Factors that Influence the Profits of Takaful Companies in Indonesia and Malaysia

Haniatur Rofika*
State Islamic University Maulana Malik Ibrahim Malang, Indonesia
haniaturrofika10@gmail.com

Kurniawati Meylianingrum
State Islamic University Maulana Malik Ibrahim Malang, Indonesia
meylianingrum@uin-malang.ac.id

Corresponding author

Abstract

Islamic Financial Institutions were established as an application of Muslims' understanding of several principles in Islamic economic law and are developing every year. Takaful contributed 2 percent of total sharia financial assets in 2021; however, in 2019–2020, the development of takaful assets decreased compared to the previous year due to the COVID-19 pandemic. There are several factors that influence profit instability in takaful industry. This study will examine the factors that influence the level of profit in takaful in Indonesia and Malaysia throughout 2017–2022, acquired a sample of 11 firms and obtained secondary data for this study from the official websites of Bank Negara Malaysia (BNM) and the Financial Services Authority (OJK). Utilising methods for quantitative research, specifically a purposive sampling approach and panel data regression modeling. The research results show that the variables premium, return on investment, risk-based capital, and claims expenses have a major favourable impact on takaful profitability, while liquidity has a major negative impact on the same. Simultaneously, the premium variables, investment returns, risk-based capital, liquidity, and claims costs simultaneously influence the profitability of takaful.

Keywords: Claim Expense; Investment Return; Liquidity; Premium; Risk-Based Capital

Abstrak

Institusi Keuangan Islam didirikan sebagai penerapan pemahaman umat Islam tentang beberapa prinsip dalam hukum ekonomi Islam dan berkembang setiap tahun. Takaful menyumbangkan 2 persen dari total aset keuangan syariah pada tahun 2021; namun, pada tahun 2019-2020, pengembangan aset takaful mengalami penurunan dibandingkan tahun sebelumnya karena pandemi COVID-19. Ada beberapa faktor yang mempengaruhi ketidakstabilan keuntungan dalam industri takaful. Studi ini akan mengkaji faktor-faktor yang mempengaruhi tingkat keuntungan dalam asuransi syariah di Indonesia dan Malaysia selama 2017-2022, memperoleh sampel 11 perusahaan dan memperoleh data sekunder untuk penelitian ini dari situs resmi Bank Negara Malaysia (BNM) dan Otoritas Jasa Keuangan (OJK). Menggunakan teknik penelitian kuantitatif, khususnya pendekatan sampling khusus dan pemodelan regresi data panel. Hasil penelitian menunjukkan bahwa variabel premi, pengembalian investasi, modal berbasis risiko, dan pengeluaran klaim memiliki dampak yang menguntungkan besar pada profitabilitas takaful, sedangkan likuiditas mempunyai dampak negatif besar pada yang sama. Pada saat yang sama, variabel premi, pengembalian investasi, modal berbasis risiko, likuiditas, dan biaya klaim secara simultan mempengaruhi profitabilitas takaful.

Kata kunci: *Biaya Klaim; Hasil Investasi; Likuiditas; Premi; Risk-Based Capital*

INTRODUCTION

Islamic financial institutions play a crucial role as economic institutions, grounded in sharia, within the national development process. Islamic Financial Institutions stands as one application of Muslim understanding of several principles in Islamic economic law (Ningsih, 2021). The Takaful Company is a non-bank financial institution that experiences annual growth. Insurance companies engage in operational activities to generate profits from the transactions they conduct. According to statistical data from the Islamic Finance Development Indicator Report, takaful has developed in various countries, particularly in countries where Islam is the majority. Takaful contributed 2%, or US$73 billion, of total sharia financial assets in 2021. In 2021, the takaful sector achieved double-digit growth by country, namely 17%. Malaysia and Indonesia succeeded in occupying the Top Big Five, or the five largest countries with the largest global Takaful assets (Mohamed *et al.,* 2022).

