Determinants of Profitability of the Islamic Life Insurance Industry in Indonesia

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Abstract

The purpose of this study is to ascertain how economic growth and company-specific variables affect the profitability of Islamic life insurance in Indonesia. This study employed a quantitative approach using a descriptive methodology. The sampling technique used purposive sampling with a sample of 10 Islamic Life Insurance companies in Indonesia. The results of this study indicate that partially the leverage variable has a negative and significant effect on profitability. Premium growth variable has a positive and significant effect on profitability. The variables of company size, tangibility, liquidity, and economic growth have no effect on profitability. While simultaneously the variables of company-specific factors (company size, leverage, tangibility, premium growth, and liquidity) and economic growth have a significant effect on profitability.

Introduction

Insurance companies provide financial security and intermediation for individuals and businesses so that they can contribute to the financial and economic development of the country (Olarewaju et al., 2018). Therefore, each insurance firm must be aware of how well its business is doing. Effective performance by an insurance firm not only raises its market worth but also supports long-term growth and mutual advantages. (Ajao & Ogieriakhi, 2018). Ratios of profitability can be used to assess a company's success. An essential indicator of the health of the insurance sector and the progress it has made is the profitability of insurance businesses (Olarewaju et al., 2018).

The foundation of a business's operational sustainability is profitability, which promotes the development and expansion of life insurance firms (Bintoro Sandi & Mabrur, 2022). The company's success in achieving profitability reflects the company's ability to manage its capabilities and resources (Kasmir, 2015). The profitability ratio gives an overview of the degree of managerial efficiency in carrying out the company's operational operations to earn profits and attempts to ascertain the potential of the business to make profits within a given time frame (Sanjaya & Rizky, 2018).The higher the profitability ratio, the greater the profit earned (Wahyuni et al., 2019). Therefore, Maintaining profitability is crucial for Islamic life insurance firms.

Profitability of Islamic life insurance has fluctuated and has not met the predetermined standards. The company is said to be good if profitability is able to reach 30%. (Kasmir, 2008). Companies with good resources will also generate large profits (Tielung et al., 2024). Profits that always experience a decline reflect an unhealthy company and are unable to compete in competitive economic conditions (Maudina et al., 2020). The higher the company's ability to generate profits, the stronger the company's ability to survive in competitive economic conditions (Herlina et al., 2016).

Figure 1. Profitability of Indonesian Sharia Life Insurance 2018-2022
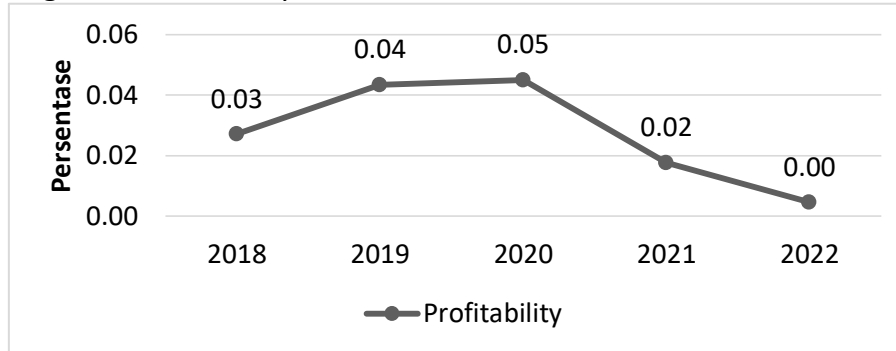
Source: (Website of each company (data processed, 2024))

Figure 1 above shows that the profitability of Islamic Life Insurance in Indonesia has decreased, especially in 2021-2022 there was a decline due to the Covid-19 pandemic. In 2018, the profitability of Islamic life insurance was 0,027, increased in 2019 by 0,043, increased in 2020 by 0,045, decreased in 2021 by 0.017, decreased again in 2022 by 0,004. This decrease shows that the company is unable to manage its resources properly. Therefore, in order to thrive in the fiercely competitive insurance market, it is imperative that businesses enhance their performance (A. A. Hidayati & Shofawati, 2018).

Profitability performance can be influenced by internal company factors, including company size, leverage, tangibility, liquidity, and premium growth. Large-scale companies have greater management and use of resources compared to small-scale companies. This shows that large-scale companies have relatively stable business operations and the ability to generate high profits (Munawaroh & Mukhibad, 2019).

Leverage measures the amount of debt borne by the company compared to its capital or assets (Fahmi, 2017). The debt is owed to outside creditors and is necessary to keep the business operating. An increase in debt causes an increase in total assets with the assumption if the percentage of debt exceeds the percentage of assets and EBIT (Earning Before Interest and Taxes) is constant, this causes the cost of capital to increase and will reduce profits (Harahap et al., 2022).

