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FACTORS AFFECTING THE FINANCIAL PERFORMANCE OF ISLAMIC INSURANCE COMPANIES IN INDONESIA USING SURPLUS ON CONTRIBUTION (SOC)

Oleh :
Kamaruddin
Universitas Islam Kebangsaan Indonesia
Andri Soemitra
Universitas Islam Negeri Sumatera Utara
Zuhrinal M. Nawaw
Universitas Islam Negeri Sumatera Utara
Corespondent Author : kamal@uniki.ac.id

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Abstract
Sharia-based insurance companies and businesses began to move faster in the last 10 years in Indonesia, along with the development of the sharia finance industry in general, such as sharia banks, sharia cooperatives and others. Since the establishment of this type of sharia insurance company in Indonesia at the end of 1994 with the product Takaful Family Insurance (life insurance). Sharia insurance has begun to be recognized by Muslim and non-Muslim communities to meet the need for insurance services that are increasingly felt by individuals and the business world in Indonesia. Insurance is a financial means in managing household life, both in facing the fundamental risks or in dealing with risks to the assets owned. The healthy impact of business and service companies such as sharia insurance is monitored by its financial performance. Either it is measured by Surplus On Contribution (SOC) or Return on Assets (ROA). This article tried to analyze the factors that affect the financial performance of Islamic Insurance companies in Indonesia, for the last 5 (five) years period, by including several positive and negative factors. The factors that the authors recommended in this analysis were Company size, Leverage, Liquidity, Tangibility, Volume of Capital, and Loss Ratio. The approach model for this analysis used a path model approach (Path Model's) with the assumption that each of the factors involved has a causal relationship with one another. So that the advantage of using this approach was its results will be able to give the direct or indirect effects of each factor on the financial performance to be analyzed.

Keyword :
Company size, Leverage, Liquidity, Tangibility, Volume of Capital, Loss Ratio, Financial Performance

1. INTRODUCTION

Referring to the economic life of the Indonesian people in creating a just and prosperous society based on economic democracy, so it is necessary to develop an economic system based on a just market mechanism. This means that implementation of national economic development is aimed to help the people' economy in order to be equitable, independent, reliable, just and competitive in the international economy. Therefore, one of the options is the development of an economic system based on Islamic values (Shariah) by elevating its principles into the national legal system. Sharia principles are based on the values of justice, expediency, balance, and universality (rahmatan lil 'alamin).

Sharia principles are part of Islamic teachings related to economics, but there are main elements within this, namely the prohibition of usury with the presence of vanity elements (Maysir) or transactions are chancy. As well as businesses categorized as Gharar or transactions whose objects are unclear, unavailable, unknown and it cannot be submitted at the time of the transaction. So, this is what distinguishes it from the others (conventional), so it is necessary to pay attention to the elements which contain usury, maysir, and gharar. Similarly, it is appropriate to be developed in an insurance company. Insurance based on sharia, does not open up opportunities for elements of usury (investment with an interest system), elements or characteristics of maysir, and elements of gharar as applied to non-sharia (conventional) insurance. As believed by Muslims, Allah SWT commands humans to be able to prepare provisions (protection) for future interests, so that all negative things in the case of disasters, accidents, fires or death can be minimized. And it is important for people who face difficult times such as the occurrence of economic and monetary crises, the occurrence of the corona outbreak, and others.

Sharia-based insurance companies and businesses began to move faster in the last 10 years in Indonesia, along with the development of the sharia finance industry in general, such as sharia banks, sharia cooperatives and others. Since the establishment of this type of sharia insurance company in Indonesia at the end of 1994 with the product family Takaful (life insurance), other sharia-based insurance companies have continued to develop. From 2015 to 2019, the number of players in the entire sharia non-bank financial industry (IKNB) has increased. Sharia IKNB players commonly can operate in full sharia (full-fledged) or as a sharia business unit. From 2015 to 2019, the number of Sharia IKNB players/doers has increased. Sharia IKNB players in 2019 consisted of 209 units, consisting of 62 Sharia Insurance Companies, 41 Sharia Financing Institutions, 6 Sharia Pension Funds, 13 Sharia Specialized Financial Institutions, and 75 Sharia Microfinance Institutions (MFIs). This number increased significantly compared to 2015 where there were only 112 Sharia IKNB players, then the increase is around 86.61%.

