An Analysis of the Indonesian Insurance Company's Financial Performance

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Abstract- Through financial reports, the insurance company can determine the exact steps the company is taking now and in the future, by looking at the various problems that exist, both the weaknesses and the strengths it has. The data analysis method used in this research is to use quantitative methods with horizontal analysis of the financial statements of PT. Bhakti Bhayangkara based on Statement of Financial Accounting Standards (PSAK) No. 28 concerning Loss Insurance Accounting, namely Solvency and Profitability Ratio, Liquidity Ratio, Premium Stability Ratio and Technical Ratio. Based on the data analysis conducted, it is concluded that the company's financial performance is in good condition when viewed from several ratios, but there are also records that need to pay attention to several ratios, such as the need for evaluation in calculating rates, good claims management, and insurance contracts. This is intended so that the insurance company's underwriting expense does not increase and affects the underwriting results and so on. With this step, it is hoped that in the future good decisions can be produced and can improve the company's financial performance.

Index Terms- Accounting, Loss Insurance, Financial Statements, Company Performance, Underwriting

I. Introduction

Insurance is a company that transfers risks that come from individuals to institutions that bear the risk. Insurance companies collect large enough funds where these funds are the result of financial management and these funds are used for company operational activities. Apart from operational activities, financial statements are also a factor in assessing company performance.

In terms of financial report, it is the obligation of every company to make and report its company finances for a certain period. What is done is then analyzed so that the current condition and position of the company can be found. Then the financial statements will also determine what steps the company will take now and in the future, by looking at the various problems that exist, both weaknesses and strengths. Good profit growth implies that the company has good finances, which in turn will increase firm value, because the amount of dividends to be paid in the future is highly dependent on the condition of the company [1]. In addition, company managers often need additional internal information that may differ from official financial reporting [2].

Until now, there have been 5 (five) large insurance companies that have closed due to poor financial performance. The definition of financial performance is the determination of certain measures that can measure the success of an organization or company in generating profits [3]. Meanwhile, financial performance is the company's ability to manage and control its resources [4]. Financial statement analysis needs to be carried out carefully by using appropriate analytical methods and techniques so that the expected results are absolutely correct. Errors in entering numbers or formulas will result in inaccurate results to be achieved. Then, the results of these calculations are analyzed and interpreted so that the real financial position is known. All of this must be done carefully, deeply and well. This study chooses an object in the insurance sector because insurance companies have experienced positive developments. Insurance industry stands as a service business that plays a significant role in Indonesia economical condition [5]. According to data from the Financial Services Authority, the total profit generated by general insurance companies in December 2018 was IDR 4,468 trillion while in December 2019 it was IDR 7,083 trillion.

Based on the explanation background, the subject matter to be discussed in this study is how the financial performance of the Bhakti Bhayangkara Insurance company based on financial ratio. Financial ratio analysis is an analysis by comparing one report item with other financial statement items, either individually or collectively in order to find out the relationship between certain items, both on the balance sheet and in the income statement [6]. According to the Statement of Financial Accounting Standards (PSAK) No. 28 regarding Insurance for Loss Accounting, there are several financial ratios used to analyze the performance of insurance companies which can be classified into four aspect ratios, namely Solvency and Profitability Ratio, Liquidity Ratio, Premium Stability Ratio, Technical Ratio. In addition, financial analysis, especially in an insurance company, is used by actuaries in the process of making decisions on insurance company investment and underwriting activities [7].

In practice, although the financial ratios used have quite a number of functions and uses for the company, it does not mean that the financial ratios that are made represent the real financial condition and position, because the financial ratios used have many weaknesses. Even with the results of the ratio obtained, at least a picture can be produced as if it actually happened. Weston (2014) mentioned the weaknesses of financial ratios are (1)

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financial data is compiled from accounting data [8]. Then the data is interpreted in various ways.

II. METHODOLOGY

The data used in this study is secondary data obtained from the annual financial statements of PT. Asuransi Bhakti Bhayangkara for the period 2015 - 2018. The data analysis method used in this research is to use quantitative methods with analysis of the financial statements of PT. Bhakti Bhayangkara based on Statement of Financial Accounting Standards No. 28 concerning Loss Insurance Accounting, namely Solvency and Profitability Ratio, Liquidity Ratio, Premium Stability Ratio and Technical Ratio.