Tangibility is the degree to which a company's fixed assets or resources make up the majority of its overall assets. The more funds allocated in the form of fixed assets, the less funds are allocated for investment so that profitability will decrease. (Wirasadi.T et al., 2023). Premiums in Islamic insurance are referred to as contributions. Good premium growth indicates that operations and sales of insurance products are also going well, then it will affect business earnings, which will rise as a result of achieving strong financial performance (Sitompul, 2018).

Liquidity is one of the factors that affect profitability. A ratio called the liquidity ratio, often known as the working capital ratio, is used to determine how liquid a business is (Kasmir, 2016). The concept of liquidity, reflects a measure of management efficiency regarding the extent to which management can manage working capital financed by current debt and cash balances in earning profits (Afriyani & Jumria, 2020).

Not only internal company factors, external factors such as economic growth are also measured through Gross Domestic Product (GDP). One of the most significant macroeconomic metrics for assessing a nation's economic health is its GDP. If the GDP conditions in a country experience a decline or poverty, then it can worsen the quality of the financial portfolio thus reducing profitability (Berhe & Kaur, 2017). This is reflected in the ability of insurance participants to pay premiums or contributions, when income increases, the ability to pay premiums also increases so that the insurance financial portfolio becomes good and can generate profitability.

Figure 2. Company Size, Leverage, Tangibility, Liquidity, Premium Growth, and Economic Growth 2018-2022
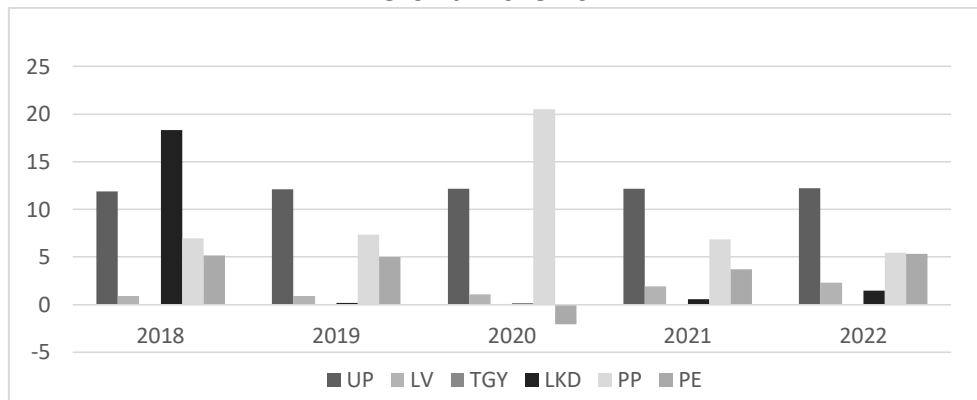
Source: (Website of each company (data processed, 2024))

This research refers to previous research conducted by Msomi & Nzama (2023), Zainudin et al., (2018), Bintoro Sandi & Mabrur (2022) and followed by other studies. The difference between this study and previous studies is the research period, the addition of variables from international journals, and the focus on Islamic Life Insurance companies in Indonesia. Researchers are interested in conducting research with this title because of the background information and differences in previous research: "**The Effect of Firm Specific Factor and Economic Growth on Profitability of Islamic Life Insurance in Indonesia**".

Literature Review

Effect of Company Size on Profitability

Company size is determined by dividing the total assets of the company by its size (Madyan et al., 2019). Companies with a large scale are considered to have a large ability to have better resources to run the business efficiently, this provides a competitive advantage so that it can increase company profits (Zainudin et al., 2018). Large companies tend to have broad access to resources such as capital, technology, and finance. In addition, companies have the ability to recruit quality management talent (Zainudin et al., 2018). Companies with large assets also have better economies of scale so that they have better performance (Wirasadi.T et al., 2023). This good performance has the potential to increase the company's profitability. This is in line with research conducted by Zainudin et al. (2018), Berhe & Kaur (2017), Öner Kaya (2015), Faoziyyah & Laila (2020), Abdeljawad et al. (2020), Rafi & Muhamad Syaichu, (2019) Azmi et al. (2020), and Hamal (2020) states that company size has a positive effect on insurance profitability.

H1: Company size has a positive effect on the profitability of Islamic life insurance in Indonesia.

The Effect of Leverage on Profitability

The ratio known as leverage indicates how much of a company's assets are financed by debt in relation to its overall assets (Azim & Sasqia, 2020). Companies that use a lot of debt

in their operations will get a higher loan burden, so that the interest expense will reduce net income (Violita & Sulasmiyati, 2017). If the proportion of leverage is not considered by the company, Due to the fixed interest expenditure resulting from the usage of debt, this will reduce profitability (Putra & Badjra, 2015). Therefore, the use of debt will affect the risk and profit obtained by the company (Zulvia, 2019). This is in line with research conducted by Msomi & Nzama (2023), Berhe & Kaur (2017), Banerjee & Majumdar (2018), Faoziyyah & Laila (2020), Olarewaju et al. (2018), Hailegebreal (2016), state that leverage has a negative effect on insurance profitability.

