



## The Influence of Internal and External Factors on Profits of Sharia Life Insurance Units in Indonesia (2016-2020 Period)

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### ABSTRACT

**Purpose:** This study aims to analyze the long-term and short-term impact and influence of premiums, investment returns, inflation and exchange rates on Islamic insurance companies.

**Design/Method/Approach:** This research uses associative which aims to determine the relationship of two or more variables with a quantitative approach. The data collection technique is by using the financial statements of each life insurance company in the sharia business unit. In addition, this study also uses data from government publication reports such as OJK, Bank Indonesia and BPS. The method used is panel data regression and ARDL to determine the long-term and short-term effects.

**Findings:** The results show that from several companies sampled in the study, it is known that the companies that have the most influence on premiums, investment returns, inflation and exchange rates on sharia life insurance profits are PT. Prudential Life Assurance. This is because based on the company's financial statements the premium rate at PT. Prudential Life Assurance since 2016-2020 continues to increase significantly every year. Based on the ARDL method, it is known that in the short term all variables have a significant effect on profits, while in the long term premiums and the exchange rate have a significant effect on profits while investment and investment returns have no effect on profits in the long term.

**Originality/Values:** The contribution of this research can provide information and be used as a reference in research on the analysis of the influence of internal factors and external factors on the profit of Islamic life insurance in Indonesia. In addition, it is hoped that this research will be used as a reference material in determining the decision to use a company's insurance services and with this research it is expected to be a reference for the government to be able to improve the sharia life insurance industry in its development.

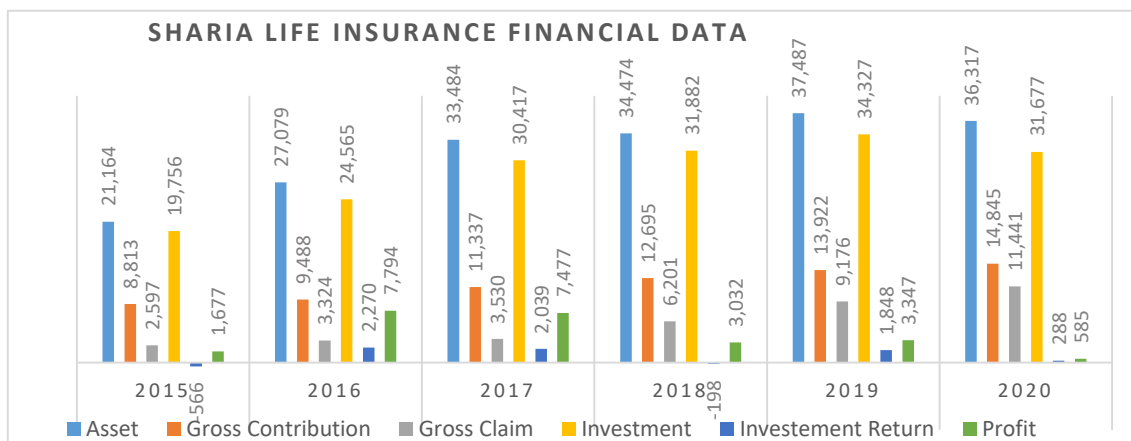
## INTRODUCTION

Current economic and technological developments raise concerns about the risk of losing property and even endangering oneself and other risks that can be detrimental.<sup>1</sup>

In society, of course, it cannot be separated from all the threats that haunt. Threats can be aimed at life or property that can cause losses. Therefore insurance is here to reduce the level of losses in the future. According to Wirjono Prodjodikoro, insurance is an agreement between the guarantor and the guaranteed party, where the guarantor receives premium money from the guaranteed party as a substitute for losses that the guaranteed party may suffer, because the consequences of an event that is not yet clear will occur.

### Sharia Life Insurance Financial Developments (2015-2020)

(In Billions of Rupiah)<sup>2</sup>



In 2015-2019 the development of sharia insurance, especially the sharia life insurance industry, growth in assets, premiums, and investments continued to increase significantly. This increase is also followed by an increase in the level of claims that occur every year. Meanwhile, investment returns and profits have increased and decreased in growth. Investment returns increased in 2016 by 2.2 trillion and in 2017-2018 investment returns decreased to -198 billion and increased again in 2019 by 1.8 trillion. Meanwhile, profit in 2015 amounted to

<sup>1</sup> Nasution, N. H., Nanda, S. T. (2020). Pengaruh Pendapatan Premi, Hasil Underwriting, Hasil Investasi, dan Risk Based Capital Terhadap Laba Perusahaan Asuransi Umum Syariah. 17 (1).

<sup>2</sup> Otoritas Jasa Keuangan, 2021

1.6 trillion, increased in 2016 by 7.7 trillion, and decreased to 3 trillion in 2018 and increased in 2019 to 3.3 trillion.

Meanwhile, in 2020 the growth of sharia life insurance decreased due to the pandemic. Where the level of assets, investments, investment returns and profits have decreased. Meanwhile claims and premiums have increased in 2020.

Insurance premium is the payment of a sum of money paid by the insured party to the insurer to replace a loss, damage, or loss. In 2020 the performance of the life insurance industry declined, however, the level of premiums generated in the sharia life insurance industry increased where in 2019 it was 13.9 trillion and in 2020 it increased to 14.8 billion. The increase in premiums also occurred in the company's sharia life insurance business unit, namely PT. Asuransi Allianz Life Indonesia, BRI Life and PT. Prudential Life Assurance. The increase is not necessarily evenly distributed among each company, there are also several companies that experienced a decrease in the premiums they received in 2020, such as PT. Life Insurance Manulife Indonesia and PT. Sinar Mas MSIG Life Insurance<sup>3</sup>.