Solvency and profitability ratio, consisting of:

$$\text{Solvency Ratio} = \frac{\text{Shareholder Fund}}{\text{Premi Netto}}$$

$$\text{Underwriting Ratio} = \frac{\text{Underwriting Results}}{\text{Premium Income}}$$

$$\text{Loss Ratio} = \frac{\text{Claims Amount}}{\text{Premium Income}}$$

$$\text{Commision Expense Ratio} = \frac{\text{Commision Amount}}{\text{Premium Income}}$$

$$\text{Investment yield Ratio} = \frac{\text{Investment Income}}{\text{Investment Average}}$$

Liquidity ratio, consisting of:

$$\text{Liability to Liquid Assets Ratio} = \frac{\text{Liabilities}}{\text{Admitted Asset}}$$

$$\text{Premium Receivable to Surplus Ratio} = \frac{\text{premium accounts receivable}}{\text{Surplus}}$$

$$\text{Investment to Tehnical Reserve Ratio} = \frac{\text{Investment Amount}}{\text{Technical Obligations}}$$

Premium stability ratio, consisting of:

$$\text{Net Premium Growth} = \frac{\text{Decrease / Increase in Net Premium}}{\text{Last Year's Net Premium}}$$

$$\text{Own Retention Ratio} = \frac{\text{Net Premium}}{\text{Gross Premium}}$$

Technical Ratio, consisting of:

$$\text{Technical Reserve Ratio} = \frac{\text{Technical Obligations}}{\text{Net Premium}}$$

III. RESULT AND DISCUSSION

Characteristics of Loss Insurance Accounting

Loss insurance is essentially a system of protection against the risk of financial loss, by transferring risks to other parties, either individually or as a group in society. Classified into loss insurance, among others, Fire Insurance, Transportation Insurance, Motor Vehicle Insurance, Marine Ship Frame Insurance, Air Ship Frame Insurance, Engineering Insurance and Miscellaneous Insurance such as personal accident insurance, securities shipping and storage insurance, and others. other.

The general insurance business has different characteristics and characteristics from other types of business in the service sector, because the insurance business takes over various risks from other parties so that the insurance company becomes risk intensive if it is not managed properly. In addition, insurance companies are also full of information with a variety of information that must be processed for underwriting, financial and other decisions. The basis of the insurance business is public trust, especially in terms of the company's financial capacity to meet its claims and other obligations on time. For this reason, the insurance business must be managed professionally, both in risk management and in financial management.

Based on Statement of Financial Accounting Standards No. 28 some of the characteristics of the accounting for loss insurance companies include: The liability of a large insurance company to the insured affects the presentation of financial statements, especially the balance sheet. The determination of expenses cannot be fully related to premium income, because the incidence of claim expenses does not always coincide with the recognition of premium income. The income statement is strongly influenced by elements of estimation, for example: an estimate of the amount of unearned premium income and an estimate of the amount of claims incurred in the current period (an estimate of self-dependent claims). Insurance companies must meet government regulations in terms of the solvency margin.

Relationship between Financial Ratios and Financial Performance

According to James C. Van Horne and John M. Wachowicz (1995) that: To evaluate the financial condition and performance of a firm, the financial analyst needs a certain yardstick. The yardstick frequently used is a ratio, index, relating two pieces of financial data of each other [9]. So to assess the financial condition and performance of the company, a ratio can be used which is a comparison of the numbers contained in financial statement posts.

From the above opinion it can be understood that financial ratios and financial performance have a close relationship. There are many financial ratios and each of these ratios has its own use. Because we cannot analyze the whole formula, it is suitable in all cases studied. Or in terms of financial experts that the market is the best laboratory for testing all capabilities and analysis that is owned, then all formula ownership and various thoughts that we have will be proven when testing on the market, such as profit or loss that will occur later.

Analysis of Financial Performance on Case Study of PT. Bhakti Bhayangkara Insurance 2015-2018.