H2: Leverage negatively affects the profitability of Islamic life insurance companies in Indonesia.

The Effect of Tangibility on Profitability

The ratio of all of the company's tangible fixed assets to its total assets is known as its tangibility (Rafi & Muhamad Syaichu, 2019). The use of fixed assets is depreciated from one period to the next, so that the useful value of fixed assets will continue to decrease in each period (Setiadi, 2020). The increase in tangibility of a company reflects the number of fixed assets increasing so that the funds available for investment are reduced, as a result investment income is reduced so that it can reduce profitability (Wirasadi.T et al., 2023). This is in line with research conducted by Olarewaju et al. (2018), Bintoro Sandi & Mabrur (2022) Rafi & Muhamad Syaichu (2019) and Ajao & Ogieriakhi (2018) state that tangibility has a negative effect on the profitability of insurance companies.

H3: Tangibility negatively affects the profitability of Islamic life insurance in Indonesia.

Effect of Premium Growth on Profitability

Premium growth is the ratio between the total gross premium next year minus the gross premium this year and the gross premium this year (Rafi & Muhamad Syaichu, 2019). In sharia insurance, contributions (premiums) are separated into Ujrah and Tabarru', where the Tabarru' fund pool fully belongs to policyholders who are managed and invested according to sharia, while Ujrah is a fee for the company and is used for company management (Muhammad et al., 2017). The contribution of funds or premiums received by Islamic insurance companies as fund managers will increase along with the growth of fund contributions or premiums from policyholders. In addition, the increase in contribution funds will also increase the allocation of funds for investment, with the proper and efficient management of tabarru' funds and the placement of investment funds, It will raise income for Islamic insurance firms, resulting in a rise in such businesses' profitability (Faoziyyah & Laila, 2020). This is supported by research conducted by Öner Kaya (2015), Banerjee & Majumdar (2018), Faoziyyah & Laila (2020), Hailegebreal (2016), Abdeljawad et al. (2020) Nurrosis & Rahayu (2020), Ajao & Ogieriakhi (2018), Azmi et al. (2020) which states that premium growth has a positive effect on profitability

H4: Premium growth has a positive effect on Islamic insurance profitability in Indonesia.

Effect of Liquidity on Profitability

The capacity of the business to promptly satisfy its short-term financial commitments is measured by its liquidity (H. Hidayati & Putri, 2022). In fulfilling its short-term obligations, the company uses current assets. A high liquidity ratio is expected to have a lower chance of failure to pay obligations to policyholders and can fulfill all payments when due despite difficult circumstances due to a large supply of current assets (Msomi & Nzama, 2023). The financial strength of liquidity utilization has an impact on increasing the profitability of insurance companies. The greater the company's current assets or liquidity, it will increase profitability (Darmayanti & Susila, 2022). This is in line with research conducted by Msomi &

Nzama (2023), Kariuki et al. (2021), Abdeljawad et al. (2020), (Azmi et al., 2020), stating that liquidity has a positive effect on insurance profitability.

H5: liquidity has a positive effect on the profitability of Islamic insurance in Indonesia.

The Effect of Economic Growth on Profitability

The expansion of economic activity that raises the quantity of goods and services generated in society and hence raises people's standard of living is known as economic growth (Mukamad Rofii & Sarda Ardyan, 2017). GDP is the total added value produced by a nation's business units during a specific time period (Faoziyyah & Laila, 2020). One of the most crucial macroeconomic indicators for assessing a nation's economic health is its GDP, a decline in GDP can have a negative impact on the quality of a nation's financial portfolio, thereby reducing profitability (Berhe & Kaur, 2017). This shows that economic growth has a positive effect on insurance profitability. This is in line with research conducted by Banerjee & Majumdar (2018), Hailegebreal (2016), Azmi et al. (2020) state that economic growth has a positive effect on insurance profitability.

H6: Economic growth has a positive effect on the profitability of Indonesian Islamic life insurance.

Figure 3. Conceptual Framework
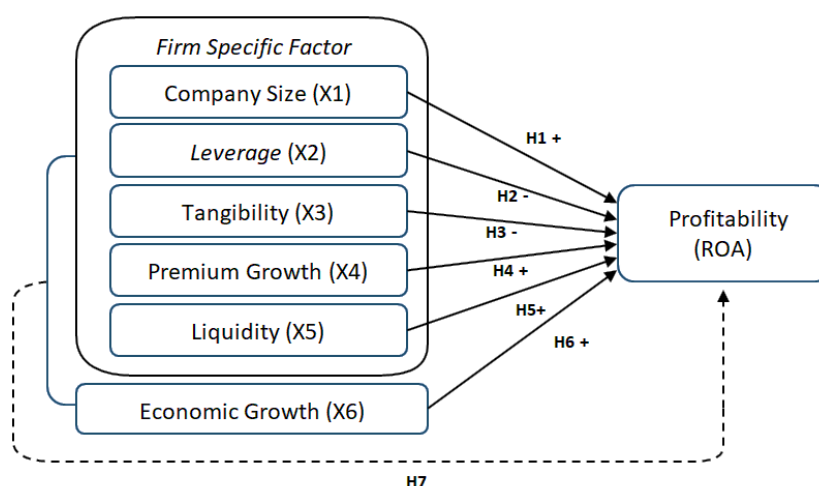
Research Methodology