Due to the economy and uncertain nature of life, the insurance sector plays an important role in a service-based economy as a financial intermediary institution that has been integrated into the wider financial industry (Malik, 2011). This can be proven from the 2013 report by the *Instituto Financeiro Para O Desenvolvimento Regional* (IFDR) in Indonesia, the sharia insurance industry in Indonesia ranks fourth in the world (Mysharing.co, 2015) and continues to prove significant developments despite Indonesia's recent slowdown in economic growth.

Also, as reported by the Islamic Finance Development Indicator (IFDI 2020), the development of the Islamic finance industry in Indonesia has been recognized worldwide. And in 2020, Indonesia was designated as the 2nd country in the world in achieving the development of the Islamic finance industry. However, data from the Financial Services Authority (OJK) per September 2020 showed that the portion of the Non-Bank Financial Industry, including sharia insurance, has only reached 4.43%. This means that the market share of Islamic finance in Indonesia has not expanded nationally.

The issuance of Presidential Regulation Number 28 in the year 2020 concerning the National Committee for Sharia Economics and Finance (KNEKS) also gave positive sentiment to the development of sharia insurance in Indonesia. This is because one of the main focuses of KNEKS is the development and expansion of sharia businesses through the establishment of incubation centers for sharia entrepreneurs in various regions as centers for fostering and seeding. So that almost Sharia IKNB grew positively, especially Sharia Insurance companies.

Sharia IKNB assets during 2015-2019 grew by 12.98% or Rp. 106,019 billion in 2019. This was due to the increase in the number of players and the increase in sales of sharia products. The composition of Sharia IKNB assets in 2019 was dominated by Sharia Insurance assets with an asset portion of 43.20% of the total assets of Sharia IKNB or Rp.45,795 billion. In 2019, sharia insurance placed the largest investment in sharia shares which was 38.21%, followed by placements in sharia mutual funds with 20.95%, sharia deposits was 17.24%, state sharia securities was 16.35%, corporate sukuk was 6.14%, other investments were 0.75% and MTN Syariah was 0.36%. The number of claims and benefits paid by the sharia insurance industry in 2019 increased by Rp. 2,017 billion or by 23.03% when compared to claims and benefits paid in 2018 which was Rp. 8,660 billion. Meanwhile, the sharia insurance industry recorded a gross contribution of Rp. 16,751 billion in 2019. The value of the gross contribution increased by Rp. 1,341 billion or 8.7% when compared to the gross contribution value in 2018 which was Rp. 15,369 billion.

Indonesian people's spending on buying sharia (density) insurance products in 2019 was Rp. 62,310 per resident, an increase from 2018 which was originally Rp. 58,137. Meanwhile, the penetration rate of sharia insurance in 2019 was still relatively low at 0.11% or an increase of 0.01% compared to the position in 2018.

Although the sharia insurance industry has developed in terms of number, total assets, total investment, contributions and claims, this has not been able to compete with conventional insurance companies in terms of market share. This can be proven from the market share of sharia insurance contributions from the total national premium.

According to Hasbi (2013), this indicates a problem with sharia-based financial instruments, whether due to unattractive sharia insurance products or due to the low performance of sharia insurance companies so that people still do not believe in sharia-based insurance. Market share itself can be increased by doing the best performance.

The performance of sharia insurance in 2020, in the midst of the corona pandemic, the sharia industry is still showing growth. This can be seen from the performance of the gross contribution in 2020 which is still growing. The data also revealed that throughout 2020 sharia life insurance was still able to record a gross contribution growth of 6.62% (yoy) to Rp. 14.85 trillion. Meanwhile, the gross contribution of sharia general insurance tends to decrease by 11.39% (yoy) to Rp. 1.67 trillion. As for sharia reinsurance, it was recorded that it was still able to increase with a gross contribution of 109 billion.

