

Effect of Current Ratio, Debt to Assets Ratio and Return on Equity on Profit Growth in Insurance Companies registered with the Financial Services Authority in 2018 - 2020

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Abstract — This study aims to analyze and determine the effect of Current Ratio (CR), Debt to Asset Ratio (DAR) and Return on Equity (ROE) on Profit Growth in General Insurance companies registered with the Financial Services Authority (OJK) in 2018 - 2020. The research method used is quantitative method with multiple linear regression analysis. Sampling was conducted by purposive sampling method. From 79 insurance companies registered with OJK, 6 companies were selected with predetermined criteria. The result of this study showed that partially Debt to Asset Ratio (DAR) has a significant effect on profit growth, while the Current Ratio (CR) and Return on Equity (ROE) have no effect on profit growth.

Keywords — Current Ratio, Debt to Asset Ratio, Return on Equity, Growth Profit

I. INTRODUCTION

The great development of the economy and globalization is in line with the development of industry in Indonesia with various specialization fields such as Transportation, Oil and Gas, Finance, Consumer Goods and others. These industries act as economic drivers with the form of companies, both national and joint ventures, as different industries, the risks they face are different. Risk is a condition of uncertainty that can have a negative impact on the existence of such uncertainty, every company needs to carry out risk management. In dealing with risk, one way that can be done is to transfer the risk to the recipient of the risk, in this case the Insurance Company acts as the recipient of the risk. According to Law no. 40 of 2014 concerning insurance, Insurance is an agreement between 2 parties wherein the insurance company receives a certain amount of premium in return for accepting risk from the insured who in this study are other companies from various industries. The risks faced by companies are generally risks to property, factories, buildings, vehicles, workers, modes of transportation and other property. General Insurance Company is the company that bears most of the risk.

As companies in general, the main goal for insurance companies is to get maximum profit. For companies, a continuous decline in profits has the potential to place the company in bankruptcy, which is certainly a condition that any company avoids. Maximal profit gain represents the condition of the company that is able to manage its business flow and company assets so that profit can be achieved, in some cases high profits do not necessarily reflect efficiency within the company, but if in the long term there is a positive profit growth trend, it will reflect the stability of financial performance and tendency to increase profits. For investors, the profits which have been obtained are important to ensure the welfare of shareholders because the profits obtained by the company mean that investors who invest in the company also benefit. The profit obtained by the company does not always increase every year. Based on data from the Financial Services Authority, the profit obtained by the insurance industry is quite

volatile. The following figure illustrates the profit earned by General Insurance Companies in Indonesia including insurance supporting companies and general reinsurance companies.

The profit growth of general insurance companies has shown positive growth indications in the last 6 years, although the most significant decline in profits occurred in 2018, it increased again in 2019 subsequently. However, if you look at the profit growth of each company in the period 2018 to 2020, only 6 out of 79 companies experienced positive profit growth each year. Profit growth is one of the parameters to assess financial performance, profit growth which is considered good will reflect good company performance, thus it will attract the attention of investors to invest in the company (D. U. Ari and Darsono, 2014) and will ultimately help the company to increase company revenue.

Several previous studies have shown conflicting results regarding the analysis of the influence of Current Ratio, Debt to Asset Ratio, and Return on Equity on profit growth. The result of research from D. K Nadia and J. Dwiridotjhtjono (2021) stated that the Current Ratio had a positive and significant effect on profit growth, this study contradicted the results of the research of Q. R Siregar, and H. C Batubara (2017) which stated that the Current Ratio had no significant effect on profit growth.

In a previous study which revealed the effect of the debt to asset ratio which is part of the solvency ratio on profit growth, the results of research by Q. R. Siregar, and H. C. Batubara (2017) showed that profit growth was also significantly influenced by the debt to asset ratio. This study contradicts the research of A. Gunawan and S. F. Wahyuni (2013) which stated that the debt to asset ratio did not have a significant effect on profit growth.

Other studies reveal that related to profitability ratios, namely return on equity, Febrianty and Divianto (2017) stated that return on equity has a positive and significant effect on profit growth. This research was not in line with the result of research by A. M. Safitri and Mukaram (2018) which stated that return on equity did not have a significant effect on profit growth.