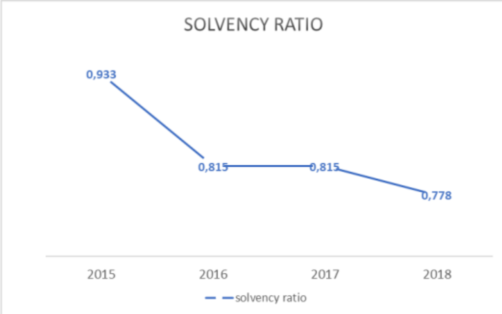

Figure 1. Solvency Ratio (%)

The purpose of this ratio is to determine the level of the company's financial capacity to bear the risks covered. The results of this ratio can show how much the company's financial ability to support the risks that may arise from the insurance it covers. This ratio proves that the higher the results obtained, the insurance company does not need to worry if there is a large amount of insurance coverage.

According to Figure 1 solvency ratio of PT. Bhakti Bhayangkara has decreased, indicating that the company's finances are still unable to bear high risks due to high premiums, in other words, the higher the premiums, the higher the risk that must be borne. If there is a large number of insurance claims, it is feared that the insurance company will not be able to pay the benefits that have been promised. If this is not balanced with an increase in equity, in this case shareholder funds, the company will experience financial difficulties in bearing the risks that are closed.

Further analysis is needed in determining the problem of excess closure that is not proportional to the company's financial capacity. Things that have to be analyzed; stability of company underwriting profit, premium distribution, adequacy level of reinsurance protection, distribution and variation in investment value.

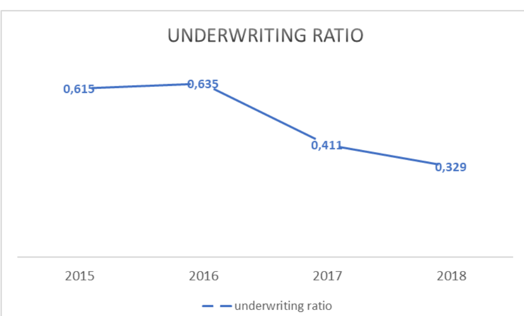

Figure 2. Underwriting Ratio (%)

Underwriting income is income obtained from the main activities of an insurance company. The main activity in question is the premium obtained from various marketed products, with claims closed by the insurance company. This ratio shows the level of underwriting results obtained and is used to measure the level of profit from the loss insurance business. If positive results are found from this ratio, the insurance company will benefit from the underwriting results, one of which is from an increase in premiums. If the result of this ratio is negative, it means that the coverage rate charged is too high and the number of claims has occurred. If the insurance coverage rate is too high it can cause an imbalance between the premiums earned and the underwriting expense. If this happens, it is necessary to evaluate the rate calculation, claim management, and insurance contracts, so that the underwriting expense of the insurance company does not increase and affects the underwriting results.

According to Figure 2 underwriting Ratio PT. Bhakti Bhayangkara Insurance experienced an increase in 2016 due to the increase in premiums received and moving down in the following year. This decrease was due to an increase in the amount of premium income that was not offset by the increase in underwriting results. This happened because of the increase in claims from the 2015 - 2018 period. So that PT. Asuransi Bhayangkara needs to carry out risk management to minimize underwriting expenses. One of them is by doing good claims management.

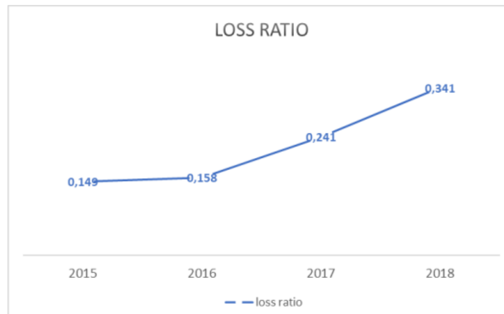

Figure 3. Loss Ratio (%)

This ratio shows the claim experience that occurs in the company and measures the quality of insurance coverage. Measuring the quality of insurance in this case is in accordance with good and correct standard procedures. This ratio compares the number of claims that occur with premium income. The high loss ratio provides information on underwriting errors and insurance coverage against risks.

Loss ratio of PT. Bhakti Bhayangkara Insurance seen from Figure 3 has increased every year due to the increasing number of claims that have occurred, but this has not been matched by an increase in premium income each year.

In order to limit the increase in the number of claims, in this case the insurance company must be able and willing to develop sound and correct claims management principles that do not harm the insured. The stated claim procedure must also be effective and efficient, in addition to being able to carry out cost containment. The insurance company must provide clear guidelines and instructions regarding the claim procedure for each insured. If the claim procedure is not good, it will make the company financial difficulties.