The All-Indonesian Insurance Association (AASI) noted that the penetration of sharia life insurance increased slightly from 0.110% in December 2019 toi 0.113% in 2020. Meanwhile, the density of sharia insurance was Rp. 63,987 at the end of 2020, an increase compared to the end of 2019 which was Rp. 62,310 billion. The return on investment (ROI) of sharia insurance per December 2020 was recorded at 2.32%. At the same time, the return on assets (ROA) of Islamic insurance company funds was at the level of 5.59%. This series of achievements led to a correction of the sharia insurance operating profit by 80.57% (yoy) to Rp.792 billion. The concept for this study was to investigate the determinants of the performance of Islamic insurance companies, particularly in Indonesia. Previous research conducted by Malik (2011) explains the factors that affect the profitability of insurance companies in Pakistan, finding that size (company size) and volume of capital have a positive effect on financial performance as measured by Return On Assets (ROA).

The concept offered in reviewing this performance was using Surplus On Contribution (SOC) by taking into account the fluctuations that occur in the variables of size, leverage, liquidity, tangibility, volume of capital and loss ratio. Research in this case was considered necessary and important, because insurance companies do not only provide a risk transfer mechanism, but also act as intermediaries in channeling funds in the right way to help and support businesses in economic activities.

Related to the reason above, the research concept in this article describes a research plan on "Factors Affecting the Financial Performance of Islamic Insurance Companies in Indonesia" with the aim of finding out and analyzing the effect of Size (company size), Leverage, Liquidity, Tangibility, Volume of Capital, and Loss Ratio to the Financial Performance of Islamic Insurance Companies.

2. THEORETICAL AND EMPIRICAL STUDIES

Sharia Insurance

Insurance in Islam is often expressed in terms of at-ta'min, takaful, or tadhamun which is tuma'niatun nafsi wa zawalul khauf (calmness of the soul and loss of fear), where insurance participants are expected to have a calm life and no fear or anxiety in living life, because there are parties who provide guarantees or coverage. This business has the principle of mutual protection and mutual help (ta'awuni) between a number of people or parties through investments in the form of assets and or tabarru' funds that provide a system of returns to face certain risks through contracts in accordance with sharia (Hosen, Ali, & Muhtasib 2008; Fatwa DSN MUI, 2001; and PMK No. 18 and No. 10, 2010).

Financial performance

The company's performance is achievement level description of the implementation of an activity or policy in realizing the goals, objectives, mission, and vision of the organization which is contained in the strategic planning of an organization. Financial or economic performance is often expressed in terms of sales growth, turnover, employment, or stock prices (Havnes & Senneseth, 2001) in Almajali (2012).

Performance measurement is carried out through the process of assessing the progress of work against predetermined goals and targets, including the efficiency of goods and services. The results of the activities are compared with the desired intentions and the effectiveness of the actions in achieving the goals (Mahsun, Sulistiyowati, & Purwanugraha, 2011). The measuring istrument in calculating the financial performance of a Sharia Insurance company can be done by using the Return on Assets (ROA) or Surplus On Contribution (SOC) approach. ROA is calculated from net income before tax with total assets. ROA emerged as a key ratio to evaluate profitability.

While the Surplus On Contribution (SOC) technique, pays attention to the surplus contained in the insurance company. An effective surplus will not only help the existence of sharia insurance companies in the long term, but also can attract customers to be insured in sharia insurance companies. This measurement has been carried out by Mokhtar, Aziz, & Hilal (2015) in assessing the performance of Islamic insurance companies in Malaysia.

Factors Affecting the Financial Performance of Islamic Insurance Companies

Ai Fitri Nurlatifah (2016) found that the company size, leverage and volume of capital affect the financial performance of insurance companies through the size of the SOC. Meanwhile, Almajali (2012) found in Jordan, the leverage, liquidity, size, management competence index factors are important factors in determining the financial performance of insurance companies.

There are various things happening in Indonesia. During the period 2007-2012, the liquidity ratio and retention ratio itself is an important factor in the Financial Performance of Insurance Companies listed on the IDX (Arifin, 2013). And in 2014-2017 period, Rafi and Syaichu (2019) found the Firm Size variable, Volume of Capital had a positive effect on ROA, the Asset Tangibility variable had a negative effect on the ROA of the Sharia Insurance Company in Indonesia. This is reinforced by a research of Munawaroh and Mukhibad (2019) which states that company size, company age, and growth in volume of capital have a positive and significant impact on financial performance of sharia general insurance in Indonesia for 2015-2017 periods.