Investment is the placement of a number of funds in a certain object to expect future profits. Meanwhile, investment returns can be interpreted as income from investment activities according to sharia, capital (investment) in certain objects. In its growth, the investment returns of sharia souls have increased and decreased and have even experienced losses on their investment performance. It can be said that an increase in investment value does not always lead to an increase in investment returns.

Inflation is defined as a phenomenon in which the general price level increases continuously. In 2020 inflation experienced instability. An unstable inflation rate indicates a weak economy. It is characterized by the difficulty of raising prices to maintain demand, and it is not a hallmark of a good economy. Weak demand is reflected in the rate of core inflation. In December 2020, core inflation was recorded at 1.68 % (yoy). And this figure is the lowest inflation rate since BPS reported inflation data since 2004.<sup>4</sup>

Exchange rate is the exchange rate of one country's currency against another country's currency. In terms of the exchange rate at the end of the close of 2020 the rupiah exchange rate against the dollar strengthened. The strengthening of the rupiah was due to the depressed dollar. The reason for the pressure was the widespread sale of dollars, which resulted in the value of the short position against the dollar amounting to US\$ 30.15 billion. As a result, the dollar index declined to 0.31%.<sup>5</sup>

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<sup>3</sup> Otoritas Jasa Keuangan, 2021

<sup>4</sup> Badan Pusat Statistik, 2021

<sup>5</sup> Theresa, I., Nancy, M., Clinton. (2020). The Effect of Covid-19 on Exchange Rate Macroeconomics Paper.

Internal factors, namely premiums and investment returns, as well as external factors, namely inflation and exchange rates in this study are used as a reference in determining their effect on profits earned by sharia life insurance companies for the 2016-2020 periods.

This research was previously investigated by Januaryfah Rizqi Wulandari, Wimbo Wiyono, and Noviansyah Riza entitled "The Effect of Premiums, Claims, Investments, Underwriting, on Profits of Islamic Life Insurance Companies in Indonesia for the 2013-2017 Period" where in this study premiums and investments have an effect on to profit, while claims and underwriting have no effect on profit. This study has something in common, namely examining the effect of premiums and investments on insurance profits. The difference in this study with previous research is that this research does not only focus on internal factors but we discuss external factors, namely macro variables. In addition, this study also discusses the influence of each company on each variable and its effect in the long and short term.

This study seeks to examine the factors that influence the profit level of the Islamic life insurance industry in Indonesia<sup>6</sup>. The thing that distinguishes this research from previous research is where this study uses two methods in its research. The first method uses panel data regression which is used to compare and find the best companies that have the greatest influence on premiums, investment returns, inflation and exchange rates on sharia life insurance profits in the five insurance business units that are used as samples. The second method uses ARDL (Autoregressive Distributed Lag) which is used to determine the long-term and short-term effect of each variable on the profit of the Islamic life insurance industry in Indonesia.

Based on the background of the problem described, in this research the following problems are formulated:

- a. What is the impact of premiums, investment returns, inflation and exchange rates on sharia life insurance profits in Indonesia for the 2016-2020 periods?
- b. How do premiums, investment returns, inflation, and exchange rates affect Islamic life insurance profits in Indonesia in the short term?
- c. How do premiums, investment returns, inflation, and exchange rates affect sharia life insurance profits in Indonesia in the long term?

## Insurance

Insurance comes from the Dutch language *Assurantie*, which in Dutch law is called *Verzekering* which means coverage. Meanwhile, according to Wirjono Prodjodikoro, insurance is a cooperation agreement between the

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<sup>6</sup> Al-Arif, M.N., Nurhikmah, I. (2017). Determinan Pembiayaan Bagi Hasil Perbankan Syariah Di Indonesia: Model Regresi Panel. *Al Falah Journal of Islamic Economics*, Vol 2 (1).

insurer and the insured in which the insurer receives a certain amount of premium money as a substitute for losses that may be experienced by the insured, because the consequences of an event that is not yet clear will occur.<sup>7</sup>

#### **Difference Between Sharia Insurance and Conventional Insurance**

No	Principle	Sharia Insurance	Conventional Insurance
1	Draft	A group of people who help each other, guarantee and cooperate in their respective ways to issue tabarru funds.	An agreement between two or more parties, in which the insurer binds himself with the insured by receiving premium payments as compensation for the insured's loss.
2	Origin	Practice Aqilah in Arabic.	The Hamurabi Treaty in Babylon.
3	Source of Law	Al-Qur'an, Sunnah, Ijma, Qiyas, Fatwa friends, Urf, Maslahah Mursalah	The human mind and culture.
4	Maysir, Gharar and Riba	Does not contain maysir gharar and usury	Contains maysir, gharar and usury.
5	DPS	Having a DPS that functions to oversee the company's operations to avoid muamalah practices that are contrary to sharia principles.	Does not have DPS.
6	Contract	Tabarru contract and tijaroh contract.	Sale and purchase contracts, idz'aan contracts, gharar contracts and mulzim contracts.

<sup>7</sup> Ghazaly, A. R., Ihsan, G., Shidiq, Sapiudin. (2018). *Fiqh Muamalat*. Jakarta: Prenada Media Group.

