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The Influence of Net Premium Growth, Claim Ratio and Risk-Based Capital on the Financial Performance of Life Insurance Companies

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***Abstract*—The objective of this research was to examine and analyse the influence of Net Premium Growth, Claim Ratio and Risk Based Capital affect the Financial Performance of Line Insurance Companies. The study population was insurance companies listed on the Indonesia Stock Exchange from 2014-2018. The sample used in this study were 17 life insurance companies. The statistical tool in this study is Eviews 11. Net Premium Growth and Claim Ratio do not significantly influence financial performance. Risk Based Capital has a negative effect on the financial performance of life insurance, namely ROA. Simultaneously the three ratios of Net Premium Growth, Claim Ratio and Risk Based Capital affect the financial performance of life insurance companies that are proxied by ROA. The implication of this research is that life insurance companies are expected to be able to maintain the stability of premium growth every year to be above the normal limit of 23%.**

Keywords: Net Premium Growth, risk-based claims, capital ratios on financial performance

I. INTRODUCTION

An insurance company is a non-bank financial institution that has a role not far different from a bank, engaged in services provided to the public in dealing with risks that will occur in the future. The purpose of insurance is to protect individuals or groups form loss of income that will be used such as educational needs, the need for recovery, the need for longevity, health and others [1].

The number of insurance companies operating in Indonesia as of December 31, 2017 and already has a business license by the Financial Services Authority (OJK) there are 152 (one hundred fifty two) companies consisting of 61 (sixty one) life insurance companies, 79 (seventy nine) general insurance company, 7 (seven) reinsurance companies, 2 (two) social security program organizing bodies, and 3 (three) mandatory insurance companies. One company that has a business licence by OJK is a life insurance company. Life insurance is a protection program in the form of transferring economic risk over the death of someone who is too fast or lives too much long.

As life insurance companies increase, it is important to know the financial performance of life insurance companies. Because by knowing the financial performance of life insurance companies, then before deciding to use life insurance prospective customers can assess whether the company has been effective and efficient in managing its finances, so that the company is able to pay the claims submitted if the insured is at risk. And as an assessment of decision making or policy and can increase confidence in prospective customers to use life insurance [2].

Measurement of the financial performance of insurance companies can be done by using the Risk Based Capital (RBC) method. RBC measurement is a measurement of the minimum solvency level required in law, to measure the financial health level of an insurance company and ensure fulfilment of insurance and reinsurance obligations by knowing the magnitude of the company's capital needs in accordance with the level of risk faced by the company in managing its wealth and obligations. Besides Risk Based Capital, there are other indicators that need to be considered in the Premium (Net Premium Growth) and Claim Ratio.

The amount of the premium paid and insurance benefits taken by the policyholder affect how much the claim will be paid by the insurance company to the insured (customer) in accordance with the agreement. An insurance claim is an official request made by a customer to an insurance company in order to obtain payment related to the loss of the risk received.

II. LITERATURE REVIEW

A. Insurance

The term insurance comes from several languages in the world including the Dutch language called insurance with the term Assuranite which consists of the word assurandeur which means the guarantor and geassureede which means the insured. Then in French using the term Assurance which means to bear something that happened, while in Latin use the term Assecurare which means to bear something that might or might not happen [3].

Insurance premium is the payment of the insured to the guarantor in return for services for the transfer of the risk of the guarantor. In life insurance premiums are compensation for the protection provided by the guarantor (insurance company) to the insured (customer) by providing a sum of money (benefits) against the risk of old age and death [4].

Claim is the submission of the rights made by the insured to the guarantor to get his rights in the form of coverage for losses based on agreements made or agreed in other words the claim is a process of filing carried out by participants to get the sum insured after the insured carries out all obligations to the guarantor in the form of settlement of premium payments in accordance with agreement in the policy [5].

Risk Based Capital is a set minimum amount of solvency level, the amount of funds needed to cover the risk of loss that may arise as a result of deviations (deviations) in the management of wealth and liabilities.