Based on the phenomena above and the differences in the results from previous studies, the authors are interested in conducting research and analyzing the Effect of Current Ratio, Debt to Asset Ratio and Return on Equity on profit growth in General Insurance Companies registered with the Financial Services Authority for the period 2018 – 2020.

Based on the above background, the formulation of this research problem is as follows:

1. Is there any influence of Current Ratio on profit growth?
2. Is there any influence of Debt to Asset Ratio on profit growth?
3. Is there any effect of Return on Equity on profit growth?

The purpose of this study is to analyze the effect of the Current Ratio, Debt to Asset Ratio and Return on Equity on the profit growth of general insurance companies registered with the Financial Services Authority for the period 2018 - 2020. With these objectives, it is expected that this research could serve as additional information for investors, companies, the public and readers about the effect of the Current Ratio, Debt to Asset Ratio and Return on Equity on profit growth, and become information that facilitates decision making regarding Current Ratio, Debt to Asset Ratio and Return on Equity and profit growth. In addition, this research could be useful for other researchers as an additional reference regarding the effect of the Current Ratio, Debt to Asset Ratio and Return on Equity on profit growth.

II. LITERATURE REVIEW

A. Profit Growth

Financial reports are reports issued by companies to present information related to the company's financial condition for stakeholders including investors and the public. One of the financial highlights in the financial statements is information about the profits earned by the company in the current year and its comparison with profits in the previous year (Neneng Karyati, Sri Mulyati, 2019). Profit growth is the percentage change in conditions of an increase in profits that have been obtained by the company. Good profit growth can be interpreted that the company is able to manage its financial condition effectively and efficiently.

Profit growth is necessary to know because from the previous definition it can be seen that profit has two important components, those are income which income is the receipt of funds due to service delivery, in the context of insurance it is

transfer risk, in an effort to achieve business goals, and expenses are arising from the use of resources in an effort to earn income. Profit growth is defined as a percentage.

Profit Growth can be calculated using the formula (Munawir: 2007) as follows:

$$GP = \frac{Y_t - Y_{t-1}}{Y_{t-1}} \times 100\%$$

B. Current Ratio

Financial Ratio consists of several ratios including Liquidity Ratio, Activity Ratio, Profitability Ratio and Solvency Ratio. The liquidity ratio is a ratio which shows the company's ability to meet its short-term obligations. One way to measure the liquidity ratio is the Current Ratio. The current ratio is a measuring instrument to assess the company's ability to pay debts which must be paid immediately using current assets (E. D. Astawinetu and S. Handini, 2020). Current Ratio can be calculated using the following formula:

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

C. Debt to Asset Ratio

Debt to Asset Ratio is part of the solvency ratio. The debt to asset ratio compares the company's debt with the company's assets, in the sense of how much of the assets come from debt (E. D. Astawinetu and S. Handini, 2020) which the higher the Debt to Asset Ratio value indicates the greater the assets needed, to be disbursed, to bear the debt. Debt to asset ratio can be calculated by the following formula:

$$\text{Debt to Asset Ratio} = \frac{\text{Total Liabilities}}{\text{Total Asset}}$$

D. Return on Equity

Return on Equity is one of the profitability ratios. ROE is a ratio which measures the company's ability to generate net income through the management of its own capital. The greater the ROE, the greater the amount of net profit generated so that the greater the rate of return of funds provided by the owner of capital. ROE can be calculated by the following formula:

$$\text{Return on Equity} = \frac{\text{Net Profit}}{\text{Total Equity}}$$

E. Framework of Thought

This research framework is illustrated in the following figure:

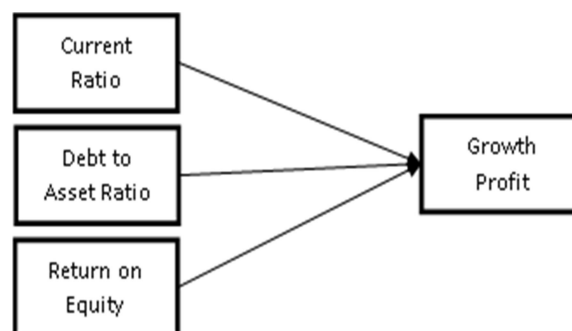


Fig. 1. Framework of Thought

F. Hypothesis

Based on the framework developed, the hypotheses in this study are:

H₁: Current Ratio (CR) partially has a positive and significant effect on profit growth of General Insurance companies registered with OJK for the period 2018 – 2020.