7	Risk Guarantee	Sharing of risk where each other bears each other.	Transfer of risk where there is a transfer of the insured's risk to the insurer.
8	Fund Management	There is a separation of funds, namely tabarru funds, participant funds and donations so that they do not recognize forfeited funds.	There is no separation of funds, so there is a great risk of forfeited funds.
9	Investation	Invest in accordance with sharia principles.	Free to invest does not know the halal and haram investment objects used.
10	Fund Ownership	The participant's premium funds are the property of the participant. The company is only the holder and manager of these funds.	All funds collected from participants belong to the company.
11	Premium Element	The contribution element is tabarru and savings (not containing usury), tabarru is also calculated from the mortality table but without interest calculation.	The premium element consists of a table of mortality, interest, and insurance costs.
12	Claim	The claim payment comes from the tabarru fund account.	Payment of claims comes from the company's account.
13	Loading	As a sharia insurance, loading is not charged to the participants but from the shareholders. While some take	Loading is quite large, especially for agent commissions. Therefore, the cash value at the beginning

	around 20-30% of the first year premium. Thus the value of the first year already exists.	of the year is usually small or non-existent.
14 Profit	Obtained from underwriting surplus, reinsurance commissions, and investment returns.	Obtained from underwriting surplus, reinsurance commission, and investment returns.
	However, all profits do not belong to the company, but to the profit sharing with the participants.	

### Sharia Life Insurance

Life insurance is an agreement between two or more parties, in which the insurer links himself to the insured by receiving a premium to provide a payment for the death or life of a person who is insured based on sharia principles.<sup>8</sup>

The basic concept of sharia insurance is to help in goodness and piety. This concept is used as the basis in sharia insurance which makes all insurance participants as family and bears each other others in the face of risk, as in the Qur'an QS. Al-Maidah verse 2 Allah SWT says:

وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَىٰ ۖ وَلَا تَعَاوَنُوا عَلَى الْإِثْمِ وَالْعُدْوَانِ ۗ وَاتَّقُوا اللَّهَ ۚ إِنَّ اللَّهَ شَدِيدُ الْعِقَابِ

Meaning: "*And help you in (doing) righteousness and piety, and do not help in sin and enmity. Fear Allah, indeed, Allah is very severe in punishment.*" (Surah Al-Ma'idah 5: Paragraph 2).

The concept of mutual assistance is realized through the implementation of the agreement. The premiums paid by participants will be collected and placed in one container, namely the tabarru' fund, which then if a claim occurs, the funds taken will come from the tabarru' fund. The company acts as a fundraiser and fund manager. So that participants help each other in goodness<sup>9</sup>.

Sharia Life Insurance has several types, namely:

<sup>8</sup> Ajib, Muhammad. (2019). Asuransi Syariah. Batu Sangkar: Lentera Islam.

<sup>9</sup> Wardhani, I.I., Pratami, Arifa. (2021). Asuransi Umum Syariah: Proteksi Kekayaan. 1 (2).

- a. Death Insurance, the insurance nominal is paid to the heirs or the person appointed in the policy after the customer dies.
- b. Life Insurance, participants receive insurance funds in cash or in the form of monthly income (according to the agreement).
- c. Death Insurance and Old Age Security, participants will get a monthly income from the insurance values if the participant has retired, while the rest will be given to the heirs if the participant dies.

### **Profit**

According to Kasmir (2012) profit is the main goal of the company in its activities. Profit is the difference between the selling price and the costs incurred during production<sup>10</sup>. Profit is a factor that is used as a measure of success in a business in managing the company's management.<sup>11</sup> The success or failure of a company is seen from the company's management ability in generating company profits both in the short and long term.

According to Kasmir (2012) the profits obtained by the company have two kinds, namely:

- a. Gross Profit

That is the operating profit obtained by the company before deducting the costs which are the company's burden.<sup>12</sup> This means the company's overall profit at the beginning.

- b. Net Profit

That is the operating profit obtained by the company which has been reduced by costs which are the company's burden in a period in which it includes taxes paid by the company.

### **Premium**

Insurance premium is the payment of a sum of money paid by the insured party to the insurer to compensate for a loss, damage, or loss.<sup>13</sup> The income of insurance companies is mostly obtained from the acquisition of premiums and the company's investment income. Premiums are obtained from the sale of insurance products to the insured. Meanwhile, investment income is

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<sup>10</sup> Kasmir. (2012). Analisis Laporan Keuangan. Jakarta: Raja Grafindo Persada

<sup>11</sup> Hendrianto Hendrianto and A Hasan Ridwan, "Dampak Negatif Jual Beli Barang Di Atas Penawaran Orang Lain," *I-ECONOMICS: A Research Journal on Islamic Economics* 7, no. 1 (2021): 11–22, <https://doi.org/10.19109/ieconomics.v7i1.7915>.

<sup>12</sup> Hendrianto, "Financing to Deposit Ratio (FDR) Sebagai Intervening Variabel Terhadap Profitabilitas: Evidence Dari Bank Umum Syariah Tahun 2016-2019," *Disclosure: Journal of Accounting and Finance* 1, no. 1 (2021): 19–28.