Financial performance is a description of the company's financial condition in a certain period both regarding aspects of fund raising and fund distribution, which is usually measured by indicators of capital adequacy, liquidity, and profitability, and is an achievement achieved by the company in a certain period that reflects the level of health of the company [6,7].

B. *Relationships between Research Variables*

Premiums obtained by insurance companies from customers not only be a profit for the company but some are also used to pay company obligations in the future. Some of the resulting premium is reserved as a premium reserve that aims if in the future the company does not feel the difficulty of paying claims (obligations) to customers. The increase in the ratio of premium growth (Net Premium Growth) indicates customer confidence in the performance of insurance companies in the financial aspects and as an assessment of the financial condition of insurance companies [8].

H1: Net Premium Growth has a positive effect on the Financial Performance of Life Insurance Companies.

Claim expense ratio is an experience in covering the risks that have occurred and the quality of the claim closing business. The high level of claim burden resulting from certain relatively large claims will threaten the company's financial condition thereby increasing the risk for the company. Claim expense ratio shows the adequacy of premiums obtained by an insurance company to cover the payment of claims submitted by customers based on the large percentage of premium income used to pay claims that occur [9].

H2 : Claim Ratio has a positive effect on the Financial Performance of Life Insurance Companies.

Risk Based Capital is the calculation of the ratio of financial health by allocating sufficient funds to cover the risk of loss that may arise in the future. Risk Based Capital is used as one of the measuring tools to assess financial performance to measure the level of solvency with the provisions stipulated by the law regarding the minimum solvency level limit on insurance companies. The higher level of solvency means the healthier financial condition of the insurance company. Risk Base Capital applied by the government aims to protect the interests of the community as insurance customers as well as in order to adjust the developments that occur in the national insurance industry, especially life insurance. Thus, it is expected that insurance companies have sufficient capital strength and avoid the risk of harming their customers in the event of problems or losses as a result of deviations in managing wealth and liabilities.

H3: Risk Based Capital has a positive effect on the financial performance of life insurance companies

III. Methods

A. *Data and Sample*

Research subjects are life insurance companies registered with OJK based on Insurance Statistics data published in July 2018. The data used in this study are secondary data. Data collection techniques using documentation techniques, and sampling using purposive sampling.

B. *Operationalization Variable*

1) Financial performance (Y): Financial Performance is proxied by Return on assets.

2) Net premium growth (X_1): Net Premium Growth is measured by Net Premium Growth by dividing the Net Premium Difference from last year's Net Premium.

3) Claim ratio (X_2): Claim Ratio is measured by Claim Ratio dividing the claims incurred (claims that have been paid by premium income.

4) Risk based capital (X_3): The ratio used to measure Risk Based Capital. Calculated by dividing the level of solvency with premium income.

C. *Research Model*

$$Y = a + \beta X1 + \beta X2 + \beta X3 + \varepsilon \ldots \quad (1)$$

IV. Results and Discussion

Based on the results of the two tests conducted previously, namely the chow test and the hausman test, the panel data regression model selection used is the fixed effect model (FEM), this it is not necessary to conduct a multiplier lagranger test because the results of previous tests (chow test and hausman test) there are no random effects or common effects.

TABLE I. PANEL DATA REGRESSION TEST RESULTS WITH FIXED EFFECT MODEL (FEM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,062337	0,009006	6,921630	0,0000
NPG	-0,000013	0,000904	-0,014266	0,9887
CR	0,020666	0,011302	1,828455	0,0721
RBC	-0,004163	0,001158	-3,595497	0,0006
F-statistic	8,43650			
Prob(F-statistic)	0,00000			
R-squared	0,71466			
Adjusted R-squared	0,62995			

Based on the results from Table 1 it can be seen that the panel data regression model formed between Net Premium Growth, Claim Ratio and Risk Based Capital on financial performance proxied by ROA, as follows:

$$ROA = 0{,}062337 - 0{,}000013\ NPG + 0{,}020666\ CR - 0{,}004163\ RBC + \varepsilon$$