H₂: Debt to Asset Ratio (DAR) partially positive and significant effect on profit growth of General Insurance companies registered with OJK for the period 2018 – 2020.

H₃: Return on Equity (ROE) partially has a positive and significant effect on the profit growth of General Insurance companies registered with OJK for the period 2018 – 2020.

III. RESEARCH METHODOLOGY

This type of research is included in causality research, it is research which conducted to see the existence of a correlation between two variables which describe a causal correlation (Sandu Siyoto, and Muhammad Ali Sodik, 2015), those are the independent variable and the dependent variable. Independent variables consist of Current Ratio (CR) and Debt to Equity Ratio (DER). For the dependent variable is Profit Growth (GP).

The population of this study is General Insurance Companies registered with the Financial Services Authority in 2018 to 2020 as many as 79 companies. The sampling technique used is Non Probability Sampling, which is a sampling technique that does not provide equal opportunities or opportunities for members of the population to be selected.

The method used is purposive sampling, where the sample is taken through a deliberate decision based on certain considerations with the aim of obtaining sample characteristics that are in accordance with predetermined criteria.

Table 1. Sample Criteria

No	Criteria	Sample
1	General Insurance Company registered with OJK for the period 2018 - 2020	79
2	Multinational General Insurance Company registered with OJK for the period 2018 - 2020	(21)
3	General Reinsurance Company registered with OJK for the period 2018 - 2020	(6)
4	General Insurance Company with negative Profit Growth between 2018 - 2020	(28)
5	General Insurance Companies that do not publish a complete Annual Report between 2018 - 2020	(18)
Total sample studied during 2018 - 2020		6
Total Observation 6 x 3 years		18

Based on the table above, the number of sample in this study were 6 companies. Methods Data analysis in this study is quantitative by using panel data regression analysis method. Panel data regression is a regression analysis with the data used in the form of cross sections and time series, in other words, panel data uses data from several objects with the same characteristics to be observed within a certain period of time. Multiple Linear Regression Analysis with panel data model using Ordinary Least Square (OLS) method. In panel data research, there are several stages to carry out the analysis, those are the selection of a regression model with the Chow test, Hausman test and Langrangge test. Classical assumption test consisting of normality test, heteroscedasticity test and multicollinearity test. And test the hypothesis by means of t test, F test and analysis of the coefficient of determination.

IV. RESULT

A. Panel Data Model Test

1. Chow Test

Chow Test is a test to choose the most appropriate method for research, between the Common Effect Model or the Fixed Effect Model. CEM is selected if probabilities $>$ significance level ($\alpha = 5\%$), and FEM is selected if probabilities $<$ significance level ($\alpha = 5\%$)

Tables. 2. Chow Test Result

Effect Test	Statistic	Prob.
Cross-section F	2.282042	0.1333
Cross-section Chi Square	14.738592	0.0115

Based on the results above, the value of prob. F 0.1333 $>$ 0.05, it means that the selected model is the Common Effect Model

2. Hausman Test

Hausman Test is a test to choose the most appropriate method for research, between Fixed Effect Model and Random Effect Model. REM is selected if probabilities $>$ significance level ($\alpha = 5\%$), and FEM is selected if probabilities $<$ significance level ($\alpha = 5\%$)

Table 3. Hausman test result

Effect Test	Statistic	Prob.
Cross-section Random	2.443687	0.4856

Based on the results above, the value of prob. 0.4856 $>$ 0.05, it means that the selected model is the Random Effect Model

3. Lagrange Multiplier Test

Lagrange Multiplier Test is a test to choose the most appropriate method for research, between the Common Effect Model and the Random Effect Model. CEM is selected if P-values $>$ significance level ($\alpha = 5\%$), and REM is selected if P-values $<$ significance level ($\alpha = 5\%$)

Table 4. Lagrange Multiplier Test Results

Effect Test	P-Value.
Breusch Pagan	0.3953

Based on the results above, the p-value is 0.3953 $>$ 0.05, meaning that the model chosen is the Common Effect Model.