Malaysia is the world's third-largest country in terms of takaful financial assets, amounting to US$12 billion (National Bank of Malaysia, 2022). The country with the greatest Muslim population is Indonesia. The world's fifth-largest takaful market is in Indonesia, which has assets worth US$3 billion (Mohamed *et al.,* 2022). Indonesia, for example, still lags far behind in terms of sharia economic penetration in Malaysia. As a result, action is required to boost the sharia economic market's penetration in Indonesia (Syahputra, 2022). Malaysia currently enjoys quite favourable sharia economic conditions. Because the state has implemented several initiatives to develop and promote the sharia economic sector and develop sharia financial products (Hutomo Mukti, 2020). The Sharia National Economic and Financial Committee said that Malaysia is one of the main sharia financial centres in the world. Therefore, Indonesia and Malaysia can join hands to develop the sharia economy and finance together, so that their influence on the development of the world sharia economy and finance will be very large (Achdiat, 2021).
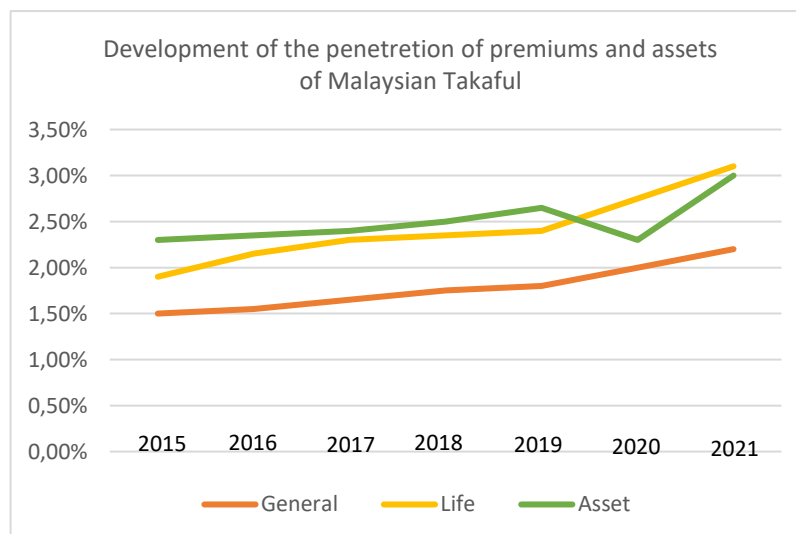

Figure 1. Malaysian Takaful
Source: Annual Report of the Malaysian State Bank, 2022

The National Bank of Malaysia released its annual report in 2022. In 2022, Malaysia's takaful industry accounted for 13.4% of Bank Negara Malaysia's total assets, experiencing compound annual growth (CAGR) of 8.9% from MYR 73.1 billion (US$17.6 billion) in 2021. Family and general insurance are the frontrunners. The COVID-19 pandemic-related economic downturn resulted in a 2.8% decline in the insurance sector in 2020, but it expanded by 7.6% in 2021 in Malaysia. In fact, the significant growth in premium penetration in both life and general insurance during the pandemic period, namely during 2020–2021, was due to increased public awareness regarding the importance of insurance to provide financial protection. Apart from that, incentives from ITOs, which carry out re-pricing to reduce the financial burden for policyholders, also support the increase in premium penetration (National Bank of Malaysia, 2022).

