

THE IMPACT OF PREMIUM INCOME ON ASSET GROWTH: A CASE OF INDONESIA SHARIA INSURANCE

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Abstract

This study evaluate the premium income rate on asset growth of Sharia Insurance companies that registered in the Indonesian Financial Services Authority. The type of research used in this study is comparative causal method. The sample used are 20 sharia insurance companies with the criteria of sharia insurance companies that are actively operating for the last three years. The results of this study indicated that the level of premium income positively and significantly affect the growth of sharia insurance asset growth. This aspect predictly change the consumer behaviour of takaful sharia insurance on how they allocate their fund. This study is concerned with the level of premium income that affects the growth of Sharia Insurance assets in Indonesia.

Keywords: Takaful, Premium Income Rate, Asset Growth

1. INTRODUCTION

Takaful known as Islamic Insurance indicates to be an alternative way for society in the competition among conventional insurance industry in the middle of competition in a cross-insurance industry conventionally (Murni, 2016). Takaful insurance in Asia The large market share in Indonesia currently provides an opportunity for an industry to grow, including the insurance industry (Ainul, 2016). As a country with the largest population and high growth rate of income, Indonesia showed a positive environment for the asset growth in insurance. In contrast, this situation showed the acceleration the high market expansion in the middle-class society and become more valuable for Indonesia as the insurance industry. Furthermore, the statistics showed that Indonesia is one of the countries in Asia as the highest growth in developing the Takaful industry in the past five years. (Rusydia, A. S., & Nugroho, T. 2017).

The trend of Insurance sharia premium and assets showed there is a rapid increase Murni (2016). Furthermore, Mutmainah (2016) showed that the Takaful premium rate trend increased to 42% in 2013. With a population of more than 300 million people the market of sharia insurance in Indonesia, there are only 3% of the total insurance policy (2017) by experiencing an increase that has been reviewed by Murni (2016). The growth of Sharia Insurance premium will certainly increase the assets owned by *Asuransi Syariah in Indonesia*.

Increased asset growth is expected to reach the insurance market in Indonesia, which is still not covered by the insurance of Sharia Indonesia.

This paper is objected more specific than previous research and contributes to the literature on how premium income rates have a significant impact on asset growth in sharia insurance. First, this study concentrates on premium income rate. Previous studies, such as Ismail (2013) and Malik (2011) are directly focused on the performance of the insurance business and its determinants such as size of companies; leverage ratio, loss ratio and volume of capital assets . Second, this study provides simple linear regression analysis that is easy to practice, understand and conventional. The research conducted by Malik (2011) found that in Pakistan the volume of capital has a positive and significant effect on the profitability of sharia insurance companies. Based on Ainun et al (2017) research on sharia life insurance companies in Indonesia, there is no significant relationship between the premium and asset growth, but claims show significant results of asset growth.

This study was also supporting the development of sharia insurance in Indonesia, DSN in 2001 issued a fatwa No.21 / DSN-MUI / X / 2001 on General Guidelines of Sharia Insurance, which became the reference in the implementation of Takaful activities in Indonesia. In terms of quantity, the number of Islamic insurance companies spelled out a lot, but seen from the comparison with conventional insurance (market share), classified as low. In 2006, the ratio of sharia insurance assets was only 0.87% of conventional insurance for life insurance (Ainul, et al, 2017). As for insurance losses and reinsurance only 1.41%. This number is clearly not proportional to the number of Muslims who are majoring in Indonesia.

2. LITERATURE REVIEW

The conventional insurance does not consistent with their religion of Islam. The contract between the insurer (e.g. insurance company) and the insured contains some degree of avoidable uncertainty (*gharar*), Secondly, the insurance contract is considered as *riba* since the investment made by the insurance companies involves the element of *riba*. Thirdly, the excessive element of *gharar* can lead to the issue of *maysir* or gambling (Rahim And Amin,2013). Takaful is an Islamic insurance system based on Islamic rules (Wahab, 2006),Takaful is derived from takafala which means literally translates to “looking after one another” (Rahim And Amin, 2011). Takaful is a financial transaction based on the principles

of co-operation, mudarabah, and tabarru whereby the Takaful operator and participants or the beneficiaries share profits made on the contribution accordingly (Billah in Rahim, 2011).

Islamic insurance is a modern innovative approach to dealing with demand for an instrument that can reduce one's exposure to certain types of risk (Masud, 2011). Takaful is a system of Islamic insurance based on the principle of mutual cooperation (ta'awun) and donation (tabarru'), where the risk is shared collectively and voluntarily by the group of participants (Redzuan, Rahman, Aidid, 2009). Sharia insurance, which is based on helping each other for good things and Taqwa, requires all the participants in a big family to protect each other and bear the economic risk among them (Muthmainah, 2016). Both Takaful and insurance have a common primary objective of reducing the burden of financial loss to individuals or firms (Ismail, 2013).

Revenue is all income received by the bank, both incomes received in cash and non-cash income (Ismail, 2010). Financial Accounting Standards Board Statements of Financial Accounting Concept Number 6 (Par. 15) stated that Revenue at inflows of other additions to the assets of an entity or settlement of its obligations or a combination of both derived from the delivery or production of goods, the provision of services or other activities constituting the core operations. In Takaful, the premium insurance is considered as a contribution (Ali, 2014). These contributions are the amount of funds paid by participants as a sign of membership, in conventional insurance known as premium income (Taghizadeh And Nilli, 2011). The method of comparison the increase of Premium Income is current period to previous year period (Fitriah And Hanudin, 2011).