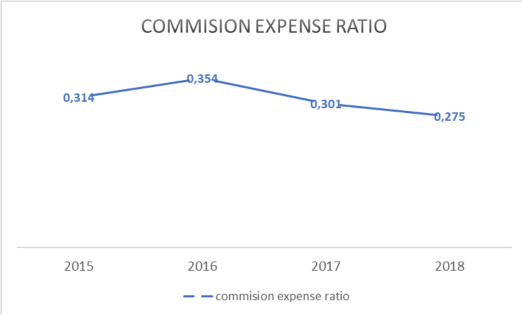

Figure 4. Commission Expense Ratio (%)

This ratio can be used to measure the cost of the acquisition, it can also be used as a comparison of the company's commission income with other companies and vice versa. Acquisition fee is the cost of the policy that will be charged by the insurance company to the customer when buying a life insurance policy to obtain policy facilities, this fee is generally used to finance the company's operations and includes paying agent commissions. High ratio means high acquisition costs. According to Figure 4 value of commission expense ratio of PT. Bhakti Bhayangkara Insurance in fluctuating conditions every year.

The same analysis is required in other insurance companies to determine the comparison of the Commission Expense Ratio of PT. Asuransi Bhakti Bhayangkara, so that it can be assessed whether the acquisition costs and agent commission of this company have competitive results.

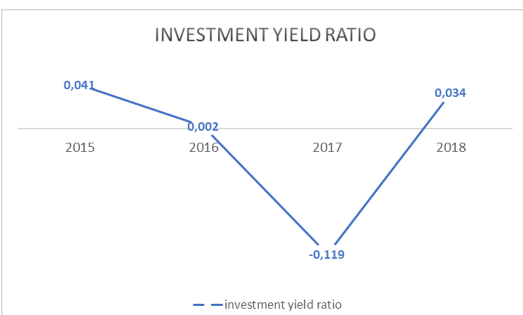

Figure 5. Investment Yield Ratio (%)

The investment return ratio provides an indication, in general, of the quality of each type of investment and measures the results achieved from the investment made. This ratio calculates the net investment income with the average investment from 2015 - 2018. The higher the investment ratio obtained, it shows that the company is able to manage investments well.

Investment Yield Ratio Value of PT. Bhakti Bhayangkara Insurance in fluctuating conditions based on Figure 5. In 2017, it received minus results because the company's investment return was below the average investment return for the 2015-2018 period. This is not very influential as long as the company has met the minimum solvency level of at least 120% based on POJK No.71 / POJK.05 / 2016 article 3 paragraph 1.Low ratios can provide information that the investment is not right, so that investment placement is necessary.

Care is needed in placing investments, if the company has problems with investing it will be difficult to bear obligations to the insured, and vice versa, if the company is able to place and manage investments properly, the company will be able to fulfill its obligations.

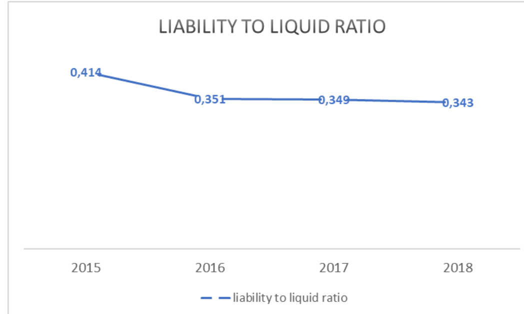

Figure 6. Liability to liquid Assets Ratio (%)

This ratio measures the company's ability to meet its obligations, which roughly describes the company's financial condition. PT. Bhakti Bhayangkara Insurance shows that the company is able to fulfill its obligations and the company is in a solvent condition seen from Figure 6. Even though it experienced a decline in 2016 compared to the previous year, the company was still within the limits set by the Financial Services Authority.

The low ratio indicates a liquidity problem and the company may not be solvent. According to National Regulation POJK No.71//POJK.05/2016, the level of solvency is at least 120% of the Risk Based Minimum Capital. Calculation of Risk Based Minimum Capital as referred to must take into account the risks that at least consist of credit risk, liquidity risk, market risk, insurance risk and operational risk. If this is the case, an analysis of the level of technical liability, distribution of assets, assessment of the stability and liquidity of the permitted assets must be carried out.