The COVID-19 pandemic has had a significant effect on Indonesia's takaful industry, causing an increase in insurance claims (Authority, 2021). The sharia non-bank financial sector's growth until the end of 2021 reached IDR 120.81 trillion, with an asset growth rate of 3.90% (year-on-year). In 2021, the number of insurance assets that apply sharia principles will decrease by 1.65%. This decrease is evident in each subsector, with the sharia life insurance subsector decreasing by 3.71% year on year and the sharia reinsurance subsector decreasing by 6.88% year on year. Even so, in 2020, the premium rose to 63.920 billion. While the total profit decreased to 6.626 billion in December 2021, the premium rose quite rapidly to 86.467 billion, and the total profit also decreased quite sharply to 5.011 billion. The premium still rose to $99.599 billion, while profits increased slightly to $5.392. One of the causes of the decline in the takaful sector is the emergence of the COVID-19 virus, which entered Indonesia in 2020 and began to spread (Financial Services Authority, 2021). As shown in the picture below:
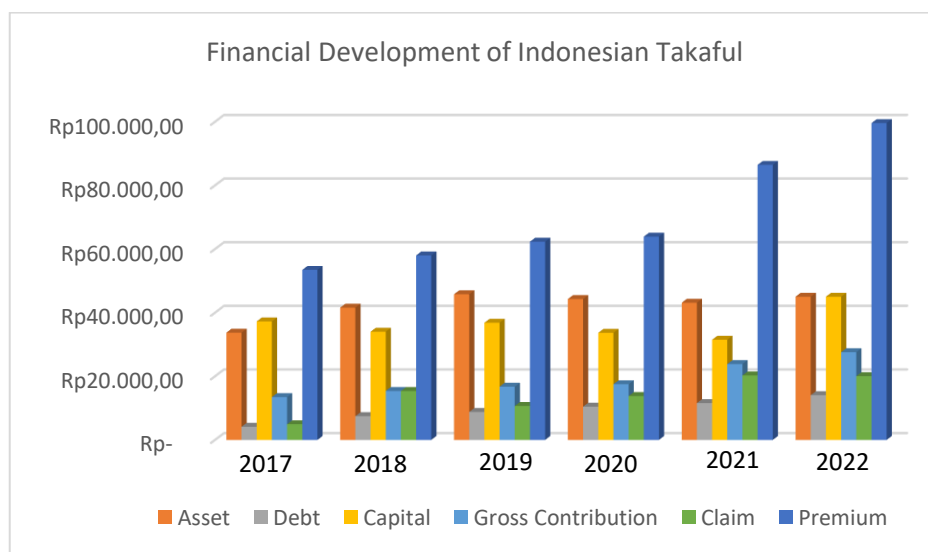

Figure 2. Indonesian Takaful
Source: INKB Sharia Financial Development Report 2017-2022

Figure 2 shows the evolution of the financial components of takaful, where the debt components, gross contributions, gross claims and premiums always increase between years. This is in contrast to the fluctuating nature of capital and assets. The premium component consistently rises annually (Authority, 2021). Company profits can increase as insurance products and services are sold to insurance participants, generating income in the form of insurance premiums (Nurmaini, 2018). However, during COVID-19, assets actually decreased while premiums increased. This also happened to takaful companies in Malaysia, where in the last 5 years premiums continued to increase but company assets decreased, especially after COVID-19 (National Bank of Malaysia, 2022).

Takaful companies must demonstrate positive financial performance and fair financial reports in order to increase their profits. Not only does profitability play a crucial role in determining the performance of an insurance company, but information also plays a crucial role in determining the country's economic growth, the company's financial health, and the public's trust, all of which contribute to reducing future risks to insurance companies. Several factors contribute to the company's profitability, which is the company's primary goal (Markonah, Riwayati, and Kumalasari, 2023). The realization of profitability in takaful companies has a strong relationship with a number of internal factors, including investment returns, risk-based capital (RBC), premium growth ratio, claims burden, and liquidity (Nafi'i, 2023).

Premiums are a very important factor in insurance, both for the company and the insurance participants. Premiums are a form of income from the sale of insurance products and services to insurance participants (Nurmaini, 2018). The higher the premium income, the greater the profit opportunity. Research conducted by (Nursalamah et al., 2021; Markonah et al., 2023) shows that premium contributions have a positive effect on the profitability of takaful. Investment returns also play an important role in the growth of insurance company profitability. Investment returns are the total profit from investment profits (Susmayanti, 2021). The higher the profit from investment obtained, the higher the level of profitability of the insurance company, as has been shown in research (Mardhiyyah, 2019; Afiifah & Prajasari 2022), which claims that investment returns have a positive effect on the profitability of insurance companies.

Apart from income factors, assessing an insurance company's financial situation is another factor that influences its profitability. We measure the financial health of an insurance company using risk-based capital (Leviany and Sukiati, 2017). The better or healthier the company's finances, the greater its profit opportunities. This was shown in research conducted by (Nursalamah et al., 2021; Nasution et al., 2019; William & Colline 2022; Candra 2023; Afiifah & Prajasari 2022). This suggests that risk-based capital influences the growth of takaful profitability.

Claims expenses are used to compensate participants if a policy risk or claim arises. Claims expenses have a significant impact on profitability growth (Nurmaini,

2018). The greater the burden the insurance company bears, the lower its profit margin. This is stated in research conducted by (Nursalamah et al., 2021; Firmansyah et al., 2020; Pranata & Rahayu 2023; Afiifah & Prajasari 2022), asserts that claims expenses significantly impact the growth of takaful profitability. Liquidity is also included in the factors that influence company profits because liquidity describes the company's ability to pay its obligations.