<sup>13</sup> Wulandari, J.R, Wiyono, W., Rizal, Noviansyah. (2019). Pengaruh Premi, Klaim, Investasi dan Underwriting Terhadap Laba Perusahaan Asuransi Jiwa Syariah di Indonesia Periode Tahun 2013-2017. 2 (2)



obtained from investments made by the company to certain objects to earn interest or for certain results.

### **Investment Return**

According to Halim (2015), investment is the placement of a number of funds in a certain object to expect future profits. Meanwhile, investment returns can be interpreted as income from investment activities according to sharia capital (investment) in certain objects. The types of investments made are by investing in deposits, stocks, bonds, sukuk, mutual funds and etc.<sup>14</sup> Investment return is the result of investment that aims to generate profits.<sup>15</sup>

### **Inflation**

Inflation is defined as an economic phenomenon in which the general price level increases continuously<sup>16</sup>. Inflation is classified into several groups in its kind. The classification of inflation is adjusted to the events or phenomena it faces. Inflation is classified into 3 groups, namely the classification according to its magnitude which consists of inflation, mild inflation, moderate inflation, high inflation and hyperinflation. Next is the classification of inflation according to origin, which consists of domestic inflation and imported inflation. And lastly, the classification of inflation based on the cause, which consists of cost pull inflation, namely inflation that occurs due to an increase in production costs, so that the supply price increases and demand pull inflation, namely inflation that occurs caused by increasing public demand for a commodity caused by material prices, rising fuel costs and rising labor costs. The increase in demand for these commodities is comprehensive (aggregate demand) due to increased government spending, increased goods for export and increased goods for the private sector.<sup>17</sup>

### **Exchange Rate**

According to Mankiw (2006) the exchange rate is the price level agreed upon by the residents of the two countries to trade with each other. The exchange rate is often also referred to as foreign exchange, which is the

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<sup>14</sup> Ainul, F. N. A., Susyanti, J., Mardani, R. M. (2017). Pengaruh Premi, Klaim, Hasil Underwriting, Investasi, dan Profitabilitas, Terhadap Pertumbuhan Aset Pada Perusahaan Asuransi Jiwa Syariah Indonesia. 6 (2)

<sup>15</sup> Nasution, N.H., Nanda, S.T. (2020). Pengaruh Pendapatan Premi, Hasil Underwriting, Hasil Investasi dan

Risk Based Capital Terhadap Laba Perusahaan Asuransi Umum Syariah. 17 (1).

<sup>16</sup> Bank Indonesia, 2020

<sup>17</sup> Sukirno, S. (2011). Makro Ekonomi Teori Pengantar Edisi Ketiga. Jakarta: Rajawali Pers.

exchange rate of one country's currency against another country's currency. The exchange rate is the price of a country's currency against the currency of another country used for trade transactions where the value of the currency is influenced by the demand and supply of the currency of the country concerned.<sup>18</sup>

The exchange rate system consists of several types, namely:<sup>19</sup>

1. Fixed Exchange Rate, is an exchange rate system where the holder of the highest monetary authority of a country (*Central Bank*) sets the domestic exchange rate against other countries which is set at a certain level regardless of supply and demand activities in the money market, namely by linking the value of a currency with gold.
2. Free exchange rate is a system in which the value of one country's currency against another country's currency is determined freely by supply and demand in the money market. There are two types of free exchange rates:
  - a. The floating exchange rate is controlled, the exchange rate moves within a certain market range where the government can still take policies to intervene if needed.
  - b. Free-floating exchange rate, this exchange rate system surrenders entirely to the market to achieve equilibrium conditions that are in accordance with the internal and external conditions of a country. So it can be said that in this system there is no government intervention.

In Indonesia, the exchange rate system is in the form of a free-floating exchange rate where the currency exchange rate is fully determined by the market mechanism without any intervention from the Central Bank. An increase in the exchange rate (exchange rate) of the domestic currency is called an appreciation of the currency (foreign currency is cheaper, this means that the value of the domestic foreign currency increases). A decrease in the exchange rate (exchange rate) is called depreciation of the domestic currency (foreign currency becomes more expensive, which means the domestic currency becomes depreciated).

## RESEARCH METHOD

The method in this study uses the Panel Data Regression and Autoregressive Distributed Lag method. There are 2 types of analytical methods in this study, namely:

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<sup>18</sup> Kasmir. (2012). *Analisis Laporan Keuangan*. Jakarta: Raja Grafindo Persada.

<sup>19</sup> Masri, Z.A., Hadi, Syamsul. (2016). *Nilai Tukar dan Kedaulatan Rupiah*. 8 (1)

1. Panel Data Regression analysis method. → Analytical techniques are used to provide different constants for each insurance company for the 2016-2020 periods.
2. Autoregressive Distributed Lag analysis method → The analysis technique is used to see the short-term and long-term effect of the independent variable on the dependent variable.

This type of research is associative research which aims to determine the relationship between two or more variables. The data in this study used secondary data. The data collection technique used by the author is to use the financial statements of each life insurance company, the sharia business unit, namely PT. Asuransi Allianz Life Indonesia, BRI Life, PT. Life Insurance Manulife Indonesia, PT. Prudential Indonesia Assurance and PT. Sinar Mas MSIG Life Insurance. In addition, this study also uses data from government publication reports such as OJK, Bank Indonesia and BPS.

The population of this research is all sharia life insurance companies in Indonesia. The sample selection was taken by purposive sampling method based on the provisions, namely sharia life insurance that is registered and has complete financial statements starting from 2016-2020.