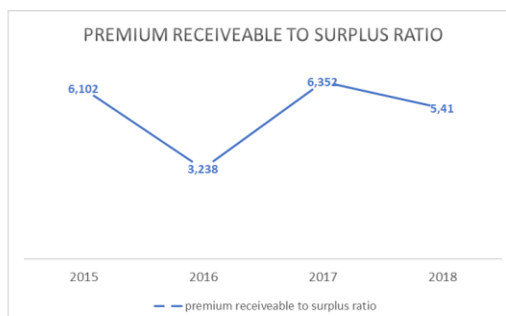

Figure 7. Premium Receiveable to Surplus Ratio (%)

This ratio shows the extent to which the premium bill can be relied upon in supporting the surplus. This ratio calculates the unpaid receivables by the insurance company. This is important because the premium bill of individual premiums is usually difficult to expect to be withdrawn when the insurance company faces financial difficulties.

Premium Receivable to Surplus Ratio fluctuates according to Figure 7, so that PT. Asuransi Bhakti Bhayangkara may experience difficulties in collecting individual premium bills, because the higher this ratio the higher the premium bill, which is difficult to collect when there is financial difficulty. For this reason, companies need to innovate billing and premium payments to make it easier for policyholders, especially individuals, to make payments.

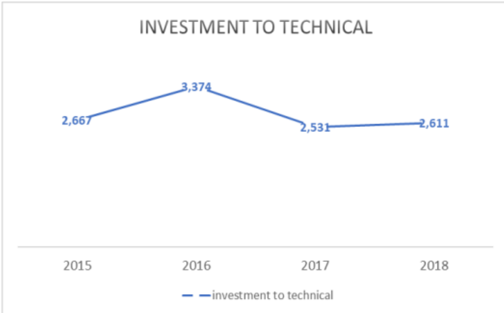

Figure 8. Investment to Technical (%)

Technical reserve or technical liability here is a premium that is not yet an income plus an estimated own dependent claim. This ratio shows to what extent the technical liabilities created by the insurance company are reflected in the investment. In other words, this ratio assesses how far the company is able to cover the risk of technical liabilities without the involvement of the reinsurer by only relying on investment income. Investment to From Figure 8 technical reserve movement of PT. Bhakti Bhayangkara fluctuates, indicating that the amount of technical liabilities that occurs is not influenced by investment, due to the inadequate increase in income on investment and can also be seen in the previous ratio, namely the Investment Yield Ratio, which in 2017 received minus results due to a decrease in investment income.

The low ratio indicates a tendency that the estimated own dependent claims are not supported by adequate funds, for this reason companies need to consolidate with reinsurance in order to minimize the estimation of their own dependent claims.

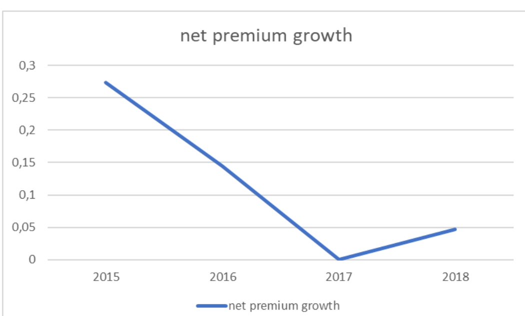

Figure 9. Net Premium Growth (%)

This ratio calculates the stability of the company as seen from the increase or decrease in net premiums generated with the previous year's net premiums. If there is a significant increase or decrease in net premium volume, this indicates a lack of stability in the company's operations.

According to Figure 9 net premium growth PT. Bhakti Bhayangkara Insurance has decreased from 2015 to 2017. This is due to the increase in net premiums which have decreased less, it can be seen that in 2017 the increase in net premiums was only 2 billion from the previous year. With a small increase in net premium income, if the company experienced an increase in underwriting expenses and operating expenses, it would later experience losses. For this reason, companies need to increase operational stability by minimizing cash flow management.

