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Financial Performance Evaluation of General Insurance Companies in Indonesia

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Abstract: This study aims to analyze the financial performance growth of general insurance companies in Indonesia that are registered with the Financial Services Authority (OJK). The data used is secondary data collected from the summary financial statements of 72 general insurance companies in Indonesia from January 2022 to December 2022 issued by OJK. Evaluation is carried out based on net premium growth, underwriting result growth, investment return growth, liquidity ratio, solvency ratio, and profitability ratio according to predetermined standards. The results of the analysis showed The results of the analysis show that overall net premium growth, growth in underwriting, and growth in investment returns continues to decline by up to 80% during 2022. Liquidity ratio, solvency ratio and profitability ratio indicated poor financial performance of the companies. Return on assets showed that the overall performance of general insurance companies has good financial performance from May to December 2022 which mean that all general insurance companies started to utilize their assets efficiently to obtain maximum profit starting in May 2022. Return on equity showed that general insurance companies in Indonesia have had good financial performance from November to December 2022 that is 9%.

Keywords: financial performance, general insurance growth, liquidity ratios, solvency ratios, profitability ratios

1. Introduction

Insurance is an agreement entered into by two parties, namely between the insurance company and the policy holder, which aims to protect risks from uncertain events in exchange for a premium that has been calculated according to the risk being protected (Insurance, 2014). The insurance sector is divided into two categories, one of which is general insurance. General insurance companies are insurance that protects the insured's losses if they experience an accident or disaster. General insurance companies provide compensation to the insured or policy holder due to damage, losses, losses, costs incurred, lost profits or legal liability to third parties that the insured or policy holder may suffer due to the occurrence of uncertain events (Setiawan et al., 2020).

Insurance has an important role for a country in terms of economic growth. The contribution of insurance to economic GDP is more than 10% in several European countries, such as the Netherlands, the UK and Finland due to higher economic development (Peleckienė et al., 2019). The asset value of insurance companies worldwide increased year on year from 2002 to 2020, except for 2008 when a slight decline was seen. In 2020, insurance company assets globally amounted to around 40.3 trillion US dollars - an increase of almost 2.5 trillion US dollars from the previous year. Overall, the asset value of global insurance companies has grown by around 24 trillion US dollars since 2002 (Statista, 2022).

In Indonesia, the financial services and insurance sector contributes 4.34% to national income. However, this contribution will decrease in 2021 as can be seen in Figure 1. The growth in general insurance and pension funds was 0.72%, which is the smallest growth over the last 11 decades (Financial Services Authority, 2022).

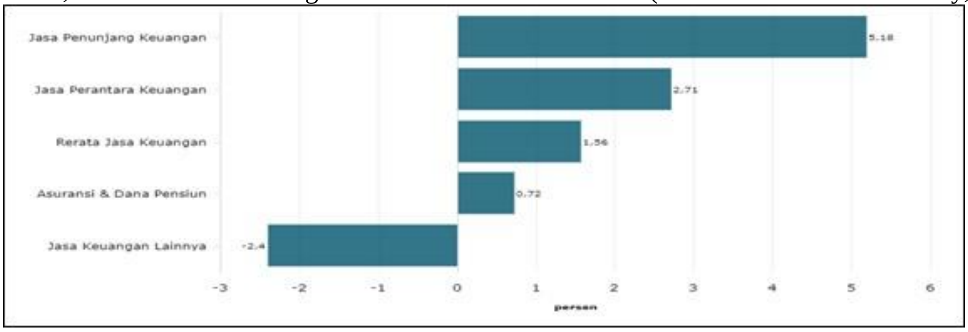

Figure 1: Growth in Financial Services and Insurance by Subsector in 2021

The growth sector in insurance industry services in 2021 is presented in Figure 2. Life insurance premiums increased by 7.21% (yoy), however general insurance and reinsurance premiums decreased by −3.76% (yoy), which is one of the causes of the decline in the contribution of the financial services sector and insurance on GDP.