A. The Effect of Net Premium Growth on Financial Performance

The results of tests that have been done related to Net Premium Growth on the financial performance of life insurance companies that are proxied by Return on Assets (ROA) have a profitability value of 0.9887 with a significance value of 0.05 or 0.9887> 0.05 which means that the Net hypothesis Premium Growth (NPG) does not significantly influence the financial performance of life insurance companies for 5 (five) years proxied by ROA. The rise in premium growth does not affect the use of assets to become a profit or profit. Premium income generated is not only used as profit or profit but part of it is used as premium reserves so that in the future insurance companies can pay claims.

This is inversely proportional to previous research conducted by Sapari which says that the premium growth ratio shows a good indication for the financial performance of insurance companies, where the company's premium growth ratio even though it shows a decline but still above normal limits [10]. Then research conducted by Bodla et al shows that the ratio of premium growth (net premium growth) can be used as a measurement of the financial performance of insurance companies and get positive results [8]. However, the results of this study indicate that net premium growth does not affect the financial performance proxy by ROA on life insurance companies.

B. The Effect of Claim Ratio on Financial Performance

The results of testing the independent variable Claim Ratio showed that Claim Ratio did not affect the financial performance of ROA as presented in table 1 with a significance of 0.05 indicating that the Claim Ratio (CR) had a profitability value of 0.0721> 0.05 (significance value). Therefore, Claim Ratio does not significantly affect the financial performance of life insurance companies. This shows that the increase or decrease in the ratio of claims does not affect the company's profit. Claim ratio is the ratio of premium sufficiency to claim payment. The ability of an insurance company to pay claims by looking at the large percentage of premium income that is used to pay claims that occur.

This is not the same as research conducted by previous researchers [9,11] that the claim ratio (Claim Ratio) affects the performance of insurance companies, while in this study Claim Ratio has no effect on financial performance life insurance company which is proxied by ROA.

C. The Effect of Risk Based Capital on Financial Performance

In this study the calculation results show that Risk Based Capital has a profitability value of 0,0006 <0.05 and has a negative coefficient, from these results it can be said that Risk Based Capital has a negative effect on the company's financial performance which shows that the ability of insurance companies in managing their wealth and obligations in accordance with the level of risk faced by the company. The higher the value of RBC, the risk that the company also gets higher so that it can affect the decline in corporate profits, which means that if profits decline the financial performance of life insurance companies will decline.

This study is the same as the results of research conducted by Sapari the results of RBC in life insurance companies are above 120% as determined and this indicates that the company is able to bear the risk of losses that may arise due to deviations in managing wealth and its obligation [10]. Meanwhile, research [9] RBC gives different results, namely positive results to predict the health of insurance companies in terms of the company's current financial performance and where it will come as well as research of Pramita and Kiswara [11] which shows the results that RBC has an effect on the performance of the company which can be taken into consideration for business people in the insurance industry to maintain the performance of their insurance company.

D. The Effect of Net Premium Growth, Claim Ratio, and Risk Based Capital on Financial Performance

The results of calculations performed show the results simultaneously Net Premium Growth, Claim Ratio and Risk Based Capital variables significantly influence the financial performance of life insurance companies (ROA) or the probability value F <0.05 (0.00 <0.05), thus the influence of Net Premium Growth, Claim Ratio and Risk Based Capital, affect the financial performance of life insurance companies proxy by ROA which proves that the increase or decrease in value on these three variables or profitability affects the company's financial performance (ROA) by measuring the company's ability to generate profits with net income to assets. The more the achievement of the value of profitability in accordance with predetermined standards, the greater the ROA generated for the company, especially in terms of the use of assets.

V. CONCLUSION

Based on testing, processing and analysis that has been done, it can be concluded from this research that Risk Based

Capital influences Financial Performance, but Net Premium Growth and Claim Ratio does not affect Financial Performance. And simultaneously Net Premium Growth, Claim Ratio and Risk Based Capital affect Financial Performance.

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