## RESULT AND DISCUSSION

### Panel Data Regression

Panel data regression is used to see the effect of the independent variables on the dependent variable in each different insurance. Panel data testing consists of several stages; the following are the results of panel data regression testing on each variable:

#### 1. Common Effect

CEM assumes that there are no individual effects. In the common effects model there are 4 parameters, namely Ordinary Least Square, Weighted Least Square, Seemingly Uncorrelated Regression, and Feasible Generalized Least Square.

#### 2. Fixed Effect

FEM is a model that pays attention to the diversity of independent variables. In estimating the fixed effect model, there are 3 parameters. The parameters in the fixed effect model are the same as the common effect, but do not include the Feasible Generalized Least Square (FGLS) with the Autoregressive process where the fixed effect model does not is heteroscedasticity and there is a correlation between time on the residual.<sup>20</sup>

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<sup>20</sup> Ghozali, Imam. (2017). *Analisis Multivariat dan Ekonometrika*. Semarang: Badan Penerbit Universitas Diponegoro.

### 3. Random Effect

Random effect occurs when the individual effect has no correlation with the independent variable. In estimating the random effect model, namely the Generalized Least Square (GLS) with the assumption of homoscedasticity and no cross-sectional correlation.<sup>21</sup>

### 4. Chow Test

This test is used to select one of the models in panel data regression, namely the Fixed Effect Model (FEM) and the Common Effect Model<sup>22</sup>. Based on the results of the Chow test, the probability value is  $0.0000 < 0.05$ , then  $H_0$  accepts and rejects  $H_1$ . So it can be concluded that the best model in this study is the Fixed Effect Model.

### 5. Hausman Test

The Hausman test is used to select one of the models in panel data regression, namely the Fixed Effect Model (FEM) or the Random Effect Model<sup>23</sup>. The following are the results of the panel data regression Hausman test.

Based on the results of the Hausman test, it is known that the probability value is  $1.0000 > 0.05$ , so the best model in this study is the random effect model. However, there is a statement "Cross-section test variance is invalid. Hausman statistic is set to zero", this statement shows that the results of the Hausman test are invalid, so even though the probability value is  $> 0.05$ , the chosen one is still tested for the fixed effect.

This is because the results of the variance test on the Hausman test are not valid. Invalidity in the Hausman test is also caused by the occurrence of inequalities in the form of data in each variable. It can be concluded that the best model in this study is the Fixed Effect Model.

Panel Data Output			
Variable	Coefficient	t-statistics	Probability
Premium	0.243796	1.473054	0.0418
Investment Return	0.649851	6.087290	0.0000
Inflation	-0.055720	-1.195295	0.2329

<sup>21</sup> Ghozali, Imam. (2017). Analisis Multivariat dan Ekonometrika. Semarang: Badan Penerbit Universitas Diponegoro.

<sup>22</sup> Nasution, Zubaidah., & Sistiyanini, Evi. (2019). Determinan Pertumbuhan Aset Asuransi Syariah di Indonesia. 4 (1), 77-96

<sup>23</sup> Nasution, Zubaidah., & Sistiyanini, Evi. (2019). Determinan Pertumbuhan Aset Asuransi Syariah di Indonesia. 4 (1), 77-96

<b>Exchange Rate</b>	0.162810	0.215734	0.8293
<b>C</b>	-1.188954	-0.166110	0.8682
<b>F-Statistics</b>	<b>303.2444</b>	<b>R-Squared</b>	<b>0.892895</b>
<b>Prob (F-Statistics)</b>	<b>0.000000</b>	<b>Adjusted R-Squared</b>	<b>0.889950</b>

Source: Eviews 10

$$LB_{it} = -1.188954 + 0.243796 PRM_{it} + 0.649851 INV_{it} - 0.055720 IFL_{it} + 0.162810 EXC_{it}$$

Based on the table above, the calculated F value is 303.2444 with the probability F statistic of  $0.000000 < 0.05$ . So it can be interpreted that the independent variables (premiums, investment returns, inflation and exchange rates) jointly affect the dependent variable, namely the profit of sharia life insurance.

From the table above, the Adjusted R-Squared value obtained is 0.889950. This means that 88% of the premium, investment returns, inflation, and exchange rate variables affect the Profit of Islamic Life Insurance in Indonesia, while the remaining 12% is influenced by other variables.

Partially premiums and investment returns have a significant effect on the profit of Islamic life insurance in Indonesia. While inflation and exchange rates partially have no significant effect on the profit of Islamic life insurance in Indonesia.

## a. Discussion

### 1. Premium To Profit

The results of the analysis show that the premium variable affects the profit of Islamic life insurance in Indonesia. The regression coefficient value of 0.746384 indicates that the premium has a positive effect on the profit of Islamic life insurance in Indonesia. This means that if the premium increases by 1%, it will have an effect on increasing the profit of sharia life insurance by 0.746384%. When the premium received by the company will have an impact on the increase in profit that will be received by the insurance company. The regular increase in the premium received has a positive impact on increasing the company's profit<sup>24</sup>.