The conclusion of the three tests, which was chosen as the final model is the common effect model.

B. Classic assumption test

1. Normality test

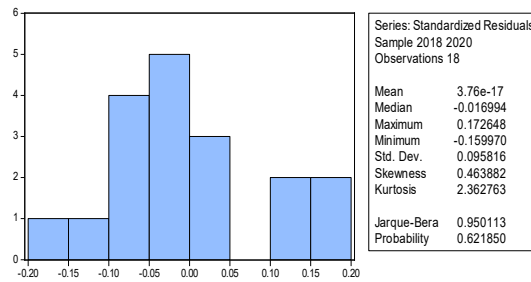


Fig. 2. Jarque-bea test result

The normality test was conducted to determine whether the research data were normally distributed or there were abnormal symptoms. The normal distribution of the data occurs when the prob value. Jarque-berra > 0.05 based on the picture above, the value of prob. Is $0.6218 > 0.05$. This means that the data does not have symptoms that the data is not normally distributed.

2. Heteroscedasticity Test

Heteroscedasticity test is used to see the variance of the residual model, ideally a good model has a constant variance of the residual (homoskedasticity). The test method used is the glejser test.

Tables. 5. Glejser Test Results

Dependent Variable : RESABS

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.116361	0.215613	0.539677	0.5979
CR	-0.000188	0.003507	-0.053543	0.9581
DAR	-0.024393	0.249371	-0.097818	0.9235
ROE	0.061013	0.495401	0.123159	0.9037

Based on table 5 above, the probability value of the independent variable > 0.05 , thus it can be concluded that the regression model is free from heteroscedasticity problems.

3. Multicollinearity Test

Multicollinearity test is used to see whether there is a strong relationship between the independent variables. Too strong a relationship between variables can lead to inaccurate interpretation of the regression coefficients.

Table 6. Multicollinearity Test Result

	CR	DAR	ROE
CR	1.000000	-0.195722	0.337393
DAR	-0.195722	1.000000	-0.492614
ROE	0.337393	-0.492614	1.000000

Symptoms of multicollinearity appear if the correlation coefficient value between the independent variables is > 0.85 (Widarono, 2018). Based on table 6 above, the value of the correlation coefficient among independent variables < 0.85 , thus it can be concluded that the regression model is free of multicollinearity symptoms.

C. Hypothesis Test Results

1. T Test

Tables 7. T. Test Results

Dependent variable: Growth Profit

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.475096	0.373319	-1.272628	0.2239
CR	-0.005268	0.006071	-0.867630	0.4002
DAR	0.952297	0.431768	2.205575	0.0446
ROE	0.855249	0.857753	0.997081	0.3356

The T test is used to partially test the regression coefficient of the independent variable, to see if there is an effect on the dependent variable. The coefficient value shows the direction of the influence between the independent variable and the dependent variable, if the coefficient value < 0 , it means that the independent variable has a negative effect on the dependent variable. Conversely, if the coefficient value > 0 , then the independent variable has a positive effect on the dependent variable. With a note, an independent variable is said to be influential and significant if the probability value ≤ 0.05 . If the probability value > 0.05 , it can be stated that the independent variable has no effect on the dependent variable.

Based on the table 7, the data is known from the results of the t test as follows:

- The CR variable has a coefficient value of -0.005268 with a probability value of $0.4002 > 0.05$. Then H_0 is accepted, meaning that CR has no effect on Profit Growth.
- The DAR variable has a coefficient value of 0.9523 with a probability value of $0.0446 < 0.05$. Then H_0 is rejected and H_2 is accepted, meaning that DAR has a positive and significant effect on Profit Growth.
- The ROE variable has a coefficient value of 0.8552 with a probability value of $0.3356 > 0.05$. Then H_0 is accepted and H_3 is rejected, meaning that ROE does not have a significant effect on Profit Growth.

2. F Test

The F test is used to determine the effect of the independent variable simultaneously on the dependent variable. An independent variable is said to be influential and significant simultaneously if the probability value of the F statistic ≤ 0.05 . if the probability value of the F statistic > 0.05 , it can be stated that the independent variable simultaneously has no effect on the dependent variable.

