

The Influence of Insurance Company Health, Premium Growth, Claim Burden, and Underwriting on Profitability of Insurance Companies in Indonesia

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Abstract – This study investigates the influence of insurance company health, premium growth ratio, claim burden, and underwriting on profitability in Indonesian insurance companies. The research utilizes annual financial reports from 9 insurance companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. The data is analyzed using panel data regression with an Ordinary Least Squares (OLS) approach. The findings reveal that Risk-Based Capital (RBC), premium growth, claim burden, and underwriting do have a significant impact on profitability. The study suggests that insurance companies should focus on effective business strategies. Factors influencing profitability, such as risk management, marketing strategies, and market conditions.

Keywords – Insurance Company Health, Premium Growth Ratio, Claim Burden, Underwriting, Profitability, Indonesian Insurance Companies.

INTRODUCTION

The main trigger for the emergence of a risk that can directly or indirectly threaten human needs is caused by the advancement of economic and technological development. Unexpected risks can be minimized by providing coverage for goods and loans and even a person's life.

The national insurance industry has a role in protecting against risks faced by the community and as one of the institutions that collect public funds. The need for several insurance guarantees arises due to economic growth. The growing fertility of the insurance company system in Indonesia provides opportunities for insurance companies and investors to invest funds to provide services and support insurance companies. To deal with the risk that comes unexpectedly, companies and individuals carry out insurance for the object of the threat of danger that can cause losses, so there is an insurance company where the insurance company manages the risk

it receives from customers who pay a certain amount of premiums.

From the perspective of these experts, it can be concluded that factors such as the health level of insurance companies, premium growth ratio, claim burden, and underwriting have a significant role in influencing the profitability of insurance companies in Indonesia.

Insurance companies are non-bank financial institutions that have the function of collecting public funds through the collection of insurance premiums and providing protection to the community of insurance service users against the possibility of losses due to an uncertain event or to a person's life and death. Insurance companies as financial institutions are required to have good financial health and provide the benefits of insurance products so that the service user community believes in the safety of funds used for several insurance products.

In penetration, general insurance density in 2021 was recorded at 0.14%, increasing to 3.06% from the same period the previous year of 2.88%. The density of

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general insurance in Indonesia is at the level of Rp 1,882,640. OJK targets the insurance penetration rate to reach 3.2% in 2007. General insurance has difficulty colonizing health insurance because customers stop insurance policies and choose to switch to the health BPJS5 program. OJK opens new opportunities for companies that want to increase inadequate premium performance and insurance profits because the solvency level of general insurance is still far above OJK's minimum requirement of 120%. Currently, the total assets of IKNB according to OJK data are IDR 3,171.62 trillion, consisting of IDR 3,081 trillion of conventional assets and IDR 140.1 trillion of sharia assets. Insurance itself controls 27.28% of the total IKNB assets.

Regulation of the Minister of Finance Number 53/PMK.010/2012 concerning the financial health of insurance companies and reinsurance companies was made to promote the growth of the insurance industry and increase protection for insured or policyholders. With this regulation, the benchmark used to assess the financial health of insurance companies that have been determined must be 120%, this solvency level is called Risk-Based Capital (RBC).

The ratio that can be used to see the premium growth rate is the premium growth ratio. This ratio can be calculated by comparing the increase/decrease in net premiums with the previous year's net premiums. The better the premium growth, the better the company's growth.

Claims are burdens that must be paid by the insurer to the insured in the event of a risk. Generally, a person or system that makes a claim will determine whether the information submitted for the claim is by the coverage listed in the applicable policy so that a person or system with coverage listed in the applicable policy so that the person or system approves or rejects the claim. The usable ratio is the claim load ratio. This ratio can be calculated by comparing the claim burden with premium income.

General insurance companies show that the average obtained from 2019 is 38.40%, decreased to 2022 by 39.17%, and in 2023 increased by 44.65%.

Underwriting is a way to maximize the lab through the acceptance of risk distribution that is expected to bring in profits. Without efficient underwriting, a company will not be able to compete. To estimate the level of profit from the pure business of an insurance company, it can be seen from the underwriting ratio. This ratio can be calculated by comparing the underwriting results with premium income.