### 2. Investment Return To Profit

The results of the analysis show that the investment return variable, both individually and simultaneously, is significant in influencing the profit of Islamic life insurance in Indonesia. The regression coefficient

<sup>24</sup> Faoziyyah, A. A., Laila, Nisful. (2020). Internal Factors and Macroeconomic Factors Affecting The Profitability of Sharia Insurance in Indonesia for 2016-2018 Period. 7 (6).

value of 0.234464 indicates that investment returns have a positive effect on Islamic life insurance profits in Indonesia. This means that if the investment returns increase by 1%, it will affect the increase in sharia life insurance profits by 0.234464%. When the return on investment in the company increases, it will have an impact on the increase in profit that will be received by the insurance company. The regular increase in investment returns has a positive impact on increasing the company's profit<sup>25</sup>.

### 3. Inflation To Profit

The results of the analysis show that the inflation variable individually is not significant in influencing the profit of Islamic life insurance in Indonesia. The regression coefficient value of -0.255798 indicates that inflation has a negative effect on Islamic life insurance profits in Indonesia. This means that if inflation increases by 1%, it will affect the decrease in profit of sharia life insurance by -0.255798%. Inflation can lead to an increase in claims so that it reduces the profits to be earned by the company<sup>26</sup>.

### 4. Exchange To Profit

The results of the analysis show that the exchange rate variable, both individually and simultaneously, is significant in influencing the profit of Islamic life insurance in Indonesia. The regression coefficient value of 9.405745 indicates that the exchange rate has a positive effect on life insurance profits in Indonesia. This means that if the exchange rate increases by 1%, it will affect the increase in sharia life insurance profits by 9.405745%. The life insurance industry does not escape its influence on macroeconomic factors, namely the exchange rate. Where the exchange rate fluctuations will have an impact on the insurance business. For example, in several fields such as medicine, treatment or components of other medical devices. The rising dollar will affect where the price of health components imported from abroad will also increase. Components of imported goods such as medicines and treatments that increase will have the potential to increase claims and will reduce profits earned by the company.

## b. Influence on the Company

Meanwhile, the impact resulting from premiums, investment returns, inflation and exchange rates on the profits of each company are:

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<sup>25</sup> Sastri, I. A. I. P., Sujana, E., Sinarwati, N. K. (2017). Pengaruh Pendapatan Premi, Hasil Underwriting, Hasil Investasi, dan Risk Based Capital Terhadap Laba Perusahaan Asuransi. 7 (2).

<sup>26</sup> Faoziyyah, A. A., Laila, Nisful. (2020). Internal Factors and Macroeconomic Factors Affecting The Profitability of Sharia Insurance in Indonesia for 2016-2018 Period. 7 (6).

### Influence On Each Company

_ALLIANZ—C	-1.422391
_BRI—C	0.116085
_MANULIFE--C	0.386356
_PRUDENTIAL--C	0.924970
_SINARMAS--C	-0.005021

#### 1) PT. Allianz Life Insurance Indonesia

PT. Allianz Life Insurance Indonesia company has a coefficient of -1.422391. Therefore it is known that the premium rate, investment returns, inflation and exchange rate at PT. Allianz Life Indonesia Insurance has an effect on the profit of sharia life insurance by -1.422391.

#### 2) BRI Life

BRI Life Company has a coefficient of 0.116085. Therefore, it is known that the level of premiums, investment returns, inflation and exchange rates at BRI Life has an influence on sharia life insurance profits of 0.116085.

#### 3) PT. Manulife Indonesia Life Insurance

Company PT. Manulife Indonesia Life Insurance has a coefficient of 0.386356. Therefore it is known that the premium rate, investment returns, inflation and exchange rate at PT. Manulife Indonesia Life Insurance has an influence on the profit of sharia life insurance by 0.386356.

#### 4) PT. Prudential Life Assurance

Company PT. Prudential Life Assurance has a coefficient of 0.924970. Therefore it is known that the premium rate, investment returns, inflation and exchange rate at PT. Prudential Life Assurance has an effect on the profit of sharia life insurance by 0.924970.

#### 5) PT. Life Insurance Sinar Mas MSIG

Company PT. Sianr Mas Life Insurance has an MSIG coefficient of 0.005021. Therefore it is known that the premium rate, investment returns, inflation and exchange rate at PT. Life Insurance Sinar Mas MSIG has an effect on the profit of sharia life insurance by 0.005021.

From the panel data test results, it can be concluded that the company that has the most influence on premiums, investment returns, inflation and exchange rates on sharia life insurance profits is PT. Prudential Life Assurance. This is because based on the company's financial statements

the premium rate at PT. Prudential Life Assurance since 2016-2020 for the last five years has continued to increase significantly.

## Autoregressive Distributed Lag (ARDL)

### a. Stationarity Test

Stationarity test is a random or stochastic time series process that occurs in time series data. So if the time series data is not stationary then there is a unit root problem. The existence of the unit root can be seen by comparing the t-statistic value with the Augmented Dickey Fuller value.<sup>27</sup>

Variable	Stationarity Test			
	Prob	Stage	Prob	Stage
<b>Profit</b>	0.2824	Level	0.0000	1 <sup>st</sup> Difference
<b>Premium</b>	0.2273	Level	0.0000	1 <sup>st</sup> Difference
<b>Investment Return</b>	0.0535	Level	0.0000	1 <sup>st</sup> Difference
<b>Inflation</b>	0.1104	Level	0.0000	1 <sup>st</sup> Difference
<b>Exchange Rate</b>	0.7497	Level	0.0000	1 <sup>st</sup> Difference

It is known that the stationarity test results show the dependent variable, namely stationary income at the 1<sup>st</sup> difference level. While the independent variable investment returns are stationary at the level level, while the premium, inflation and the exchange rate are stationary at the 1<sup>st</sup> difference.