Previous studies also examined the effect of premiums on the profitability of takaful (Agustin *et al.*, 2016; Mardhiyyah 2019; Mitasari 2020; Nursalamah et al., 2021). Research has also identified the impact of investment returns on the profitability of takaful asuransi (Safitri & Suprayogi 2017; Agustin *et al.,* 2016; Afiifah & Prajasari 2022). Additionally, studies have explored the role of risk-based capital in influencing the profitability of takaful (Nasution et al.*,* 2019; William & Colline 2022; Candra 2023) and the influence of claims costs and liquidity on insurance profitability (Nursalamah et al., 2021; Firmansyah et al., 2020; Pranata & Rahayu 2023; Syukhandri & Rahayu 2022). Previous research has yielded mixed results. As a result, researchers will examine the factors that influence takaful's profitability. The distinction from previous research lies in the inclusion of the object of study, specifically Malaysian takaful companies, across various time periods.

LITERATURE REVIEW

Signal Theory

Signal theory explains the reason a company shares information in the form of financial reports from external parties related to information that arises among company management, who have more information than external parties to the company (Hariningsih and Harsono, 2019). Precise, accurate, and complete information is an important tool for capital market investors to analyse in order to make investment decisions. This information is published as an announcement that will send signals to investors to make investment decisions. If there is a positive value, it is hoped that the market will react when it receives the notification (Hartono, 2000).

The signalling theory explains why companies have an incentive to share financial news with outsiders. The company's encouragement for companies to publish news is because there is still asymmetry in news between the company and external parties because the company understands more about prospects and future companies than external parties (investors and creditors). Investors invest capital based on the company's condition. Most investors focus on the company's profitability (Arifin, 2005). Investors in takaful companies use signal theory to determine the company's financial condition.

Islamic Split Fund Theory

In business operations, takaful companies use the practice of separating funds to differentiate the assets and liabilities of participants and shareholders. At the beginning of the transaction, participant contributions are divided into tabarru' and ujrah funds for payment of participant claims and retafakul contributions. Tabarru's funds are used to meet participants' expenditure needs, while ujrah's funds are used to fund company operations. Shareholders will receive compensation. The separation of Tabarru's funds from company funds is consistent with the Islamic Split Fund Theory (ISFUT) (Puspitasari, 2022).

Takaful companies must differentiate by separating funds used for participant needs from funds used for company needs. The fund separation system mandates that takaful companies only use funds in accordance with their corporate rights. Stakeholders have different rights and obligations from shareholders, and sharia-based fund management rules are used. This demonstrates that takaful companies do not prioritize profits in their business activities, but rather obtain reasonable profits to provide benefits to both participants and business actors, in accordance with sharia guidelines. The profit element in this concept is not only directed at capital holders; it is also widely distributed to participants, both directly and indirectly (Mitasari, 2020).

Insurance Premium

Law Number 40 of 2014 concerning insurance states, insurance premiums are payments paid by the insured person in exchange for services rendered by the insurer through protection offered in compliance with previously established agreements (Otoritas Jasa Keuangan, 2022). Premiums in takaful cover Tabarru's funds and savings. Savings funds are funds entrusted to takaful participants who will then receive a profit share from the net investment income obtained by the company each year. Meanwhile, Tabarru's funds are benevolent funds given sincerely by takaful participants, if the funds are suddenly used to pay insurance claims (Aminullah, 2019).

Insurance premium income is obtained by selling insurance services and products to participants. Premium income is the biggest factor that influences insurance company profits. Therefore, companies must develop strategies to determine insurance rates and premiums in order to make a profit. The insurance company determines the premium rate based on the amount of risk it wants to face for the policy it issues (Yuliana, 2016).

Investment Return

Investing involves allocating a number of funds to produce them at a specific future date with the goal of making profits (Tandelilin, 2010). The essence of all investments is to buy low and sell high. Investors must therefore be cautious when deciding whether the value of the shares they want to invest in is still affordable or

very high. Usually, investors choose industries that still have quite high growth capabilities because it is hoped that when the company's profits increase, they will get investment returns (Kausari, 2019).