The profitability ratio is a ratio to measure the level of effectiveness of a company's management as shown by the amount of profit generated from sales and investment. The profitability ratio used is Return On Asset (ROA) is a ratio that shows how much net profit is obtained from the profits owned by the company. So the better the productivity of the asset in obtaining net profit, the higher the ratio so that it can increase the attractiveness of investors because the dividend or return rate is greater.

Several insurance companies in Indonesia are experiencing insolvency. This happens because the low level of health of insurance companies as measured by Risk Based Capital has developed from year to year, but the profitability ratio with the Return On Asset indicator may decrease, or vice versa. If the RBC rate decreases, the Return On Asset still increases. This is a phenomenon because according to the theory of RBC Profitability is proportional in one direction.

Research on the influence of the health level of insurance companies (Risk Based Capital) has been carried out by several researchers including, Aditya Fadlin and Rahma Fitrianti (2013) examined the analysis of the influence of Risk-Based Capital, premium receipts, underwriting, and claim burden on profitability (empirical study of loss insurance companies listed on the IDX for the period 2006-2011). The results of this study show that Risk-Based Capital, premium receipts, underwriting, and claim burden have an influence on the profitability of loss insurance companies with Return On Asset as the indicator.

Rifki Sentoso Budiarjo (2012) examined the effect of the level of the financial health of insurance companies on the increase in premium income (a case study on insurance companies listed on the IDX for the 2010-2013 period), the results of this study show that risk-based capital, investment ratio, claim ratio, and premium growth have a positive influence simultaneously on the increase in premium income.

This study is not much different from the previous research (Aditya Fadlin and Rahma Fitrianti (2013) which examined the influence of Risk-Based Capital, Premium Receipts, Underwriting, and Claim Burden on Profitability (an empirical study of loss insurance companies listed on the IDX for the period 2006-2011). In the research of Aditia Fadlin and Rahma Fitrianti (2013), the object was carried out at the Financial Services Authority (OJK).

MATERIALS AND METHODS

This study uses a quantitative method with secondary data obtained from the annual financial statements of 9 insurance companies listed on the IDX for the 2019-2023 period. The sampling technique uses purposive sampling, with the following criteria:

1. Insurance companies that have been registered on the IDX in 2019-2023.
2. Insurance companies listed on the IDX that IPO before 2019
3. Insurance companies that publish financial statements every year in the period 2019-2023.

Data analysis uses multiple linear regression with classical assumption tests (normality, multicollinearity, autocorrelation, and heteroskedasticity), t-test, and F-test.

Hypothesis

Based on the conceptual framework, this study formulates the following hypotheses:

H1: The Health Level (RBC) does not have a significant influence on the Profitability (*Return On Asset*) of the listed listed companies on the IDX.

H2: Premium growth does not have a significant effect on the Profitability (*Return On Asset*) of listed listed companies on the IDX.

H3: Claim Expense does not have a significant effect on the Profitability (*Return On Asset*) of the listed securities company.

H4: Underwriting does not have a significant influence on the Profitability (*Return On Asset*) of listed companies listed on the IDX.

H5: Health Level (RBC), Premium Growth, Claim Expense, and Underwriting simultaneously have a significant influence on the Profitability (*Return On Asset*) of insurance companies listed on the IDX.

RESULTS AND DISCUSSION

Relationship of Current Ratio to Stock Price (H1)

Based on the results of the calculation of the output of SPSS version 26 data processing with the t-test, the t-table < t count value ($1.080 < 2.016$) and the significance value ($p\text{-value} = (0.286 > 0.05)$) were obtained. So H1 is rejected and H0 is accepted. This means that there is no influence between Risk-Based Capital on Profitability in insurance companies listed on the Indonesia Stock Exchange for the 2016-2023 period.

Relationship of Premium Growth to Profitability (H2)

The results of research and testing using the IBM SPSS Version 26 program are known to show that the t count value < t table ($-0.123 < 2.016$) with a significance value ($p = 0.093 > 0.05$). If the t count < t table then H2 is rejected and H0 is accepted, which means that Premium Growth has no effect and is not significant to Profitability.