### b. Johansen Cointegration Test

#### Johansen Cointegration Test Results

Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.247692	132.9381	69.81889	0.0000

<sup>27</sup> Ghozali, Imam. (2017). Analisis Multivariat dan Ekonometrika. Semarang: Badan Penerbit Universitas Diponegoro.



In the johansen test, in determining whether there is a correlation relationship or not, it can be seen from the trace statistic test value and the critical value. Where the value of the Trace statistic > Critical value, based on the Johansen test above, it is known that the Trace Statistics value is 132,9381 and the Critical Value is 69,81889. Then it can be seen that  $132.9381 > 69.81889$ , it can be concluded that there is a cointegration relationship so that the test can be continued with the ARDL method.

**c. Uji Autoregressive Distributed Lag (ARDL)**

**1. Short Term Effect**

<b>Short Run Output</b>			
<b>Variable</b>	<b>Coefficient</b>	<b>t-Statistic</b>	<b>Probability</b>
<b>Premium</b>	0.170292	3.188915	0.0016
<b>Investment Return</b>	0.099046	2.474651	0.0139
<b>Inflation</b>	0.137369	6.337363	0.0000
<b>Exchange Rate</b>	-0.891505	-2.855328	0.0046
<b>CointEq(-1)</b>	-0.072531	-5.800003	0.0000

Estimation of the short-term model in the ARDL method using the ECM method. Based on the short-term test results seen from the probability value of each of the above variables, it is known that premiums, investment returns, inflation and exchange rates have a significant effect on profits in the short term because the probability value of each variable is  $<0.05$ .

**Discussion of Research Results**

**a. Premium to Profit (In the Short Term)**

Based on the test results, it is known that the premium variable has a coefficient of 0.170292, which means that an increase in premiums of 1 unit (millions of rupiah) will increase profits by 0.170292 (millions of rupiah). Companies that have a large premium level, the company will experience an increase in the level of profit earned, in the wakalah bil ujroh contract the company is entitled to a fee in accordance with the agreement that has been made. From the fee income automatically the company's income will also increase.<sup>28</sup>

**b. Investment Return to Profit (In the Short Term)**

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<sup>28</sup>Wulandari, J.R, Wiyono, W., Rizal, Noviansyah. (2019). Pengaruh Premi, Klaim, Investasi dan Underwriting Terhadap Laba Perusahaan Asuransi Jiwa Syariah di Indonesia Periode Tahun 2013-2017. 2 (2)

Based on the test results, it is known that the Investment Returns variable has a coefficient of 0.099046, which means that an increase in investment returns of 1 unit (millions of rupiah) will increase profits by 0.099046 (millions of rupiah). The higher the company's ability to manage its investments, the greater the profit that the company will get. The high ability to manage investments will produce profitable investment returns and be a positive signal that the company will perform well in the future.<sup>29</sup>

**c. Inflation Against Profits (In the Short Run)**

Based on the test results, it is known that the inflation variable has a coefficient of 0.137369, which means that an increase in inflation will increase profits on Indonesian Islamic life insurance by 0.137369%.

In 2020 BPS recorded the lowest inflation rate occurred in September at 1.42 % and until December the inflation rate was still quite low at 1.68%.<sup>30</sup> Therefore, the inflation rate must be stable in the range of 3-4%. So that it can be said in this case inflation has a positive influence on the increase in profit for sharia life insurance because with the increasing value of inflation the purchasing power of the people increases, the increase in people's purchasing power encourages increased sales of insurance so as to increase the profits earned by the company.

**d. Exchange Rate Against Profit (In the Short Run)**

Based on the results of the tests carried out, it is known that the exchange rate variable has a coefficient of -0.891505, which means that the increase in the exchange rate has a negative effect on profits. In relation to the increase in the exchange rate, it does not necessarily increase the demand for sharia insurance products, so that the premiums obtained by insurance do not increase and the investment made by sharia insurance companies tends to be in instruments that are not related to the exchange rate.<sup>31</sup>

**Long Term Influence**

**Long Run Output**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Premium	0.746384	0.146201	5.105183	0.0000

<sup>29</sup> Sastri, I. A. I. P., Sujana, E., Sinarwati, N. K. (2017). Pengaruh Pendapatan Premi, Hasil Underwriting, Hasil Investasi, dan Risk Based Capital Terhadap Laba Perusahaan Asuransi. 7 (2).

<sup>30</sup> Central Bureau of Statistics, 2021

<sup>31</sup> Muchlas, Zainul., Alamsyah, A.R. (2015). Faktor-Faktor yang Mempengaruhi Kurs Rupiah Terhadap Dolar Amerika Pasca Krisis (2000-2010). 9(1).

Investment Return	0.234464	0.125575	1.867123	0.0629
Inflation	-0.255798	-0.235005	-1.088481	0.2773
Exchange Rate	9.405745	4.343139	2.165656	0.0312
C	-91.32086	41.90938	-2.179007	0.0302

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$$EC = DY - (0.7464 * \text{Premium} + 0.2345 * \text{Investment Return} + 0.2558 * \text{Inflation} + 9.4057 * \text{Exchange Rate} - 91.3209)$$


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Based on the results of the long-term test in the ARDL method seen from the probability value of each of the above variables, it is known that the premium and the exchange rate have a significant effect on long-term profits seen from the probability value which is <0.05. Meanwhile, investment returns and inflation do not have a significant effect on profit for sharia life insurance in the long term, seen from the probability value of both, which is > 0.05.