Investment returns are the result of insurance company operations through capital market instruments; therefore, a large amount of money is collected, and the results are distributed to insurance participants. When an insurance company has better potential for managing investments, it is predicted to be able to increase assets. This is because the investment's results will boost his wealth (Susmayanti, 2021).

Risk Based Capital (RBC)

The legal definition of risk-based capital in DJLK decision number 5314/LK/1999 refers to a technique that measures an insurance company's financial stability by comparing it to the solvency level limit. This is done by understanding the company's capital requirements in line with the level of risk experienced by the company to manage its obligations and its assets (Leviany and Sukiati, 2017).

With a higher risk-based capital health ratio, an insurance company's financial standing improves. An insurance company's risk-based capital must be guaranteed by the insurance company to the government to guarantee the availability of funds for the payment of insurance claims (Nasution, 2020). If an insurance company has a risk-based capital ratio below government regulations, then this ratio is a signal that must be paid attention to by both management and other stakeholders. Meanwhile, the greater the risk-based capital an insurance company's health ratio, the greater the company's financial condition. The main aim of risk-based capital regulation is to be a regulatory tool for early detection of insurance companies that have financial problems, so management can take corrective action and limit guarantees and usage (Maulana, 2021).

Liquidity

Liquidity is the potential a company has in making short-term debt payments using current assets so that it can meet its obligations on time (Hery, 2017). Liquidity can be understood as the potential level of a company to pay its debts when they are due (Nurdiana, 2018). Liquidity is based on the extent to which the company can pay off current debts that are due as soon as possible. The greater the amount of debt that must be paid, the lower the profitability the company will obtain (Rahmayanti, Aplonia, and Efendi, 2018).

Meanwhile, according to the Islamic Financial Services Board, liquidity risk is a potential loss that a sharia bank may experience due to its inability to pay its obligations or to finance an increase in its assets at relatively high costs.

Claim Expense

A claim is a value-added coverage provided participant in insurance for the risks experienced (Hissiyah and Meylianingrum, 2023). Insurance claims are requests for payment to the insurance provider in the event that an incident occurs with the covered item. When insurance claims are received, the firm will review them to ensure they are valid, pay the insured, and then approve them. The insurer will then have to satisfy the terms stated in the insurance policy (Presiden RI, 2014). An insurance claim is a right that the insured party exercises against his insurer for losses based on an agreement. The position of a claim in insurance is a cost or burden, because a claim is a cost or free, so if there is a claim, it will reduce the degree of profitability of the company.

RESEARCH METHOD

This study employs descriptive-quantitative research, a method that begins with the collection, interpretation, and display of numerical data (Sugiyono, 2021). This study was conducted in the financial industry sector, specifically takaful in Indonesia and Malaysia, and was based on financial statements and other supporting data. The selection of research locations takes data directly from the official websites of related agencies, namely financial services authorities and takaful companies registered with the National Bank of Malaysia. The study population consists of Takaful companies in Indonesia registered with the Financial Services Authority and Malaysian takaful companies, registered with the National Bank of Malaysia from 2017 to 2022. The sample list is written in Table 1.

Table 1. Sample List

No	Country	Takaful Company
1	Indonesia	1. PT Allianz Indonesia Insurance
		2. PT Chubb Sharia Indonesian Insurance
		3. PT AIA Financial
		4. PT Takaful Family Sharia Life Indonesia
		5. PT BNI Life Insurance
		6. PT Sun Life Insurance
2	Malaysia	7. FWD *Takaful* Berhad
		8. Zurich *Takaful* Malaysia Berhad
		9. AIA Public *Takaful* Bhd
		10. Prudential BSN *Takaful* Berhad
		11. Sun Life *Takaful* Berhad

Source: Authors, 2024

This research used the purposive sampling technique, which is a non-probability sampling method, which is a sample selection technique that relies on judgment (Sugiyono, 2021). Research data was processed using EViews 12 software and using panel data regression. Test for Model Selection Panel data regression can be determined using three models, which are as follows: 1. The CEM, or Common Effect Model; 2. The FEM, or Fixed Effect Model; 3. The Model of Random Effects (REM). For estimation techniques, the method used is GLS. This method is best used for panel data if the number of individuals is greater than the number of available periods (Algifari, 2021). We employ the panel data regression model selection test. According to Gujarti (1991), models or estimation techniques can be used in conducting estimated regression equation tests. There are three tests available: the LM Test, the Chow Test, and the Hausman Test. Next, classical assumption tests are carried out, such as the normality test, including the heteroskedasticity test, and the multicollinearity test. For the hypothesis test, the final step involves using hypothesis testing (T and F tests) and coefficient of determination tests (R2).