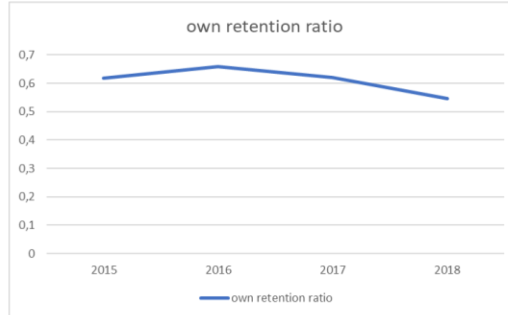

Figure 10. Own Retention (%)

This ratio is useful for measuring the company's retention rate which can later be used as a basis for comparing the company's actual capabilities with available funds. Own Retention Ratio PT. Bhakti Bhayangkara Insurance in stable condition seen from Figure 10. This condition is influenced by an increase in the amount of gross premium which can be offset by an increase in net premium. We recommend that this ratio be used in conjunction with the solvency margin, so that the analysis will describe the situation more accurately.

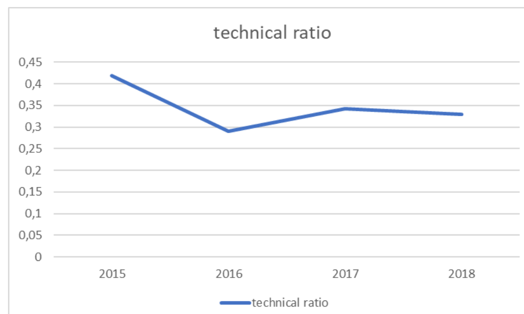

Figure 11. Technical Ratio (%)

The ratio of technical reserves consists of two, namely premium reserves which are not yet income and reserves for self-dependent claims. This ratio can roughly measure the adequacy level of the technical liabilities required to face the obligations arising from risk closure.

From Figure 11 technical reserve Ratio PT. Asuransi Bhakti Bhayangkara shows that sufficient technical liability funds make the company's financial condition at a solvency level with an average achievement ratio from 2015-2018 of 468.95%. This is in accordance with the provisions of article 3 paragraph 1, 2, 3 POJK No.71 / POJK.05 / 2016, namely the ratio of achieving a solvency level of at least 100% with an internal target of at least 120% of the Risk Based Minimum Capital.

IV. CONCLUSION

In the Solvency And Profitability Ratio group, the financial performance of PT. Asuransi Bhakti Bhayangkara from 2015 to 2018 shows a decline which is reflected in the Solvency Ratio. It can be seen that the insurance company finances have problems in bearing high risk due to high premiums. Loss Ratio has increased due to increasing claims every year. The underwriting ratio has decreased due to an increase in the amount of premium income which was not matched by an increase in claims results. The Investment Yield Ratio in 2017 received minus results because the company's investment return was below the average investment return for the 2015-2018 period.

In the Liquidity Ratio group, namely the Premium Receivable to Surplus Ratio, fluctuated, so that PT. Bhakti Bhayangkara Insurance may experience difficulties in collecting individual premium bills. Investment to technical fluctuates. This condition can be said that the insurance company is still having difficulty in closing insurance without a reinsurance party, but the insurance company is quite capable of carrying out every type of investment made. However, if seen from the Liability to Liquid Assets Ratio, the insurance company is quite capable of fulfilling its obligations. The results of the performance of the Premium Stability Ratio Group, namely Net Premium Growth, indicate that the lack of operational stability in the insurance company is shown in a sharp decline on the graph due to the lack of increase in net premiums from year to year. Own retention ratio on the graph shows a stable condition. While technical ratio in stable condition. This condition can be seen that the insurance company is able to manage the funds used to pay obligations in the future.

V. RECOMMENDATION

The need for the company to provide a limit on the amount of coverage it has on its insurance products. This is so that the company can minimize the risk of default at the time of insurance closing.

There needs to be an evaluation in calculating rates, good claims management, and insurance contracts. This is so that the insurance company's underwriting expense does not increase and affects the underwriting results.

Innovation of individual premium payment collection and payment processes, in order to increase premium income and make it easier for participants to make payments, for example in collaboration with digital payments.

Companies need to increase operational stability by managing cash flow efficiently, so that operating expenses can be reduced and increase company profits.

In terms of making decisions on the financial ratio analysis, the company must have a deep understanding and prudential principles in every decision making process. Because financial ratio analysis can only be used as a preliminary warning and not a final conclusion.

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