Tables. 8. F Test Results

F-statistic	1.965590
Prob(F-statistic)	0.165566

Based on table 8 above, the F statistic value is 1.9655 with the Probabilities F value = 0.1656, in other words the Prob value. $F > 0.05$ so that it can be concluded that the independent variables, namely the current ratio, debt to asset ratio and return on equity together do not have a significant effect on the independent variable, namely profit growth.

3. Coefficient of Determination

Whether or not a regression model is good can be seen from the coefficient of determination test which is denoted by adjusted R Square. The value of the coefficient of determination reflects the condition of whether the independent variable can describe the dependent variable. The adjusted R Square value must be between values 0 to 1 in order to reflect the good regression equation model. If the adjusted R square value 0 it means that the dependent variable in this study cannot be described by the independent variable so that the tests carried out previously are considered invalid.

Tables. 9. Coefficient of Determination Results

R-squared	0.296368
Adjusted R-squared	0.145590

Based on table 9 above, the adjusted R squared value in this study is 0.145590. it can be concluded that all independent variables in this study describe 14.5% of the dependent variable. In other words, the current ratio, debt to asset ratio and return on equity are able to explain their effect on profit growth. The rest, 85.5% is described by other variables which are not examined in this study.

D. Discussion

- Effect of Current Ratio on Profit Growth

Based on the results of this study, CR has a coefficient value of -0.005268 with a probability value of $0.4002 > 0.05$, meaning that CR does not have a significant influence on Profit Growth in General Insurance Companies during the period 2018 - 2020. Current ratio is a ratio that shows the company's ability to Paying short-term debts that are due soon with current assets owned by the company. The direction of the relationship between the current ratio and profit growth is negative, which means that increasing the current ratio will have an impact on decreasing profit growth, this can happen because financial reporting in insurance divides liabilities into 3 parts, namely current debt, long-term debt and technical reserves. CR indicates an increase in the value of current debt compared to current assets, which means that the company's liquid assets are reduced. In insurance, the amount of current assets is maintained to meet technical reserve obligations or in practice the payment of claims. This causes the large value of assets that do not produce a high rate of return for the company.

The results of this study are in line with the results of previous research by Q. R. Siregar, and H. C. Batubara (2017) which states that the Current Ratio does not have a significant effect on profit growth.

- Effect of Debt to Asset Ratio on Profit Growth

Based on the results of the research above, DAR has a coefficient value of 0.9523 with a probability value of $0.0446 < 0.05$, meaning that DAR has a positive and significant effect on Profit Growth in General Insurance Companies during the period 2018 - 2020. The debt to asset ratio compares the company's debt with the company's assets, in the sense that how many assets owned by the company come from debt, the greater the value of DAR will be a guarantee for investors or shareholders because of the company's ability to manage assets and debt properly. in connection with the management of the company's technical reserves, so it can be one of the reasons for investors to invest in the company, which then increases the DAR will affect the increase in profit growth.

The results of this study are in line with the results of previous research by Q. R. Siregar, and H. C. Batubara (2017) which states that the Debt to Asset ratio has a positive and significant effect on profit growth.

- Effect of Return on Equity on Profit Growth

Based on the results of the research above, ROE has a coefficient value of 0.8552 with a probability value of $0.3356 > 0.05$, meaning that ROE does not have a significant effect on Profit Growth in General Insurance Companies during the period 2018 - 2020. The results of this study are in line with the research of Febrianty and Divianto (2017) states that return on equity has a

positive and significant effect on profit growth. This research is not in line with the results of research by A. M. Safitri and Mukaram (2018) which states that return on equity does not have a significant effect on profit growth.

V. CONCLUSION

Based on research on the effect of Current Ratio, Debt to Asset Ratio and Return on Assets on Profit Growth in General Insurance Companies registered with the Financial Services Authority for the period 2018 - 2020, it can be concluded that partially only the Debt to Asset Ratio has a positive and significant influence on profit growth while the other two variables, namely Current Ratio and Return on Equity, did not have a significant effect on profit growth.

Simultaneously, Current Ratio, Debt to Asset Ratio and Return on Assets do not have a significant effect on profit growth. In connection with the results of the coefficient of determination which shows that the Current Ratio, Debt to Asset Ratio and Return on Assets only describe 14.5% of the effect on profit growth, there are still 85.5% which are described by other variables not described in this study.

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