RESULTS AND DISCUSSION

Descriptive Analysis

The samples used in this research were 11 takaful companies in Indonesia and Malaysia that actively published monthly financial reports from 2017 to 2022. So the total N used is 792. The data, including the average, median, maximum, minimum, and standard deviation values, are presented in this descriptive analysis. Table 2 shows the descriptive statistical analysis results.

Table 2. Descriptive Statistics

	X1	X2	X3	X4	X5	Y
Mean	194592.9	35337.92	0.626874	0.153118	145997.1	0.000814
Median	23831.28	3187.479	0.580519	0.103576	17372.13	0.001036
Maximum	1498202.	242440.6	2.003578	0.417293	989320.0	0.008239
Minimum	948.8972	-266.7587	-0.490055	0.088588	343.5735	-0.008901
Std. Dev.	361838.5	68352.70	0.318697	0.090297	278307.2	0.002772
Observations	792	792	792	792	792	792

Source: Authors' Processed Data, 2024

Panel Data Regression Model Test

For the panel data regression model, it is important to consider three tests to determine the best model: the Chow test, the Hausman test, and the Lagrange multiplier (LM) test. The results of the three tests are displayed in Table 3.

Table 3. Regression Models

No	Test	Result	Criteria	Model
1	Chow	0,0000	Prob < 0,05	FEM
2	Hausman	0,4538	Prob > 0,05	REM
3	LM	0,0000	Prob < 0,05	REM

Source: Authors' Processed Data, 2024

Based on the model selection results during the Chow test, it appears that the fixed effect model (FEM) is the most suitable model, so we need to proceed with the Hausman test. During the Hausman test stage, the random effect model (REM) emerged as the most optimal model. We continued with the LM test and obtained the best model, namely the random effect model (REM).

Classical Assumption Test

The classic assumption test is performed on the best model selected to determine whether it is valid or not. The results of the classical assumptions test are presented in the following table:

Table 4. Classical Assumption Test

No	Test	Result	Criteria	Information
1	Normality Test	0,099475	Prob > 0,05	Passed
2	Multicollinearity	X1 = 0,0575023 X2 = 0,08668293 X3 = 0,08101533 X4 = 0,23815700 X5 = 0,064268551	CM < 0,80	Passed
3	Heteroscedasticity	X1 = 0,9334 X2 = 0,8207 X3 = 0,1830 X4 = 0,5628 X5 = 0,8716	Prob > 0,05	Passed

Source: Authors' Processed Data, 2024

The data from this study successfully passed the classic assumptions of the normality test, the multicollinearity test, and the heteroskedasticity test, as indicated by the findings from the classical tests in Table 4.

Partially Significant Test (Statistical T Test)

Table 5. T Test

Variable	Coefficient	T-Statistic	Probability
Premium (X1)	1.27E-08	2.999280	0.0028
Investment Return (X2)	2.11E-08	2.766373	0.0058
Risk-based capital (X3)	0.004940	24.97432	0.0000
Liquidity (X4)	-0.004545	-2.321320	0.0205
Claim Expense (X4)	1.56E-08	2.153957	0.0315

Source: Authors' Processed Data, 2024

The T test criterion states that the probability value must be less than 0.05 (prob < 0.05). The results in the table above show that all variables have a significant effect on Y.

Simultaneous Significant Test (Statistical Test F)

This test aims to recognize how independent factors affect dependent variables when combined. Consequently, the F test is employed in this investigation to comprehend the impact of investment variables, premiums, liquidity, risk-based capital, and claim returns together on takaful insurance profitability (0.0000 < 0.05).