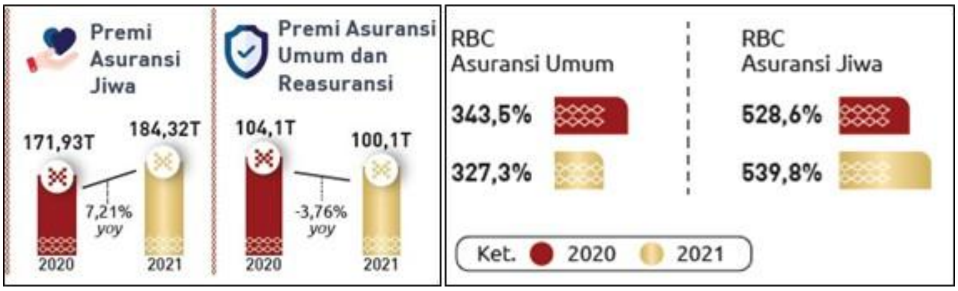

Figure 2: Insurance Services Growth BySector Year 2020-2021

The government is making efforts to improve the development of the financial sector in Indonesia, one of which is implementing better market conduct. However, in recent years insurance companies, especially general insurance, have experienced contractions with the public, especially regarding trust in depositing funds. The Covid-19 pandemic since early 2020 has also had an impact on the performance of insurance companies in Indonesia in general.

Analysis of investment performance in insurance companies by analyzing insurance company financial balance sheets has been carried out which states that insurance companies can allocate investment budgets to the private sector which is experiencing increased exposure to European countries (Liedtke, 2021). Data analysis techniques can be adopted to carry out this research, but will produce different recommendations because they face different regulations between insurance companies in Europe.

Considerations in the financial health of insurance companies can be seen from the number of investors who are willing to allocate their budgets as company capital. An empirical study was conducted that concluded that public health emergencies have a positive impact on insurance companies' portfolios (Shang et al., 2022). This research can be an indicator of a company's balance sheet because the health emergency occurred during the Covid-19 pandemic.

This research aims to analyze the growth and financial performance of general insurance companies in Indonesia registered with the Financial Services Authority in 2022.

2. Methodology

2.1. Data

The data used in this research is secondary data from the financial balance reports of all general insurance companies for January 2022 to December 2022 obtained from the OJK via the web https://www.ojk.go.id/id/kanal/iknb/data-dan -statistics/insurance/Pages/Insurance-Statistics-December-2022.aspx.The variables used include growth indicators, total investment, cash and bank, total assets, profit/loss, premium income, underwriting income, investment returns, claims expenses and other expenses.

2.2. Method

Data analysis was carried out descriptively analytically based on aspects of liquidity, solvency and profitability as well as other insurance company health indicators as carried out by the Association of Indonesian Insurance Companies, namely

Growth Indicators

a. Net premium growth $= \frac{N_t - N_{t-1}}{N_{t-1}} \times 100\%$ (1)

Where N_t = Net premium period (t)
N_{t-1} = Net premium period (t-1)

b. Growth in underwriting $= \frac{U_t - U_{t-1}}{U_{t-1}} \times 100\%$ (2)

Where U_t = Growth in underwriting period (t)
U_{t-1} = Growth in underwriting period (t-1)

c. Investment Retun Growth $= \frac{I_t - I_{t-1}}{I_{t-1}} \times 100\%$ (3)

Where I_t = Investment return period (t)
I_{t-1} = Investment return period (t-1)

Liquidity Ratios

Cash Ratio $= \frac{\text{Current Cash}}{\text{Current Liabilites}}$ x 100% (4)

Solvency Ratio

a. *Debt to Equity Ratio* (DER) $= \frac{Total\ Debt}{\text{Total Liabilities}}$ 100% (6)

b. *Debt to Asset Ratio* (DAR) $= \frac{Total\ Debt}{\text{Total Asset}}$ 100% (7)

Profitability Ratio

a. *Retun On Equity* (ROE) $= \frac{\text{Net profit}}{\text{Total Equity}}$ x 100% (8)

b. *Retun On Asset* (ROA) $= \frac{\text{Net profit}}{\text{Total asset}}$ x 100% (9)

3. Results and Discussions

Analysis of investment performance in insurance companies by analyzing insurance company financial balance sheets has been carried out by Muhani et al (2015), Hafid (2016), Wahyudi et al (2020), Siswanto (2021).With the development of the insurance industry, the role of company financial performance has become very important as a tool for measuring the financial health of a company. Insurance companies must be able to organize and optimize asset management and premium income well in order to meet the criteria for a healthy insurance company, characterized by good financial performance (Stephanie and Ruslim, 2021; Febriyanti et al, 2021).Analysis of a company's financial position is often carried out using the company's financial ratios obtained from financial reports, which are often used as a basis for assessing the company's financial performance. Indicators that influence insurance company performance include liquidity, solvency and profitability ratio indicators.