### Discussion of Research Results

#### a. Premium to Profit (In the Long Run)

The results of the analysis show that the individual premium variable affects the profit of Islamic life insurance in Indonesia in the long term. The regression coefficient value of 0.746384 indicates that the premium has a positive effect on earnings. This means that if the premium increases by 1%, it will have an effect on increasing the profit of sharia life insurance by 0.746384%. When the premium received by the company will have an impact on the increase in profit that will be received by the insurance company. Periodic increases in premiums received have a good impact on increasing company profits.<sup>32</sup>

#### b. Investment Return to Profit (In the Long Term)

The results of the analysis show that the individual investment returns have no significant effect on the profit of Islamic life insurance in Indonesia in the long term. The regression coefficient value of 0.234464 indicates that investment returns have a positive effect on earnings. This means that if the investment returns increase by 1%, it will affect the increase in sharia life insurance profits by 0.234464%. When the return on investment in the company increases, it will have an impact on the increase in profit that

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<sup>32</sup> Faозиyyah, A. A., Laila, Nisful. (2020). Internal Factors and Macroeconomic Factors Affecting The Profitability of Sharia Insurance in Indonesia for 2016-2018 Period. 7 (6).

will be received by the insurance company. Regular increases in investment returns have a positive impact on increasing company profits.<sup>33</sup>

#### c. Inflation Against Profits (In the Long Run)

The results of the analysis show that the inflation variable individually is not significant in influencing the profit of Islamic life insurance in Indonesia. The regression coefficient value of -0.255798 indicates that inflation has a negative effect on earnings. This means that if inflation increases by 1%, it will affect the decrease in profit of sharia life insurance by -0.255798%. Inflation can lead to an increase in claims so that it reduces the profits to be earned by the company.<sup>34</sup>

#### d. Exchange Rate Against (In the Long Run)

The results of the analysis show that the exchange rate variable individually has a significant effect on the profit of Islamic life insurance in Indonesia. The regression coefficient value of 9.405745 indicates that the exchange rate has a positive effect on life insurance profits in Indonesia. This means that if the exchange rate increases by 1%, it will affect the increase in sharia life insurance profits by 9.405745%.

The weakening of the rupiah exchange rate has an impact on life insurance business actors. Where the weakening will affect the decline in profits that will be obtained by the company<sup>35</sup>. The impacts that occur are due to the following:

1. Placement of reinsurance in foreign currency. If there is a fluctuation in the exchange rate, the company must calculate the difference in the exchange rate when submitting a claim to the foreign reinsurer.
2. Premiums are in the form of foreign currency from multinational corporations. If you receive a premium in the form of foreign currency, of course the company must establish a claim reserve in foreign currency as well.
3. Weakening of the rupiah will cause the equity of local insurance companies to look small in the eyes of the international community. This certainly affects the perception of insurance clients from abroad

## CONCLUSION

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<sup>33</sup> Ainul, F. N. A., Susyanti, J., Mardani, R. M. (2017). Pengaruh Premi, Klaim, Hasil Underwriting, Investasi, dan Profitabilitas, Terhadap Pertumbuhan Aset Pada Perusahaan Asuransi Jiwa Syariah Indonesia. 6 (2).

<sup>34</sup>Faoziyyah, A. A., Laila, Nisful. (2020). Internal Factors and Macroeconomic Factors Affecting The Profitability of Sharia Insurance in Indonesia for 2016-2018 Period. 7 (6).

<sup>35</sup> Faoziyyah, A. A., Laila, Nisful. (2020). Internal Factors and Macroeconomic Factors Affecting The Profitability of Sharia Insurance in Indonesia for 2016-2018 Period. 7 (6).

Based on several theoretical foundations, methodologies, discussions and results, the general conclusions in this study are:

1. Based on the results of panel data regression analysis, it is known the impact of premiums, investment returns, inflation and exchange rates on sharia life insurance profits on each company, namely PT. Asuransi Allianz Life Indonesia has a coefficient of -1.422391, the BRI Life company has a coefficient of 0.116085, the company PT. Manulife Indonesia Life Insurance has a coefficient of 0.386356, the company PT. Prudential Indonesia Assurance has a coefficient of 0.924970, the company PT. Sinar Mas MSIG Life Insurance has a coefficient of -0.005021. From the panel data test results, it can be concluded that the company that has the most influence on premiums, investment returns, inflation and exchange rates on sharia life insurance profits is PT. Prudential Life Assurance. This is because based on the company's financial statements the premium rate at PT. Prudential Life Assurance since 2016-2020 continues to increase significantly every year.
2. Based on the results of the analysis of the Autoregressive Distributed Lag (ARDL) method, in the short term premiums, investment returns, inflation and exchange rates have a significant effect on Islamic life insurance profits in Indonesia in the short term.
3. In the long term, the premium and the exchange rate have a significant effect on the profit of Islamic life insurance. Meanwhile, inflation and investment returns have no significant effect on the profit of sharia life insurance.

Suggestions that can be given are to conduct further studies by examining other independent variables. It is also recommended for researchers to increase the research time period and the sample used so that the research results can be better and more reliable. The government is expected to pay more attention to sharia-based non-bank financial institution products so that the Islamic financial market can grow and not be far behind by the conventional financial market.■

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