current ratio is low, it can be said that the company lacks the capital to pay debts. If the ratio resulting high value, it is not necessarily that the company is in good performance. It is presented that a low current ratio will reduce the company's profit growths, on the other hand, a higher current ratio will increase the company's profit growth.

The resulting current ratio can give the affect to the company's profit growth. This indicates that the company has good liquidity so that its current debts can discover with its current assets. Companies that have good liquidity can easily get additional capital from third parties. In aadditional capital from third parties can be used to help improve company operations so that the value of profit growth to be achieved can be realized.

The finding of this research presenting the same result with previous research conducted by Ningsih (2014), Rachmatika (2015), Paramu (2017), Kusuma (2015), and Jannah (2019) which resulting the current ratio had an influence positively and significantly to company profit growth.

### 3.6 The effect of solvency on profit growth

The value resulting from regression analysis of third hypothesis examined the solvency affect to profit growth. From the partial test drawn the regression coefficient value of the solvency variable regression coefficient (X2) of $\beta 2 = -0.083$. Hypothesis testing convinces that if $\beta 2 \neq 0$ then Ha is accepted, it concludes that solvency affects profit growth. The coefficient value is -0.083, meaning that solvency has a negative effect on profit growth. From the analysis can be known that the greater solvency, the lower the firm's profit growth.

This study employed Debt to Equity Ratio (DER) to measure a firm's ability to meet part or all of its long-term and short-term liability using total capital divided to the total of debt. Therefore, it can be underlined that the lower DER, the higher the company's ability to pay all of its liabilities. Besides, the greater proportion of debt invested for the capital structure of a company, the greater the number of liabilities. This shows that a low DER will reduce the company's profit growth. While, on the other hand a higher DER will increase the company's profit growth.

Furthermore, the debt to equity ratio of the company is low or small. This means that most of the capital owned by the company comes from the company owner. Hence, in long term the capital can affect the company's performance in increasing profits. The increase in capital in the company may be used for company operations. So that the capital can generate optimal profits which in turn can increase profit growth.

With the large amount of own capital used in the company for financing the company's operations compared to the funds from the creditors, the risk from the creditor will be smaller, resulting in a lower level of security of funds placed by creditors in the business. The low level of security of creditors' funds causes creditors to have not a high-profit rate. The company will not get more capital because it does not have a high level of dependence on outside parties

This recent study is in line with prior finding over the debt to equity ratio influencing profit growth conducted by Rachmatika (2015), Wahyuni (2017), Febrianty (2017), Amar (2017), and Mahaputra (2015) which pointed the debt to equity ratio positively and significantly effect on the firm's profit growth.

### 3.7 The effect of efficiency on profit growth

The statistical analysis resulting from regression test of fourth hypothesis examined the efficiency affect to profit growth. Regarding to the partial test drawn the regression coefficient value of the coefficient Efficiency (X3) of $\beta 3 = 0.236$. Hypothesis testing derived that if $\beta 3 \neq 0$ then Ha is accepted, it concluded that efficiency affects profit growth. The coefficient value is 0.236, meaning that efficiency has a positive effect on profit growth. It is concluded that the greater the efficiency, the higher the firm's profit growth.

In this research, efficiency ratio measure by Total Asset Turnover which measures the level of efficiency and effectiveness of total assets used by the firm in increasing sales earned from each rupiah of assets by divided sales with total assets. This shows that the low Total Asset Turnover will reduce the company's profit growth, on the contrary, the higher the Total Asset Turnover will increase the company's profit growth.

The results of this study supported with work of Erma Herni (2016) where the results show that Total Asset Turnover has a positively and significantly effect on firm profit growth.

### 3.8 The effect of company size on profit growth

The statistical analysis resulting from regression test of fifth hypothesis determined the company size affected to profit growth. Regarding to the partial test drawn the regression coefficient value of the coefficient of Company Size (X4) of $\beta 4 = -28.222$. Hypothesis testing shows that if $\beta 4 \neq 0$ then Ha is accepted, it means that company size affects profit growth. The coefficient value is -28,222, which means that company size has a negative effect on profit growth. The larger the firm size, it will lower the firm's profit growth.

The output of this study is same with research has been done by Fernando (2017) and Chasanah (2017) which resulting positive and significant effect on company profit

However, the large companies relatively have greater growth compare o small companies which affected to the return on shares of large companies which greater than the small-scale companies (Solechan, 2009).

Regarding to that fact, investors will be more interested in choosing large companies to invest with accepting a high sharing return.

These research utilizing the size of the company by the measurement of the total assets owned by the company. Moreover, the firm with large total assets draw as the company has reached the maturity stage, which underlined that there cash flow will be positive and it is highlighted to meet great prospects in a relatively long term period, besides companies with large total assets also reflect that the company is relatively stable and it is considered as good capability for generating profits compare to companies with lower of total assets.

## 4. Conclusions

1. Liquidity, solvency, efficiency, and company size simultaneously affect profit growth of Listed Insurance Companies on the IDX over the period 2015-2019.
2. Liquidity affects growth of listed Insurance Companies on the IDX over the period 2015-2019.
3. Solvency affects profit growth of listed Insurance Companies on the IDX over the period 2015-2019.
4. Efficiency affects profit growth of listed Insurance Companies on the IDX over the period 2015-2019.
5. Company size affects profit growth of listed Insurance Companies on the IDX over the period 2015-2019.

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