3.1 Net Premium Growth, Underwriting and Investment Results

Net premium growth is an indicator to measure a company's ability to generate and manage business. Underwriting income is income obtained from the insurance company's main activities. Meanwhile, growth in investment returns is the level of profit obtained by the insurance company from its investment or placement of funds. The growth in net premiums, underwriting results and investment returns from 72 general insurance companies in Indonesia during 2022 is presented in Figure 1.

Figure 1a. Net Premium Growth of Indonesian General Insurance Companies in 2022

Figure 1b. Growth in Underwriting of Indonesian General Insurance Companies in 2022

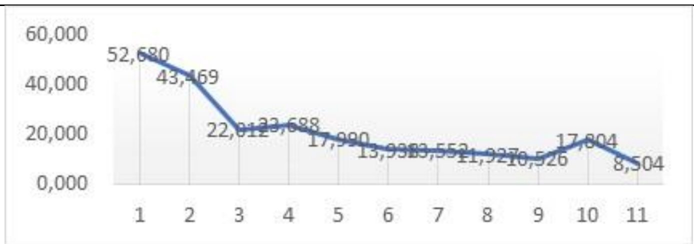

Figure 1c. Growth in Investments Return of Indonesian General Insurance Companies in 2022

The graphs of these three indicators show the same pattern, namely showing a very sharp decline during the period 2022, especially from January to March. The decline continued until December, so that the total decline from January to December reached around 80%.

In general, it is said that an insurance company's performance is good if it continues to increase over time, both in terms of premium growth, underwriting results and investment returns. This indicates stable growth in each period and will become an asset to meet the company's liquidity. As a large part of a company's revenue, this indicator is also quite an important indicator of financial performance. The very large decline during 2022 shows that the performance of general insurance companies in Indonesia is less than encouraging. This could be caused by the economic crisis that has not yet recovered due to the Covid 19 pandemic which has had an impact on the insurance industry sector.

3.2. Liquidity, Solvency and Profitability Ratios

Liquidity, solvency and profitability ratios are one of the tools that are widely used in several countries, including Indonesia, to track the financial performance of insurance companies. This is because the results of this system analysis provide early warning about the company's financial condition so that it can be used to analyze the financial performance of an insurance company. These ratios can be obtained from the company's balance sheet and financial reports.

The liquidity ratio is a ratio that describes a company's ability to pay its short-term obligations, which is calculated from working capital information sources, especially current assets and current liabilities. Liquidity ratios relate not only to a company's overall financial position but also its ability to convert certain current assets into cash. A high liquidity ratio indicates that there is a liquidity problem and it is likely that the company will experience bankruptcy.

The solvency ratio measures the comparison between the capital provided by the company and the capital the company borrows from creditors. This ratio shows the company's ability to fulfill its financial obligations, both long term and short term. The low solvency margin reflects the high risk due to high insurance premiums.

The profitability ratio or rate of return is intended to measure management efficiency which is reflected in investment results and rewards. Liquidity and solvency ratios can provide clues for evaluating a company's performance, while profitability ratios show the combined impact of cash, asset and debt management on a company's business performance. This ratio will provide a definite answer regarding the efficiency of company management.

Indicators of liquidity, solvency and profitability ratios for general insurance companies in Indonesia from January to December 2022 are presented in Table 1.

