THE RENTABILITY OF INSURANCE COMPANIES IN INDONESIA STOCK EXCHANGE DEPENDS ON WORKING CAPITAL AND ITS ACTIVITIES

Edwin Agus Buniarto

*Indonesia Economic College (STIE), Jl. Mega Mendung No. 1-9 Malang 65147, **INDONESIA***

E-mail: buniarto@yahoo.com

ABSTRACT

The purpose of this study was to analyze the level of influence between working capital and rentability ratios activity against insurance companies registered in Indonesia stock exchange, either partially or simultaneously. Samples were secondary data from the financial statements of 12 insurance companies registered in the Indonesian stock exchange in the last three years, in order to obtain the number of 36 samples. It was analyzed by linear regression and using tools SPSS software. The simultaneous and variable working capital resulted in significant effect on the activity ratio rentability of companies with a determination coefficient of 0.697. Partially, variable working capital and ratio of activity have significant effect on rentability with a regression coefficient of 0.582 and 0.483 respectively.

Keywords: *Working Capital, Activity, Rentability*

INTRODUCTION

The more open business opportunities in the field of insurance in Indonesia today is accompanied by increasing competition in the business ntr insurance company. In some big cities started popping up new insurance company that offers a variety of services that attract people to become customers. Despite increasingly tough competition, but almost all insurance companies are able to survive or even grow. Development of business in the insurance sector is also due to the increasing business opportunities that can be entered by insurance. Currently insurers have entered the various aspects of community life that requires security and safety of himself and his goods. From the start of life, health, education, property, valuables, loans or even members of tubuhpun today has become the object of the insurance business.

To that end, each insurance company must actually be able to manage the company in order to survive and compete with other insurance companies. In the financial sector, the insurance company which is a service company is expected to maintain its working capital so that the company's activities are not disrupted. Nowadays even the most insurance companies allocate more than 50% of its

assets for working capital, to be able to meet the expectations of its customers (Bowen, et.al. 1986)

With more allocate their assets in the form of working capital and is supported by a trained workforce and professionals, insurance companies believe their activity, the better, so that the velocity of invested assets will also be faster, by entering the odds-peluanng new business also believed to be more the people need. If this can be done properly, it can be ascertained rentability of the company will be the better. The improved rentability of this company could be interpreted by the increased rentability of the company. From this background, the study titled: "THE RENTABILITY OF INSURANCE COMPANIES IN INDONESIA STOCK EXCHANGE DEPENDS ON WORKING CAPITAL AND ITS ACTIVITIES".

RESEARCH PURPOSES

The purpose of this study is to analyze and determine the influence of:
  a. working capital and rentability ratios of the company's activities simultaneously.
  b. working capital to corporate rentability partially.
  c. the ratio of activity on corporate rentability partially.

RESEARCH METHODS

Working Capital
Working capital is funds invested in liquid assets, because it can be either cash, receivables, letters - securities, supplies and others. Gross working capital (Gross Working Capital or abbreviated GWC) is the whole of the assets / current assets contained in the debit side of the balance sheet. Net working capital (Net workiing capital or abbreviated NWC) is the total current assets minus current liabilities. In other words, the net working capital represents the difference between current assets minus current liabilities (Munawir, 2011)

So we can conclude Working capital represents the excess of current assets to current liabilities. This excess is called net working capital (following the Net Working Capital). This excess is the amount of assets lancer derived from long-term debt and equity capital (Utami, C. D, 2001), Definitions are qualitative because it suggests the possibility tersediannya lancer assets greater than the short-term debt and indicates the level of security for short-term creditors and ensure business continuity in the future.

Working capital should be provided in an amount sufficient to enable the company to operate economically and is not experiencing financial difficulties, for example, to cover losses and to overcome the crisis or emergency situation without jeopardizing the company's financial condition (Utami, C. D, 2001). Benefits of sufficient working capital, among others:

Protect the company from a bad result in the form of the falling value of current assets, such as the loss on the debtor does not pay, the decline in value of inventories due to the price slump.
  a. Allow the company to repay short-term obligations on time.

b. Enables companies to be able to buy goods with cash so that they can benefit in the form of a rebate.

c. Ensures the company has the credit standing and can cope with unpredictable events such as fire, theft, and so on.

d. Allows to have supplies in sufficient quantities to serve the demand of consumers.

e. Enables the company can provide a favorable credit terms to the customer.

f. Enable companies to operate more efficiently because there is no difficulty in obtaining raw materials, services and supplies needed.

g. Enables companies to survive in periods of recession or depression.