The study employed a quantitative research design using a descriptive methodology. Secondary data that was gathered from the website of the Islamic Life Insurance Association in Indonesia (AASI), the website of each company, and the Badan Pusat Statistik (BPS) for 2018-2022. The participants of this study were Indonesian sharia life insurance companies registered with the Otoritas Jasa Keuangan (OJK) and the Asosiasi Asuransi Syariah Indonesia (AASI). The sample technique used was purposive sampling with a sample of 10 Islamic Life Insurance companies in Indonesia. The sample criteria used in this study are as follows:

1) Islamic life insurance companies in Indonesia that publish annual financial reports consecutively during the 2018-2022 period on each company's website and have complete data relating to the variables in this study.

2) Businesses in Indonesia that provide consistent, year-round financial reporting for the period of 2018–2022.

3) The quantity of Indonesian Islamic life insurance firms, many of which are becoming less profitable.

From the sample criteria above, the samples used in this study are as follows:

Table 1. Research Sample

No	Sharia Life Insurance Company
1.	PT Capital Life Indonesia
2.	PT Asuransi Jiwa Syariah Al-Amin
3.	PT Takaful keluarga
4.	PT AIA Financial
5.	PT Avrist Assurance
6.	PT Chubb Life Insurance Indonesia
7.	PT Generali Indonesia
8.	PT Great Eastern Life Indonesia
9.	PT Manulife Indonesia
10.	PT Sun Life Indonesia

The method of analysis employed is descriptive statistical test, model selection test, classical assumption test, partial test (T test), simultaneous test (F test), and determination coefficient test (R^2) using Eviews 9 analysis tool.

Results and Discussion

Descriptive Statistical Analysis

Descriptive analysis is a test tool used to provide an overview or description of a descriptive statistical data of a data seen from the average value (mean), standard deviation, variance, maximum, minimum, sum, range, kurtosis and skewness (distribution skewness) (Imam Ghozali, 2016).

Table 2. Descriptive Analysis Results

	Profitability (y)	Size (x1)	Leverage (x2)	Tangibility (x3)	Premium growth (x4)	Liquidity(x5)	Economic growth (x6)
Mean	0.027605	13.32395	2.012075	0.004371	40.73496	9.406745	3.427674
Median	0.016973	13.70563	0.659998	0.000273	0.164352	2.740224	5.019288
Maximum	0.152798	16.13075	12.85050	0.038062	1316.112	164.5844	5.307419
Minimum	-0.117224	10.48514	0.039192	0.000000	-0.998683	1.050998	-2.065512
Std. Dev.	0.046113	1.585336	2.984156	0.007988	206.2554	23.46891	2.834488
Skewness	-0.261877	-0.364669	2.148767	2.341733	5.421403	5.969562	-1.355465
Kurtosis	4.807107	2.058717	6.785547	8.639107	32.12451	39.83542	3.028516
Jarque-Bera	7.374904	2.954056	68.33161	111.9466	2012.091	3123.730	15.31241
Probability	0.025036	0.228315	0.000000	0.000000	0.000000	0.000000	0.000473
Sum	1.380246	666.1976	100.6037	0.218551	2036.748	470.3373	171.3837
Sum Sq. Dev.	0.104194	123.1512	436.3542	0.003127	2084522.	26988.70	393.6818
Observations	50	50	50	50	50	50	50

Source: (Eviews 9, 2024)

Considering the outcomes of the descriptive analysis above, it is obtained that the lowest profitability is -0.117224, the highest is 0.152798. Meanwhile, the mean is 0.027605 with a standard deviation value higher than the mean of 0.046113, this indicates a large variation in company profitability.

Model Selection Test

Chow Test

The Chow test uses the likelihood ratio test. If the probability value < 0.05 then Ho is rejected, so it is decided that this study uses a fixed effect model by conducting the Hausman test. However, if the probability value > 0.05, then the best model used is the common effect model (Widarjono, 2018).

Table 1. Chow Test Result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.833499	(9,34)	0.0020
Cross-section Chi-square	35.024748	9	0.0001

Source: (Eviews 9, 2024)

Table 3 above shows the Cross Section Chi-square probability value of 0.0001. Based on the criteria set in this study, the model chosen is the fixed effect model (FEM) because the Chow Test results obtained a probability value < 0.05 (0.0001 < 0.05) (Widarjono, 2018).