Table 1. Liquidity, Solvency and Profitability Ratios of General Insurance Companies in Indonesia in 2022

Month	*Cash ratio*	*Current Ratio*	DER	DAR	ROA	ROE
January	0,84	1,58	0,45	0,16	0,39	1,09
February	0,84	1,58	0,48	0,17	0,78	2,15
March	0,84	1,58	0,48	0,17	1,13	3,10
April	0,84	1,58	0,50	0,18	1,10	3,03
May	0,84	1,58	0,48	0,18	1,41	3,87
June	0,84	1,55	0,49	0,17	1,69	4,78
July	0,85	1,56	0,50	0,18	1,91	5,40
August	0,84	1,57	0,47	0,17	2,21	6,18
September	0,85	1,57	0,47	0,17	2,60	7,19

October	0,85	1,57	0,48	0,17	2,66	7,38
November	0,84	1,60	0,46	0,17	3,61	9,69
December	0,84	1,60	0,48	0,18	3,50	9,50
Indicator	>0.5	>2	<0.9	<0.35	>1.25	>8.32

Source: Financial Services Authority 2022, processed

Cash ratio is a measuring value of how much money there is that can be used to pay debts. This is indicated by the availability of cash or cash equivalents. The higher the ratio of cash equivalent to existing debt, the better. Table 1 shows that the cash ratio value of general insurance companies in Indonesia during 2022 shows good performance, namely around 0.8. This value exceeds the standard value set by the OJK, namely 0.5; So it can be said that the cash value compared to the amount owed by the insurance company is at a safe level.

The current ratio shows the relationship between current assets and short-term liabilities. The higher the ratio of short-term assets and current debt, the greater the company's ability to pay off short-term debt. Table 1 shows that the current ratio value of general insurance companies in Indonesia during 2022 shows poor performance, namely less than 2. OJK determines that the current ratio value as an indicator of insurance company health is 2, however, a value of more than 1.5 can still be said to be quite healthy.

DER shows how much capital a company has can cover all its debts. This ratio is used to determine the use of equity to secure debt. Table 1 shows that the DER value of general insurance companies in Indonesia during 2022 still meets the specified standards, namely less than 90%.

Debt to Asset Ratio (DAR) is a debt ratio used to measure the ratio of total debt to total assets, or in other words the amount of assets financed by debt. The higher the ratio, the more detrimental it is to the company because the more assets are financed with debt, and conversely, the lower the ratio, the better it is because the smaller the assets are financed with debt. Table 1 shows that the DAR value of general insurance companies in Indonesia during 2022 still meets the specified standards, namely less than 35%.

Return On Assets (ROA) is a ratio used to measure the net profit obtained from the use of assets. The higher this ratio, the better the asset productivity to obtain net profit. This will certainly increase the company's attractiveness to investors so that it will be increasingly sought after by investors. The ROA value of Indonesian general insurance companies in 2022 shows a good figure or is above the set standard, namely 1.25, which only started to occur in May and after that continued to increase until the end of the year to 3.5. It can be said that in general, since May 2022, insurance companies in Indonesia have begun to utilize their assets efficiently to obtain maximum profits.

ROE is a ratio that compares net profit to total equity. ROE is used to measure the rate of return of a company in generating profits using the equity owned by the company. This ratio also shows the company's ability to generate profits. The higher the ROE, the more effectively the company uses its equity capital to create profits for shareholders. Table 1 shows that the ROE value of general insurance companies in Indonesia during 2022 is above the set standard, namely 8.32% in November and December 2022, namely around 9.5%. Meanwhile, January to October were in less than encouraging conditions but showed improvement. This can mean that in general, general insurance companies in Indonesia have poor financial performance. The company has not utilized all equity for the company's operational activities efficiently.

Conclusion

The results of the analysis show that overall growth in net premiums, growth in underwriting results, growth in investment returns from insurance companies in Indonesia continues to decline by up to 80% during 2022. The average current ratio value per month is only around 1.6, smaller than the standard The ratio that has been set is 2. However, the cash ratio value of general insurance companies in Indonesia during 2022 is around 0.8, greater than the standard set at 0.5.

Return on assets (ROA) shows that the overall performance of general insurance companies has good financial performance from May to December 2022. Meanwhile, from January to April 2022 it is only around 0.4% to 1%. This means that all new general insurance companies utilize their assets efficiently to obtain maximum profits starting in May 2022. Return on equity shows that general insurance companies in Indonesia have not had good financial performance from January to October 2022 because the ROE value is only around 1 % to 7%. The new ROE value appears to be above the standard set in November and December 2022, namely 9%.

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