Activity

Activity ratio is a ratio that measures how effectively the company in utilizing all the resources available to it (Weston, J, Copeland, 2013). All of these activities involve a comparison of the ratio of the level of sales and investments in various types of assets. Ratios activity should assume that there is a proper balance between the various elements of sales and assets eg inventory, fixed assets and other assets.

Assets that are low on certain sales levels will lead to increasing the amount of surplus funds that are embedded in such assets ((Munawir, 2011). The excess funds would be better invested in other assets more productive. Which belong to the ratio of the activity is as follows:

a. Total Assets Turn Over (TATO)

Total assets turnover is the ratio between sales with total assets of a company where this ratio illustrates the total assets turnover rate within a specific period. Total assets turnover is a ratio that indicates the level of efficiency of the overall assets of the company in generating certain sales volume (Syamsuddin, Lukman, 2001).

Total assets turnover is essential for creditors and owners of the company, but will be even more important for the management of the company, because it will show wherher or not an efficient use of all assets in the company. Total assets turnover is a ratio that illustrates the asset turnover measured by the volume of sales. So the greater this ratio, the better, which means that assets can more quickly turn around and make a profit and showed more efficient use of overall assets in generating sales. In other words, the same amount of assets that can increase the volume of sales if the assets this turn over be enlarged. Total enhanced or turn over assets is calculated as follows:

$$\text{Total Assets Turn Over} = \frac{\text{Sales}}{\text{Total Assets}}$$

b. Fixed assets turnover (FATO)

This ratio is useful for evaluating the company's ability to use its assets effectively to increase revenue. If the slow-moving (low), there may be

capacity is too large or there are many assets but is less beneficial, or may be due to other halhal as investment in fixed assets is excessive compared with the output value to be obtained (Weston, J fred, Copeland, 2013). So the higher this ratio means more effective use of fixed assets. This ratio is the ratio between sales of fixed assets. Fixed assets turnover measures the effectiveness of the use of funds that are embedded in fixed assets such as plant and equipment, in order to generate sales, or how much money net sales generated by each rupiah invested in fixed assets (Sawir, Agnes, 2009). Fixed asset turnover formula:

$$\text{Fixed assets turnover} = \frac{\text{S a l e s}}{\text{Fixed Assets}}$$

c. Inventory turnover (ITO)

There are two problems that arise in the calculation and analysis of inventory turnover ratio. First, the sale of assessed according to the market price (market price), inventories are valued according to the cost of goods sold (at Cost), then the actual inventory turnover ratio (at cost) is used to measure the physical inventory turnover. The ratio is calculated by dividing sales by inventory measure inventory turnover in cash (Sawir, Agnes, 2009). Inventory turnover shows the ability of funds that are embedded in a rotating inventory in a given period, or the liquidity of inventory and their tendency to overstock (Riyanto, Bambang, 2008). Inventory turnover ratio measures the efficiency of managing the merchandise inventory. This ratio is an indication that is quite popular for assessing operational efficiency, which shows how well the management control of the existing capital in inventory (Victor, B, L, Stober, 1989). Many research institutions use the financial ratio inventory turnover ratio (at market) so if you want to compare to the industry ratio inventory turnover ratio (at market) should be used. Second, the sales occurred during the year, while the inventory figure is an instantaneous picture of the state (Agostino, et.al, 2012). Therefore, it is better to use an average inventory is beginning inventory plus the ending inventory divided by two. Inventory turnover ratio formula:

$$\text{Inventory Turnover} = \frac{\text{Net sales}}{\text{Inventory}}$$

Rentability

Rentability of a company shows a comparison between the earnings or capital assets that generate such profits. In other words, rentability is the ability of a company to generate profits for a certain period (Andayani, W., Junaidi, and Nurdiono, 2011). This ratio is also known as Rentability Ratio is the ratio used to measure a company's ability to earn income or profit, the rentability of a company realizing the comparison between income or capital assets that generate such profits (Ball., et.al (1968),. Benchmark this ratio, among others:

a. Gross Profit Margin (GPM)

Is the ratio between the net sales minus cost of goods sales with the sales level, this ratio illustrates the gross profit that can be achieved from the total sales. This ratio can be calculated as follows:

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Net sales}}$$

b. Net Profit Margin (NPM)

Is used to measure the ratio of net profit after tax and then compared with the sales volume (Baridwan, 2004). This ratio can be calculated with a formula that is:

$$\text{Net Profit Margin} = \frac{\text{Earning After Tax}}{\text{Net sales}}$$

c. Return on Equity (ROE)

Is a ratio used to measure the ability of its own capital to generate benefits for all shareholders, both common stock and preferred stock (Fairfield, P., et.al 1996). This ratio can be calculated as follows:

$$\text{Return on Equity} = \frac{\text{Earning After Tax}}{\text{Equity}}$$

Hypothesis

Of the various concepts mentioned previously, the dpat drawn up a research hypothesis as follows:

a. Allegedly working capital and activities significantly influence the rentability of companies simultaneously.
b. Allegedly working capital significantly influence the rentability of companies partially.
c. Anticipated activities significantly influence the rentability of companies partially.*

Conceptual Framework

Based on the above description, conceptual framework of this research is outlined in figure 1.
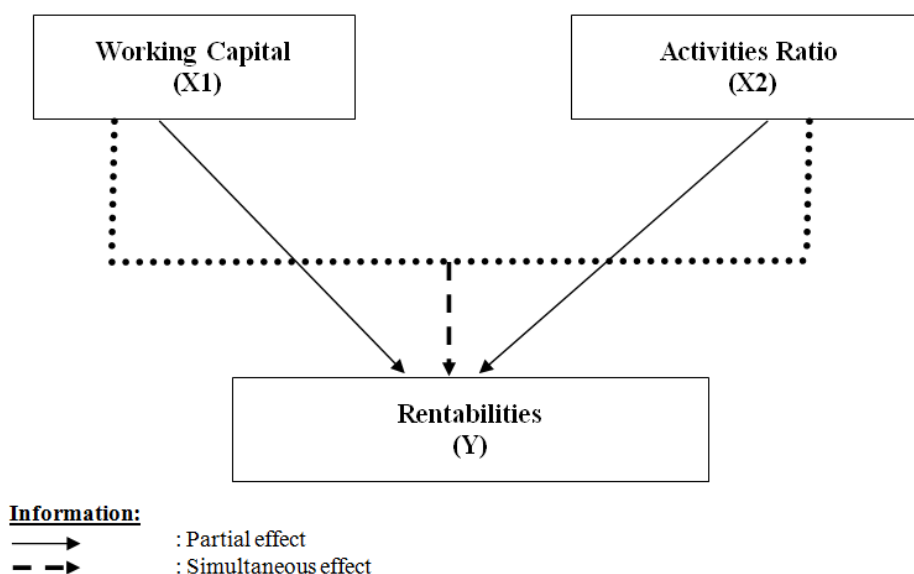
Figure 1. Conceptual framework of this research

This research is explanatory research that analyzes the effect or the relationship between variables (Beaver, 2010). Type of this research is secondary data is data obtained from the annual financial statements of insurance companies yng sample. The study population was the financial statements of 12 insurance companies registered in Indonesia capital market for the last 10 years so that the total population was 120.

While the method of sampling of this research is purposive sampling, that the sampling for specific purposes (Sri Mulyono. 2006), taking Ampel 12 insurance companies over the past 3 years in order to get a sample of 36 samples. Based on existing concepts, this research use multiple linear regression analysis whose implementation is assisted by SPSS software to obtain more accurate results.

RESULTS AND DISCUSSION

Regression Analysis

Currently there are 12 insurance companies listed on the Indonesian stock market, and the sample of this research are: 1) Asuransi Bina Dana Arta, 2) Asuransi Harta Aman Pratama, 3) Asuransi Multi Artha Guna, 4) Asuransi Bintang, 5) Asuransi Dayin Mitra, 6) Asuransi Jaya Tania, 7) Insurance Partners Maparya, 8) Asuransi Ramayana, 9) Insurance General Insurance, 10) These Reinsurance Indonesia, 11) Insurance Paninvest, 12) Victoria Insurance.

Data from 12 companies sample was drawn last 3 years (2013, 2014 and 2015), calculated according to the indicators of each variable of this study, after data and models were tested their validity, a multiple linear regression analysis was used. Results of analysis using SPSS appear in Table 1.