Table 6. Test F

F-statistic	107.5537
Prob(F-statistic)	**0.000000**

Source: Authors' Processed Data, 2024

Based on the regression models' statistical test F findings, it can be concluded that the model as a whole shows high statistical significance. This is observed through a large F-statistic value (107.5537) with a probability (Prob(F-statistic)) close to zero (0.000000), proving that a set of independent variables together contribute significantly to the variability of dependent variables.

Coefficient of Correlation and Determination (R2)

Table 7. The Coefficient of Determination Test

R-squared	0.406241
Adjusted R-squared	**0.402463**

Source: Authors' Processed Data, 2024

To determine how well a model can explain a dependent variable in research, one uses the coefficient of determination. This model has a good degree of match with the data, according to the regression model's determination and correlation coefficient values. With an R-squared value of 0.406241, the model's independent variables can explain around 40.6% of the variation seen in the dependent variables. The high adjusted R-squared (0.402463) takes into consideration the number of

independent variables in the model, indicating that the addition of those factors considerably helps in the explanation of variation.

Resression Model Equations (Random Effects Model)

$$Y = -0.000641 - 1.27E - 08(X1)it - 2.11E - 08(X2)it + 0.004940(X3)it$$
$$-0.004545(X4)it + 1.56E - 08(X5)it + e \tag{1}$$

This research seeks to identify the factors that impact the profitability of takaful in Indonesia and Malaysia. Using premium variables, investment returns, risk-based capital, liquidity, and claims costs as independent variables and profitability as the dependent variable, we have provided explanations for the results of each variable:

The Impact of Premiums on Takaful's Profitability

The conducted tests indicate that the premium variable partially impacts the profitability of takaful companies in Indonesia and Malaysia. This hypothesis test entails a statistical significance analysis of the premium variable's regression coefficient on the profitability variable. The t-statistical test results on this variable demonstrate that the regression coefficient has a statistically significant value (0.0028 < 0.05). When the premium regression coefficient has a partially significant value, this indicates that an increase or decrease in the amount of premium obtained by takaful companies can have a significant impact on their profitability. This implies that changes in the premium variable have a significant impact on changes in the profitability variable, and this relationship is measurable and statistically significant. If there is an increase in premiums, insurance profitability will also increase.

If premium income serves as the primary revenue stream for insurance companies, then premium income, whether small or large, will have an influence on profitability. This provides significant insights for the takaful industry in Indonesia and Malaysia, emphasizing the importance of management and strategy in increasing premium amounts to support company profitability levels. However, further interpretations and implications can be generated by considering the industry context and other factors that can influence the relationship between premiums and profitability. This is consistent with the study that was done (Nursalamah et al., 2021; Markonah et al., 2023).

The Impact of Investment Returns on Takaful's Profitability

In this discussion, it is concluded that investment return variables individually influence the profitability of takaful companies in Indonesia and Malaysia, based on the results of the hypothesis tests carried out. The regression coefficient of investment returns on the profitability variable shows a degree of significance (0.0058 < 0.05) according to statistical significance analysis. This implies that changes in investment returns have a significant impact on changes in partial profitability

variables. In other words, takaful companies can maximize their profitability by paying attention to and managing the investment return variable.

These results offer a crucial insight into how the company can allocate or invest assets, such as assets and funds, to generate future profits. Profits obtained through investment are at the overall economic level, meaning that profitability does not allocate or determine the amount of investment, but investment results can determine the company's revenue. The study's findings are consistent with the study that was done. (Mardhiyyah 2019; Afiifah &; Prajasari 2022) Islamic insurance firms may impact their profitability by demonstrating investment returns.

The Impact of Risk-Based Capital on Takaful's Profitability

The statistical analysis results demonstrate that the regression coefficient value for risk-based capital has a high level of significance, namely (0.000 < 0.05). This means that changes in the level of risk-based capital have a significant impact on partial changes in company profitability. Risk-based capital is one of the indicators used by the public to find out whether a company has a healthy financial condition or not. The better the risk-based capital owned by the company, the higher the level of trust in the company, and this will influence the elimination of doubts by the public about becoming the company's customers. The growing number of customers will influence the increase in company profitability. The study's findings are consistent with the study that was done. (Nursalamah et al., 2021; Nasution et al., 2019; William & Colline 2022; Candra 2023; Afiifah & Prajasari 2022). It demonstrates how risk-based capital (RBC), which is a gauge of a takaful company's degree of financial stability, affects the profitability and growth of insurance businesses.