Asset growth is a change (increase or decrease) in total assets owned by the company (Badhuri, 2002). Asset growth is calculated as the percentage change in total assets in a given year against the previous year (Karim, 2017). With the increasing number of Sharia insurance in Indonesia, the total assets of the sharia insurance industry also increases. Recorded total assets of Sharia insurance Indonesia at the end of 2015 amounted to 26.5 trillion and assets as of July 2016 amounted to 31.7 trillion (Karim, 2017)

Insurance growth indicator could be seen from the increment of total asset and the development of the gross premium contribution of the insurance industry (Muthmainah, 2016). The increasing growth in premium income will improve financial performance (Muthmainah, 2016) Based on the background and theory, the hypothesis of this study is as follows:

H: the level of premium income has a positive and significant impact on asset growth

3. RESEARCH METHODS

This study analyzed the impact of the premium income on asset growth of sharia insurance companies in Indonesia, using regression analysis.

Research data

The data of this research are 20 companies of Sharia Insurance registered in Indonesia Financial Services Authority in 2012 - 2016, which consists of general insurance, life, a reinsurance company with sharia principles as of December 31, 2015. The research sample is chosen based on criteria: first, Insurance Company has been sharia actively operating in 2014 -2016, and second a sharia insurance company that publishes consistent and complete annual financial statements from 2014 to 2016.

The data in the Table 3.1 and Table 3.2 below showed the result of the recapitulation level of premium income and asset growth calculation processed from the Indonesian Financial Services Authority.

Table 3.1 Premium Income Rate of insurance company

Company	Year	AJI	MRI	PLA	AAD	AB	AR	AJMI	ASM	AUBM	AAB
*TPP	2014	34	26	44	45	2	44	14	18	6	12
%	2015	12	16	13	16	34	21	3	21	0	1
	2016	12	19	4	41	15	15	11	30	6	4
Company	Year	AAGA	TPI	JPT	PPI	AJS Al-A	ABA	AIA F	BNI LI	ACA	AALI
*TPP	2014	29	12	33	4	25	17	44	13	16	2
%	2015	6	5	22	56	69	44	6	92	10	2
	2016	14	13	2	83	7	8	1	43	0	3

Table 3.2 Asset growth of insurance company

Company	Year	AJI	MRI	PLA	AAD	AB	AR	AJMI	ASM	AUBM	AAB
*PA	2014	25	16	34	24	10	19	18	10	3	23
%	2015	5	15	40	22	12	3	3	35	1	16
	2016	6	27	12	44	6	1	4	17	13	6
Company	Year	AAGA	TPI	JPT	PPI	AJS Al-A	ABA	AIA F	BNI LI	ACA	AALI
*PA	2014	3	5	6	28	37	28	93	10	1	24

%	2015	0	6	25	33	29	15	53	23	4	3
	2016	24	15	3	16	3	38	36	32	6	10

* *TPP: Premium Income Rate (%)*, *PA: Asset Growth (%)*

This study is an experimental study that analyzes the impact of increasing premium income on asset growth of sharia insurance companies in Indonesia, using regression analysis.

4. RESULT AND DISCUSSION

Descriptive statistics

The results of the calculation of descriptive statistics are in the following table below:

Descriptive Statistics						
	N	Minimum	Maximum	Sum	Mean	Std. Deviation
Premium Income	60	0	92	1220	20,33	20,087
Asset growth	60	0	93	1079	17,98	16,203

Based on the results of descriptive statistics in table 2, the average value of the premium income rate is 20.33%, while the average value of asset growth is below the average value of the Premium Income Rate, which is 17.98%. This indicates that even though in terms of quantity the growth in the number of Islamic insurance companies is relatively small compared to other Islamic countries, the growth of premium income and assets shows a satisfactory number.

Hypothesis testing

The result of the coefficient of determination test is the influence of premium income to asset growth is only 11.2%, this means that the level of premium income is not the dominant factor on the level of asset growth. There are other factors that have a major influence that is 88.8% and is not included in the variables examined in this study.

The results of hypothesis testing, the value of significance equal to 0.009 with t-count value of 2.707, with the result hence the hypothesis stating that premium income influence positive and significant to asset growth is acceptable.

Statistical Result				
	R	R Square	Adjusted R Square	Std. Error
Premium Income	1 ,335a	0,112	0,097	15,398

	B	Std. Error	Beta	t	Sig.
Asset growth	0,27	0,1	0,335	2,707	0,009

Based on the results of research, the increasing premium income will significantly increase the asset growth of sharia insurance companies in Indonesia. This is in line with the fact that the growth of sharia insurance in Indonesia has increased, although not yet able to compete with conventional insurance.

5. CONCLUSION AND RECOMMENDATION

Sharia insurance should focus more on how to increase premium income through affordable insurance products for lower middle class people, so reaching larger markets will increase premium income and impact on asset improvements. From the results of this study it is advisable for further researchers to add other variables that affect the growth of assets not listed in this study, such as capital, solvency, and operating expenses. And using the approach with different test analysis, where independent variables in the test year tested with the dependent variable in the year to come.

This study has several limitations, the first is the variable used to predict the asset growth is only the premium rate variable, which would require further study on other variables that increase asset growth in Indonesian Sharia Insurance. Secondly, the time span in the study is only three years, which has not been able to fully describe the correlation of premium rate to asset growth, given that macro and micro economic factors affect the ability of the community to pay the premium.

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