Hausman Test

To determine which of the fixed effect and random effect models is better, the Hausman test is used. If the probability < 0.05 then Ho is rejected, then the model used is the fixed effect model. However, if the probability > 0.05, then the model used is the random effect model (Widarjono, 2018).

Table 2. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.716710	6	0.4557

Source: (Eviews 9, 2024)

Table 4 above shows a probability value of 0.4557. The random effect model (REM) was selected in accordance with the study's objectives since the Hausman test results obtained a probability value > 0.05 (0.4557 > 0.05). (Widarjono, 2018).

Based on the test results above, namely the chow test and hausman test, the appropriate model used in this study regarding the effect of firm specific factors (company size, leverage, tangibility, premium growth, and liquidity) and economic growth on the profitability of Islamic Life Insurance in Indonesia is the random effect model (REM).

Random Effect Regression Analysis Model

Multiple regression analysis is used to determine the effect of company size (X1), leverage (X2), tangibility (X3), premium growth (X4), liquidity (X5), economic growth (X6) on profitability (Y). Regression analysis is used to explain and evaluate the relationship between a dependent variable and one or more independent variables (Widarjono, 2018).

Tabel 3. Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.048843	0.071469	0.683416	0.4980
Company _Size_X1_	0.000226	0.005305	0.042677	0.9662
Leverage_X2_	-0.008880	0.002139	-4.151312	0.0002
Tangibility_X3_	0.634105	0.892175	0.710741	0.4811
Premium_Growth_X4_	4.89E-05	2.17E-05	2.260123	0.0289
Liquidity_X5_	-0.000117	0.000208	-0.561056	0.5777
Economic_Growth_X6_	-0.002934	0.001521	-1.928879	0.0604
	Effects Specification			
			S.D.	Rho
Cross-section random			0.023167	0.3922
Idiosyncratic random			0.028840	0.6078
	Weighted Statistics			
R-squared	0.383690	Mean dependent var		0.013428
Adjusted R-squared	0.297694	S.D. dependent var		0.034699
S.E. of regression	0.029079	Sum squared resid		0.036361
F-statistic	4.461689	Durbin-Watson stat		1.457556

Prob(F-statistic)	0.001357	
	Unweighted Statistics	
R-squared	0.434514	Mean dependent var 0.027605
Sum squared resid	0.058920	Durbin-Watson stat 0.899479

Source: (Eviews 9, 2024)

Based on table 5 above, the following are the results of multiple linear regression using *Random Effect Model (REM):*

$$Y = 0.048843 - 0.000226X_1 - 0.008880X_2 + 0.634105X_3 + 4.89\text{E-}05X_4 - 0.000117X_5 - 0.002934X_6 + \text{E}$$

1) The constant value of the above equation is 0.048843, meaning that in general if company size, leverage, tangibility, premium growth, liquidity, and economic growth are constant (unchanged) then profitability (Y) will be 0.048843.

2) The company size variable has a positive relationship with a coefficient value of 0.000226. If there is an increase in company size by 1 percent, it will increase profitability by 0.000226 percent, assuming that other independent variables are considered constant.

3) The leverage variable has a negative relationship with a coefficient value of 0.008880. If there is an increase in leverage by 1 percent, there will be a decrease in profitability by 0.008880 percent, assuming that other independent variables are considered constant.

4) The tangibility variable has a positive relationship with a coefficient value of 0.634105. If there is an increase in tangibility by 1 percent, it will increase profitability by 0.634105 percent, assuming other independent variables are considered constant.

5) The premium growth variable has a coefficient value of 4.89E-05. If there is an increase in premium growth by 1 percent, it will increase profitability by 4.89E-05 percent, assuming other independent variables are considered constant.

6) The liquidity variable has a negative relationship with a coefficient value of 0.000208. If there is an increase in liquidity by 1 percent, there will be a decrease in profitability by 0.000208 percent, assuming other independent variables are considered constant.

7) The economic growth variable has a negative relationship with a coefficient value of 0.002934. If there is an increase in economic growth by 1 percent, it will reduce profitability by 0.002934 percent, assuming other independent variables are considered constant.

Asumsi Klasik Test

Multicollinearity Test

To determine if there is a link between the study's independent variables, the multicollinearity test is employed. The underlying presumption is that the independent variables in the regression have no linear connection with one another. The tolerance value and Variance Inflation Factor (VIF) show how to determine whether multicollinearity exists between independent variables. The conclusion of this test is that if VIF < 10, then it is said that the study data does not show multicollinearity between the independent variables (Widarjono, 2018).