Meanwhile, investment growth has a negative and significant influence on financial performance, while leverage, tabarru' funds, and the ratio of independent commissioners do not affect financial performance. Meanwhile, the 2015-2019 period data found by Ikin Ainul Yakin and Talitha Rania (2021) showed that the

Liquidity Ratio has an effect on the Financial Health of the Tabarru Fund in Sharia Unit Life Insurance Companies in Indonesia.

Company Size

Company Size is a scale and can be classified according to various ways, including: total assets, log size, stock market value and others. Company Size in this study can be calculated using LN total assets.

Leverage

Debt leverage is measured by the ratio of total debt to equity (debt/equity ratio). Highly leveraged companies may be at risk of bankruptcy if they are not able to make payments on their debts nor can they find new lenders in the future. Leverage according to Kasmir (2011:151) is a ratio used to measure the extent to which the company's assets are financed with debt. Leverage can use the size of the Debt to Equit ratio (DER) calculated by comparing total debt to total equity.

Liquidity

Liquidity refers to the extent to which debt obligations maturing in the next 12 months can be paid from cash or assets to current liabilities (current ratio). Insurance companies that have more liquid assets will be able to outperform insurance companies that only have less liquid assets (Mehari & Aemiro, 2013).

Liquidity is one of the financial ratios that measure the company's ability to meet short-term obligations (Sudana, 2011:21). Liquidity can use a measure of current assets calculated by comparing current assets with current liabilities.

Volume of capital

Volume of capital is the comparison between total equity capital to total assets of a company, which shows the financial capability or capital adequacy of an insurance company. The volume of capital of a company can affect the company's profitability, depending on how much value the volume of capital of a company has. The higher the value of the volume of capital obtained from the insurance company, the higher the company's ability to cover financial losses in the company's operations.

Tangibility

Asset tangibility is a comparison between the total tangible fixed assets which includes land, property, factory, and equipment to the total assets of a company. The high value of the asset tangibility of an insurance company does not necessarily affect the profitability of the insurance company. This is because the core business of insurance companies is about providing services related to risk management by offering types of protection policies, savings, and investment relationships.

Volume of Capital

Volume of capital is the volume of capital measured from the book value of the company's equity, which is a form of company's internal funding. Therefore, Volume of Capital represents the financial strength or capital adequacy of a company. The capital provided by the owner to obtain future income, it also shows how the company's assets are financed and shows the company's ability to cover financial losses (Hasan & Bashir, 2010).

According to the Resourced-Based Theory, the volume of capital is an internal factor that can provide a competitive advantage and can add added value to insurance companies if it can be managed properly, as seen from the company's ability to manage a company's capital.

Loss Ratio

Loss ratio is a calculation that helps assess the health and profitability of an insurance company. The insurance business collects premiums higher than the amount paid in claims. A high loss ratio can indicate that the business is in financial trouble.

Loss Ratio, which is conceptually a ratio between claims that occur with the amount of premium received in the percentage, which is used to measure the loss or losses experienced in the occurrence of a claim.

Research Hypothesis

1). *The Relationship between Company Size with Financial Performance*

Companies that have large sizes can be described as having more ability to earn profits and are relatively more stable in running their business than small companies, causing financial performances to increase.

In addition, the large amount of resources can be a driving force for a company to carry out investment activities, where the investment can be in the form of current assets or fixed assets. Based on stakeholder theory, stakeholders have the ability to provide resources, these resources are very useful for carrying out company activities.

Furthermore, the large companies have better risk diversification, information systems and better cost management than small companies (Adams, 1996; Reshid, 2015; Nurlatifah and Mardian, 2016; Putri and Lestari, 2014).

H1: Company size has a positive and significant effect on financial performance.

2). The Relationship Leverage with Financial Performance

Companies that have high leverage (debt ratio), the expense on the company will also be higher so that financial performance will decline. Companies that are highly leveraged would have the risk of bankruptcy if the management is not able to manage it properly so that it cannot make debt payments. Therefore, research by Ludijanto (2014), Nurlatifah and Mardian (2016) and Kurniawan (2014) shows that leverage (debt ratio) has a negative effect on the company's financial performance.