The Impact of Liquidity on Takaful's Profitability

Efficient liquidity management is a key factor in supporting and improving corporate financial performance. This implies that an increased interest burden on liquidity, which indicates an increase in the value of liabilities in relation to assets, leads to a corresponding increase in interest rate burdens on debt. This, in turn, reduces the tax burden, thereby improving the company's ability to generate profits, and vice versa. The hypothesis test findings indicate that the liquidity variable significantly influences the profitability of takaful businesses in Malaysia and Indonesia. An examination of the liquidity variable's regression coefficient on the profitability variable using statistics revealed that the value of the factor has a significance rate of 0.0205 < 0.05. and shows that the level of liquidity of the Takaful company has a significant negative impact on individual profitability. In this study, we obtained a coefficient value of -0.004545 (negative), which shows the opposite direction of influence.

Liquidity is the extent to which a company is able to pay current liabilities that are due soon. The more liabilities that must be paid, the less likely the insurance company is to gain profitability. This is because a high liquidity value indicates that

the insurance company has more funds in its current assets to meet the obligations that must be paid. As a result, insurance companies' opportunities to invest in potential projects that can generate profits may be reduced. The study's findings are consistent with the study that was done (Syukhandri & Rahayu 2022; Santoso et al., 2020).

The Impact of Claim Expenses on Takaful's Profitability

A statistical examination of the claim expenditure variable's regression coefficient on the profitability variable reveals that the coefficient value has a significance level of 0.0315 < 0.05. This means that changes in the claims costs of takaful companies have a significant impact on individual profits. One of the most important things that may help takaful firms function financially better is effective claim cost management. The larger the existing claim, the more liability and expenses the insurance company must bear. According to basic financial concepts, all expenses, including insurance companies, certainly affect a company's profits. The greater the growth in claims, the more company assets are allocated to paying claims expenses, which makes company asset management less focused on increasing profitability and then has an influence on profitability growth. The study's findings are consistent with the study that was done. (Nursalamah et al., 2021; Firmansyah et al., 2020; Pranata & Rahayu 2023; Afiifah &; Prajasari 2022) which shows the burden of claims expenses the profitability growth of insurance companies.

The Impact of Premiums, Investment Returns, Risk-Based Capital, Liquidity, and Claim Expenses on Takaful's Profitability

In this discussion, it was found that, together, the factors influencing the profitability of takaful businesses in Malaysia and Indonesia include premiums, investment returns, risk-based capital, liquidity, and claim expenses. This is based on the results of hypothesis testing involving all these variables in the regression model. A significant F-statistic value (with a probability close to zero) indicates that a set of independent variables simultaneously makes a significant contribution to the variability of profitability for takaful companies. Therefore, it can be concluded that the variables premium, investment returns, risk-based capital, liquidity, and claim costs simultaneously have a significant influence on the company's financial performance. These findings provide a holistic understanding of the factors that jointly influence the profitability of takaful companies in Indonesia and Malaysia. To achieve and maintain optimal levels of profitability, decision-makers in this industry must consider a comprehensive strategy involving managing premiums, investments, risk-based capital, liquidity, and claims costs. However, further research and in-depth analysis may be needed to understand the dynamics of the relationship between variables and several other factors that may influence the performance of takaful companies.

CONCLUSION

The study looked at how premiums, investment returns, risk-based capital, liquidity, and claim costs affected the profitability of takaful in Indonesia and Malaysia from 2017 to 2022. Simultaneously found that all of these factors significantly influence the profitability of takaful in both Indonesia and Malaysia. However, partially each variable yields different results, with the liquidity variable showing a negative impact and the premium variables, investment returns, risk-based capital, and claims costs, demonstrating a positive influence on the profitability of takaful in both Indonesia and Malaysia. Hopefully this research can serve as a source of information and enhance insight for readers and company managers, thereby serving as a foundation for increasing the assets of insurance companies.

The author acknowledges that this research focuses solely on five independent variables and spans a mere five-year period. For future researchers, it is possible to add variables that influence the profitability of takaful, such as company value and financial performance, which can increase the time period and expand the research object, such as takaful in ASEAN.

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