Tabel 4. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.002347	88.57067	NA
Company _Size_X1_	1.23E-05	83.37429	1.140908

Leverage_X2_	4.15E-06	2.000925	1.366850
Tangibility_X3_	0.556590	1.714769	1.313482
Premium_Growth_X4_	6.57E-10	1.075453	1.034287
Liquidity_X5_	5.75E-08	1.363312	1.171297
Economic_Growth_X6_	3.61E-06	2.676449	1.073935

Source: (Eviews 9, 2024)

Table 6 above, the results of the VIF calculation show that all independent variables have a VIF value < 10. The study's criteria indicate that multicollinearity between independent variables does not arise in the regression model (because it has a VIF value < 10) (Widarjono, 2018).

Heteroscedasticity Test

To determine if there is variance and residual inequality in one observation compared to another, the heteroscedasticity test is utilized in the regression model. The white method is one technique used to identify heteroscedasticity issues. If the chi-square probability value> 5% or 0.05 indicates that there is no heteroscedasticity problem, and vice versa (Widarjono, 2018).

Tabel 5. Heteroscedasticity Test Results

Heteroskedasticity Test: White			
F-statistic	2.104046	Prob. F(27,22)	0.0394
Obs*R-squared	36.04225	Prob. Chi-Square(27)	0.1144
Scaled explained SS	29.37489	Prob. Chi-Square(27)	0.3430

Source: (Eviews 9, 2024)

Table 7 above, the Chi-Square probability value on Obs *R-squared is 0.1144. The regression model does not exhibit heteroscedasticity in accordance with the study's requirements since the probability value is > 0.05 (0.1144 > 0.05) (Widarjono, 2018).

Statistical Test
F test

The F test is used to determine the extent to which the independent factors simultaneously impact the dependent variable. If the significance value is < 0.05, subsequently the dependent variable is concurrently impacted by the independent variable (Sujarweni, 2020).

Tabel 6. F Test Results

F-statistic	4.461689
Prob(F-statistic)	0.001357

Source: (Eviews 9, 2024)

The profitability of Indonesian Sharia Life Insurance is said to be significantly impacted by both economic growth and the business particular factor variable at the same time, based on the specified criteria, since the probability (*F-Statistic*) < 0,05 (0.001357 < 0,05).

Partial test (T Test)

To ascertain the extent to which a single independent variable contributes to the explanation of a dependent variable, a partial test (T test) is employed. The hypothesis is accepted if the significance level is < 0.05 and the hypothesis is rejected if the significance is > 0.05 (Sujarweni, 2020).

Tabel 7. Partial Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.048843	0.071469	0.683416	0.4980
Company _size_x1_	0.000226	0.005305	0.042677	0.9662
Leverage_x2_	-0.008880	0.002139	-4.151312	0.0002

Tangibility_x3_	0.634105	0.892175	0.710741	0.4811
Premium_growth_x4_	4.89E-05	2.17E-05	2.260123	0.0289
Liquidity_x5_	-0.000117	0.000208	-0.561056	0.5777
Economic_growth_x6_	-0.002934	0.001521	-1.928879	0.0604

Source: (Eviews 9, 2024)

Based on table 9 above, the partial test explanation (T test) is as follows:

1) The effect of company size on profitability

   The test results above show that the company size variable has a probability value of 0.9662 with a coefficient value showing a positive sign of 0.000226. This shows that the hypothesis is rejected because company size has a probability value> 0.05 (0.9662> 0.05), so company size has no effect on profitability.

2) The effect of leverage on profitability

   The test results above show that the leverage variable has a probability value of 0.0002 with a coefficient value showing a negative sign of -0.008880. This shows that the hypothesis is accepted because the company size has a probability value <0.05 (0.0002 <0.05), so leverage has a negative and significant effect on profitability.

3) The effect of tangibility on profitability

   The test results above show that the tangibility variable has a probability value of 0.4811 with a coefficient value showing a positive sign of 0.634105. This shows that the hypothesis is rejected because tangibility has a probability value> 0.05 (0.4811> 0.05), so tangibility has no effect on profitability.

4) The effect of premium growth on profitability

   The test results above show that the premium growth variable has a probability value of 0.0289 with a coefficient value showing a positive sign of 4.89E-05. This shows that the hypothesis is accepted because the probability value <0.05 (0.0289 <0.05), so that premium growth has a positive and significant effect on profitability.

5) Effect of liquidity on profitability

   The test results above show that the liquidity variable has a probability value of 0.5777 with a coefficient value showing a negative sign of -0.000117. This shows that the hypothesis is rejected because the probability value> 0.05 (0.5777> 0.05), so liquidity has no effect on profitability.

6) The effect of economic growth on profitability

   The test results above show that the economic growth variable has a probability value of 0.0604 with a coefficient value showing a negative sign of -0.002934. This shows that the hypothesis is rejected because the probability value> 0.05 (0.0604> 0.05), so economic growth has no effect on profitability.