H2: Leverage has a negative and significant effect on financial performance.

3). Relationship between Liquidity and Financial Performance

Liquidity can be interpreted as the company's ability in this case to change current assets that are not in the form of cash into cash. The liquidity variable significantly influences financial performance (Nilasari and Retnosari, 2020; Jekwam and Hermuningsih, 2018, and Siallagan and Ukhriyawati, 2016).

H3: Liquidity has a significant influence on financial performance.

4). The Relationship Between Tangibility with Financial Performance

The greater the tangibility company has, the greater the company's ability to issue debt securities (Booth et al, 2001). Tangibility can be measured through the Debt to Equity Ratio (DER), where the higher the DER indicates the greater the company's expense on external parties, this is very likely to reduce the company's performance, because the level of dependence with outsiders is higher. So, there is direct relationship between tangibility (capital structure) and the financial performance of a company (Myer, 1977; Horne, 2005).

H4: Tangibility has a significant influence on financial performance.

5). The Relationship between Volume of Capital with Financial Performance

The volume of capital is a form of company internal funding. The higher the growth of internal funding from the company, the company will run operational activities smoothly because the company's capital is sufficient so that it will improve the company's financial performance.

Based on the pecking order theory, it is explained that companies with internal funding sources that are calculated to be greater than external funds, then the company uses internally sourced funds first in running the company's operations. Several studies have shown that the volume of capital has a positive effect on financial performance (Rafi and Syaichu, 2019; Malik, 2011; Ulum, 2007).

H5: Volume of capital has a significant effect on financial performance

6). The Relationship between Loss Ratio with Financial Performance

Basically, the property of the insurance company's business always struggles with uncertainty, one of which is uncertainty related to losses experienced by participants, which causes claims expense. When a claim for insurance coverage occurs cannot be predicted with precision, then it is known as loss ratio. There is a loss ratio termed underwriting risk. Therefore, the loss ratio has a significant effect on profitability (Malik, 2011; Charumiati, 2012).

H6: Loss Ratio has a significant effect on financial performance.

3. RESEARCH METHOD

Research Methodology

This research was conducted to find out the factors that influence the financial performance of Islamic Insurance companies through the size of the SOC, by concerning about the factors of Company size, leverage, liquidity, tangibility, volume of capital, and loss ratio.

To test the six presumed factors, it was applied by information and data from a number of Sharia insurance companies in Indonesia, either sharia life insurance, sharia general insurance and sharia reinsurance, either both full-fledged and sharia unit insurance. Research could be carried out if the criteria of Sharia Insurance company had regulator (IDX) who was willing to provide data and or listed on the IDX, which published annual published financial statements during the period to be studied fluctuates.

So that the method used in this research was quantitative by utilizing panel data of a number of companies over a certain period of time (eg over the last 10 years, from 2011-2020).

Analysis Method

This research was explanatory research with a Path Analysis approach based on panel data. Panel data was a combination of time series and cross section data (Ajija, et al, 2011). This method explained the direct effect between exogenous variables and endogenous variables, and the indirect effect was due to causality between exogenous variables. With the analytical model expressed by the equation:

$$Y = \rho_1 X_1 + \rho_2 X_2 + \rho_3 X_3 + \rho_4 X_4 + \rho_5 X_5 + \rho_6 X_6 + e$$

(Y = endogenous variable/SOC, X = exogenous variable/involved factors)

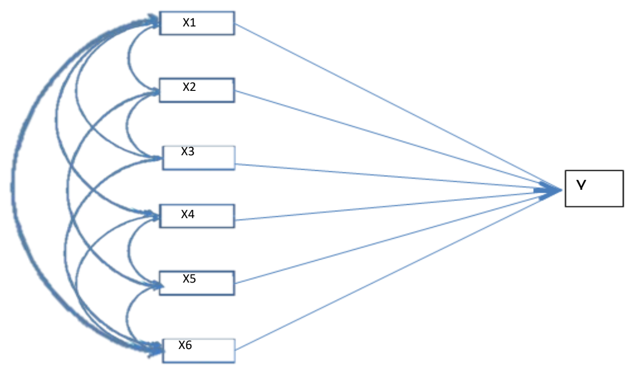
There was a fluctuation between the value of each period in the panel data from exogenous variables (Company size, leverage, liquidity, tangibility, volume of capital, and loss ratio) to endogenous variables (Financial Performance, SOC), so that the analysis instrument was assisted by a statistical program called e -views 9 as a data processing program that has been obtained through documentation and empirical research in order to obtain research conclusions.