The results of this study are in contrast to previous research conducted by Aditya Fadlin and Rahma Fitrianti (2013) which stated that Premium Growth has a positive and significant effect on profitability.

Claim Burden Relationship to Profitability (H3)

The results of research and testing using the IBM SPSS Version 26 program are known that the t count value > t table ($-0.679 > 2.016$) and significance value ($0.501 > 0.05$) The results of this study found that the Claim Burden did not have a significant effect on profitability. This is contrary to several previous studies such as Aditya Fadlin and Rahma Fitrianti (2013), which found that the burden of claims has a significant influence on the profitability of insurance companies.

The Relationship of Underwriting to Profitability (H4)

Testing using the IBM SPSS Version 26 program found that the t count value > t table ($-0.885 > 2.016$) and significance value ($0.382 > 0.05$) The results of this study found that Underwriting did not have a significant effect on profitability. This is contrary to several previous studies such as Aditya Fadlin and Rahma Fitrianti (2013), which found that underwriting has a significant influence on the profitability of insurance companies.

Relationship of health level, premium growth, claims burden, and underwriting to profitability (H5)

The results of research and testing using the IBM SPSS Version 26 program showed that the value of $F_{cal} > F_{table}$ ($1.683 > 3.60$) and the significance value of α ($0.000 < 0.05$) then H1 was rejected and H0 was accepted. Based on the results of the significance test, it was obtained that there was no influence between Health Level, Premium Growth, Claim Burden, and Underwriting on Profitability Simultaneously. The results of the correlation test showed that the magnitude of the relationship between Risk Based Capital (X1), Premium Growth (X2), Claim Expense (X3) and

Underwriting (X4) to Profitability (Y) calculated by the correlation coefficient is 0.040 in the range of 0.400-0.599 with a moderate relationship between Risk-Based Capital (X1), Premium Growth (X2), Claim Expense (X3), and Underwriting (X4) to the Profitability variable (Y).

The results of the determination test concluded that the ability of Risk-Based Capital (RBC), Premium Growth, Claim Expenses, Underwriting, and Return on Assets (ROA) contributed 33.6% and the remaining 66.4% was influenced by other variables.

CONCLUSION AND RECOMMENDATION

Conclusion

Based on the results of the research and the limitations in the previous chapter, the author can draw the following conclusions: The results of the research and testing of the Risk-Based Capital (RBC) T-Test are known as the t count value < t table (-1,080 < 2,016) and the significance value (p-value = 0.286 > 0.05). So H1 is rejected and H0 is accepted. This means that there is no influence between Risk-Based Capital (RBC) on Profitability in insurance companies listed on the Indonesia Stock Exchange for the 2019-2023 period.

1. The results of the research and testing of the Premium Growth t-Test were known as the t count value < t table (-0.123 < 2.016) with a significance value (p = 0.093 > 0.05). If the calculation < t table, H0 is accepted and H2 is rejected, it means that Premium Growth has no negative and insignificant effect on the Profitability of insurance companies listed on the IDX for the 2019-2023 period.
2. The results of the research and testing of the t-test of Claim Load are known that the t count value > t table (0.679 > 2.016) and the significance value (0.501 > 0.05) then H0 is accepted and H3 is rejected. This means that there is no significant influence between Claim Expense on Profitability in insurance companies listed on the Indonesia Stock Exchange for the 2019-2023 period.
3. The results of the research and testing of the t-Underwriting test are known that the t count value > t table (0.885 > 2.016) and the significance value (0.382 > 0.05), thus H0 is accepted and H3 is rejected. This means that there is no significant influence between Underwriting on Profitability in insurance companies listed on the Indonesia Stock Exchange for the 2019-2023 period.

Suggestion

The results of this study are expected to be used as a reference for other researchers to develop, correct, and make improvements as necessary. Referring to the results of the research, the author gives some suggestions as follows: Further research is expected to be able to use samples such as companies in sectors other than insurance companies listed on the Indonesia Stock Exchange (IDX) to be more optimal in obtaining research results.

1. Further research is expected to add other variables that can affect Profitability as independent variables.
2. For companies to improve company performance, they should pay attention to variables and factors that can have a significant impact on Profitability.

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