Coefficient of Determination

The R^2 value test's coefficient of determination (goodness of fit). The coefficient of determination is used to calculate the effect of the independent variable on the dependent variable (Widarjono, 2018).

Tabel 8. Determination Coefficient Test Results

R-squared	0.383690
Adjusted R-squared	0.297694

Source: (Eviews 9, 2024)

Based on table 8 above, an adjusted R-squared value of 0.297694 was achieved by using the Random Effect Model (REM) in the coefficient of determination test findings. This shows that 29.76% of the variation in the independent variables, namely firm specific factors (company size, leverage, tangibility, premium growth, and liquidity) and economic growth can explain variations in the dependent variable. Meanwhile, variables not included in the study model have an impact on the remaining 70.54%.

Effect of Company Size on Profitability

The test results show that the firm size variable has a probability value > 0.05 (0.9662 > 0.05) with a coefficient value of 0.000226. This means that company size has no effect on profitability. The results of this study state that the hypothesis is rejected, that is, if the company size increases, profitability also increases, and vice versa.

The company's total assets determine the size of the business, which can be either enormous or little (Madyan et al., 2019). The amount of total assets does not guarantee that the company's management is able to manage finances appropriately and well, large total assets may not necessarily have good financial performance. Conversely, companies with small assets can have the opportunity to have professional management in managing the company, thus potentially increasing profits (Prasetyandari, 2023). The large scale and small size of the company does not always reflect its ability to generate large profits, because large-scale companies have a large level of operational expenses as well (Permana & Agustina, 2021). In addition, it lies in the inefficiency of the company's financial management. Large-scale companies with large assets do not necessarily obtain large profitability and small-scale companies do not necessarily produce small profitability, this is due to the efficiency in managing the resources owned by each company (Telly & Ansori, 2017).

The findings of this research are corroborated by Bintoro Sandi & Mabrur (2022), Msomi & Nzama (2023), Olarewaju et al. (2018), Ajao & Ogieriakhi (2018), Hailegebreal (2016) states that company size has no effect on insurance profitability.

Effect of Leverage on Profitability

The test results show that the company size variable has a profitability value < 0.05 (0.0002 < 0.05) with a coefficient value showing a negative sign of -0.008880. The study's findings support the notion that, in the case of more leverage, worse profitability occurs, and vice versa.

The ratio known as leverage indicates how much of a company's assets are financed by debt in relation to its overall assets (Azim & Sasqia, 2020). Companies that use a lot of debt in their operations will get a higher loan burden, so that the interest expense will reduce net income bersih (Violita & Sulasmiyati, 2017). The percentage of leverage that the business ignores will result in lower profitability as using debt results in fixed interest costs (Widhi & Suarmanayasa, 2021). Companies that use funding sources through debt, the debt owned by the company will be higher, causing the company to need to pay off its debts first so as not to go bankrupt, of course the company's income will decrease because the funds generated by the company are used to pay off debts (Rohimah, 2018). This causes the company to focus more on paying off its debt rather than increasing profitability for the survival of the company. The company's focus has shifted from increasing productivity to the need to generate cash flow to pay off its debt, resulting in low company profitability (Putra & Badjra, 2015).

The findings of this research are corroborated by Msomi & Nzama (2023), Berhe & Kaur (2017), Banerjee & Majumdar (2018), Faoziyyah & Laila (2020), Olarewaju et al. (2018), Hailegebreal (2016) stated that leverage has a negative and significant effect on insurance profitability.

Effect of Tangibility on Profitability

The test results show a probability value of 0.4811 > 0.05 with the coefficient value showing a positive sign of 0.634105. The results of this study indicate that the hypothesis is not accepted, namely when tangibility increases, profitability decreases, and vice versa.

The characteristics of the insurance industry are unique because they depend on investment in intangible assets so that equipment or tangible assets do not play a direct role in the company's core processes. The purpose of investment spending is the purchase of goods that are expected to generate profits (Pardiansyah, 2017). Life insurance companies have their own uniqueness, where life insurance is considered to have fewer tangible assets because they rely more on liquid assets so that they can increase profitability (Zainudin et al., 2018). The tangibility of insurance company assets is not as big as manufacturing companies that require a lot of machinery in producing goods, insurance companies develop more human resources with their IT systems to issue insurance policies and claim management (Noviandita & Sari, 2019). More important insurance company resources determine profitability such as human resources, capital, financial resources, and good will (Zainudin et al., 2018).

Findings of this research are corroborated by Zainudin et al. (2018), Msomi & Nzama (2023), Hailegebreal (2016), dan Worku et al., (2024) states that tangibility has no effect on insurance profitability.

Effect of Economic Growth on Profitability

The test results show a probability value of 0.0289 < 0.05 with the coefficient value showing a positive sign of 4.89E-05. The results of this study indicate that the hypothesis is accepted, where when premium growth increases, profitability also increases.