To apply the analytical method in order to obtain optimal results, it was necessary to test the assumptions that must be met statistically, namely the assumption of Multicollinearity, reviewing the indication that inform the occurrence of the influence between the independent/exogenous (X) variables, aiming to see whether the relationship model was found the influence among exogenous variables. This was detected through the value of Variance Inflantion Factor (VIF) <10 and tolerance > 0.10.

Another assumption was heteroscedasticity, the variance of the independent variable (exogenous) which is constant for any given value of the independent variable (Homocedasticity). A good path or regression model is no heteroscedasticity. And the assumption of autocorrelation was the state of the occurrence of a correlation between the residuals in one observation with other observations in the path or regression model. The autocorrelation test was used to determine whether there is a correlation between the residuals in one observation and other observations in the model or not. The prerequisite that must be met was the no autocorrelation in the regression/path model.

Path analysis method was applied to measure the direct effect between exogenous variables on endogenous, and the indirect effect due to causality between exogenous variables. Thus, path analysis is called a technique to analyze causal relationships that occur in multiple regression if the independent variable affects the dependent variable not only directly, but also indirectly" (Robert D. Rutherford, 1993, in Marwan Hamid, et al; 2019). :10).

To describe the causal relationship between variables to be studied in this research, then it would be used a path diagram. It is a measure to graphically describe the structure of the causal relationship between exogenous (independent) variables and endogenous (dependent) variables. Which can be illustrated in the following diagram:



Keterangan :

Y = Financial performance of Islamic Insurance Companies (SOC)

X_1 = Company Size

X_2 = Leverage

X_3 = Liquidity

X_4 = Tangibility

X_5 = Volume of Capital

X_6 = Loss Ratio

Figure 1. Path diagram of the research concept

Pathway Model Test and Statistical Hypothesis

Based on the research paradigms and hypotheses that have been presented (Figure 1), it will determine the direct and indirect effects of variables as presumptive factors involved in their impact on company performance, through path analysis. In path analysis, the first step was to translate the research hypothesis into a path diagram. Statistical methods with path analysis were used to measure the pattern of relationships that indicate the magnitude of the influence of several causal (exogenous) variables on the effect (endogenous) variables.

This path analysis follows a structural pattern or is called a structural model. In general, the structural model can be described by the following equation: $Y = f(X_1, X_2, \ldots X_6)$. The path diagram and structural equations of this research are as shown in Figure 1 above.

4. CONCLUSION

The research objective achieved was investigating (and at the same time to prove that) whether there is a large influence of company size, leverage, liquidity, tangibility, volume of capital and loss ratio factors on the Financial Performance of Islamic Insurance Companies in Indonesia based on the size of Surplus On Contribution (SOC), then findings would emerge that make this research superior as an element of its advantages.

It is also used to compare research conducted by researchers in Indonesia and several countries that have Sharia-based insurance companies. As the results of research by Mehari & Aemiro (2013), found that Company Size is positively related to financial performance. Ludijanto, et al (2014) show that leverage (debt ratio) has a negative effect on the company's financial performance. And research by Munawaroh and Hasan (2019) found that leverage (debt ratio) did not affect financial performance.

Research conducted by Maudina, et al (2020), found that Volume of Capital did not have effect on profitability. While research by Nurlatifah (2016), proves that there is a negative effect of volume of capital on the financial performance of insurance companies. Similarly, the aspect ratio loss (loss ratio) is the percentage of the total dollar premium paid for claims on a particular type for a long period of time. Hasanah and Siswanto's research, during 2015-2018, showed that the loss ratio had no significant effect on ROA.

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