Insurance firms primarily rely on premium income, which has an impact on the profitability of the insurance industry (Setyaningsih et al., 2021). Good premium growth indicates that operations and sales of insurance products are also going well, then it will affect business earnings, which will rise as a result of achieving strong financial performance (Sitompul, 2018). An increase in contribution funds (premiums) will also increase the allocation of funds for investment, with proper and efficient management of tabarru' funds and placement of investment funds, It will boost business income, which will raise Islamic insurance firms' profitability (Faoziyyah & Laila, 2020). A higher premium growth rate will impact the company's progress and the attained market share (Azhari & Sukmaningrum, 2021). High market share can generate large profits because it can strengthen market advantage and increase the company's ability to set prices, thus contributing to increased profitability and economies of scale achieved (Banerjee & Majumdar, 2018).

Findings of this research are corroborated by Öner Kaya (2015), Banerjee & Majumdar (2018), Faoziyyah & Laila (2020), Hailegebreal (2016), Abdeljawad et al. (2020) Nurrosis & Rahayu (2020), Ajao & Ogieriakhi (2018), Azmi et al. (2020) states that premium growth has a positive effect on insurance profitability.

Effect of Liquidity on Profitability

The test results show that the probability value is 0.5777 > 0.05 with the coefficient value showing a negative sign of -0.000117. The results of this study state that the hypothesis is rejected, namely when liquidity increases, profitability increases.

The capacity of the business to promptly satisfy its short-term financial commitments is measured by its liquidity (H. Hidayati & Putri, 2022). The ability to pay claims for insurance companies in fulfilling short-term obligations, where when an insurance claim occurs, the company must immediately process it and insurance companies that have liquid funds that are looking for will be safer because at any time they can be used to pay customer claim obligations (Safitr & Suprayog, 2017). The Islamic insurance business model is different from

conventional, where the management of funds is separated between operational funds and tabarru' funds. Funds from tabarru' are used for claim handling. tabarru' funds must immediately provide funds to participants who claim insurance so that the funds will decrease and will not increase the company's profit (Safitr & Suprayog, 2017). Tabarru' funds function to help participants who submit claims and are not intended to increase and decrease profitability. While Islamic insurance businesses make money through investing and management.

Findings of this research are corroborated by Zainudin et al. (2018), Rafi & Muhamad Syaichu (2019), Leviany & Sukiati (2022) states that liquidity has no effect on insurance profitability.

Effect of Economic Growth on Profitability

The test results show a probability value of $0.0604 > 0.05$ with the coefficient value showing a negative sign of -0.002934. The study's findings indicate that the hypothesis that is, the idea that higher economic growth will boost Islamic life insurance's profitability in Indonesia is not supported by the data.

The expansion of economic activity that raises the amount of products and services generated in society and consequently raises people's standard of living is known as economic growth. (Mukamad Rofii & Sarda Ardyan, 2017). The economy does not always grow well because there are unexpected events that cannot be controlled by humans, causing a slowdown and even an economic decline. Several studies have found that there is an increase in demand for insurance when a person faces various risks such as the risk of earthquakes, tornadoes, floods and air pollution (Afrianto et al., 2023). In addition, another unexpected disaster is the Covid-19 pandemic that has occurred recently in various countries, one of which is Indonesia. Based on news reports from CNN, Indonesia is the 14th country with a total of 4,205,705 cases (CNN 2021). The Covid pandemic has caused a shock to the insurance sector (Babuna et al., 2020). This means that the profitability of Islamic life insurance in Indonesia is likewise unaffected by GDP. According to Menurut Faoziyyah & Laila (2020), The return on the insurance investment portfolio is unaffected by changes in the GDP.

Findings of this research are corroborated by Faoziyyah & Laila (2020) and Worku et al. (2024) stated that economic growth has no effect on insurance profitability.

Conclusion

The study concludes that the profitability of Islamic life insurance in Indonesia is influenced by specific factors in varying ways. Among the firm-specific factors, leverage is found to have a significant negative effect, indicating that higher leverage reduces profitability. Conversely, premium growth has a significant positive effect, meaning that increased premiums contribute to higher profitability. However, other factors like company size, tangibility, and liquidity do not show a significant impact on profitability. Additionally, economic growth does not directly influence the profitability of Islamic life insurance in Indonesia. Nonetheless, when considering all these factors; company size, leverage, tangibility, premium growth, liquidity, and economic growth, they collectively have a significant impact on the profitability of the Islamic life insurance industry in Indonesia

This study has limitations on the observation period, so it is necessary to expand the observation period in order to collect more data to provide more complete and representative results. In addition, this study has a small coefficient of determination test result of 29%, so it is necessary to explore new variables in the analysis model both internal and external variables, This should offer a more thorough knowledge of the elements influencing the profitability of Islamic life insurance in Indonesia.

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