Table 1. *Model Summary*

Model	R	R Square	Adjusted R Square S Square	Std. Error of the Estimate	Durbin-W atson
1	.835ᵃ	.697	.629	21.3045	1.912

a. *Predictors: (Constant), X1, X2*
b. *Dependent Variable: Y.*

Table 2. *ANOVAᵇ*

Mode	Sum of Squqr M M	c mdf SP	Mean Square	F	Sig.
1 Regression	26814.865	9	5362.973	11.597	.002ᵃ
Resudual	11098.677	27	462.445		
Total	14792.390	36			

Dependent Variable: Y

Table 3. *Coefficients*

Model	Unstandar dized Coefficients		Standardized Coefficients			Collinearity Statistich	
	B	Std. error	Beta	T	Sig	Tolerance	VIP
1. (Constant)	23.019	34.911		.659	.005		
X1	.582	8.456	.083	5.242	.018	.264	3.791
X2	.483	.207	.347	2.381	.042	.496	2.018

Source: Statistical calculations processed author (2016)

From the calculation results SPSS above can be made multiple linear regression equation as follows: **$Y = 23{,}019 + .582\, X_1 + 0{,}483\, X_2 + e$**

Hypothesis testing

The study was conducted to test two hypotheses. First, the working capital and the ratio of activity simultaneously (together) a significant effect on rentability (Kuncoro, 2001) The insurance company listed on the Indonesia Stock Exchange.

The results of calculations obtained F count calculated F value of 11.597 with a probability of error of 0.2%, the error rate is less than 5%, the null hypothesis is rejected while the alternative hypothesis is accepted. From these results it can be concluded that the working capital and the ratio of activity simultaneously (together) a significant effect on rentability in the insurance company listed on the Indonesia Stock Exchange so that the first hypothesis has been testable truth.

Results t arithmetic to obtain working capital t value of 5.242 with a probability of error of 1.8%, then the hypothesis is rejected nihilnya and accept the

alternative hypothesis, with a regression coefficient of 0582. Results of the analysis showed that the working capital has a significant influence on the rentability of insurance companies registered in the Indonesian capital market (B.K. Behn., et.al, 1999), so that the second hypothesis of this study verifiable.

Results t count for variable activity ratios obtained t value of 2,381 with a probability of error of 4.2%, then the hypothesis is rejected nihilnya and accept the alternative hypothesis, with a regression coefficient of 0483. Results of the analysis showed that the ratio of the activity has a significant impact on the rentability (Sri, W, 2000). The insurance company registered in the Indonesian capital market, so that the third hypothesis of this study verifiable.

Variable working capital and activities simultaneously (simultaneously) has a coefficient of determination of 0.697, that value can be explained that the variations in working capital and activity variables may explain the variable rentability amounted to 69.7%, the remaining 30.3% is explained by other variables not analyzed in this study.

Working capital variables has a coefficient of regrsi of 0582, it gives the sense that if the working capital increased by one point then Rentability will be increased by 0582 points, and vice versa. Real condition is consistent with the theory mangatakan if the insurance company has the greater working capital, rentability will also increase (Supriyadi, 1999). The influence of this variable has a value of t test calculated at 5.24299, the value is null hypothesis rejection region, which means having a significant effect on rentability.

Significanly this variable is also indicated by the probalititas error of 1.8%, this value description below 5% significance level which is permitted in hypothesis testing in research. Working capital is the independent variables that have a major impact on the rentability of insurance companies registered in the Indonesian capital market.

Activities ratio variables have a regression coefficient of 0483, it gives the sense that if the variable Activities ratio unchanged at one point then rentability will be unchanged at 0,483 points with a positive direction. Positive direction gives the sense that if rssio activity increased the rentability will also increase as well (Bolten, Streven E. 2011). Real condition is consistent with the theory mangatakan if the insurance company listed in the Indonesian capital market have an increasingly high activity, then profitbilitas which is a measure of rentbilitas also experiencing increasing (Rayburn, J., 2006).

Variable activity have value t test count of 2.381, the value is in the region of rejection of the null hypothesis means the ratio of activity has a significant impact on the rentability (Ittner, D., 1998). Significantly this variable is also indicated by the probalititas error of 4.2%, this value description below 5% significance level which is permitted in hypothesis testing in research.

CONCLUSION

Result analysis and discussion that has been done in previous chapters, it can be concluded as follows:

The coefficient of determination of 0.697, that value can be explained that the variations in working capital and activity variables may explain the variable rentability amounted to 69.7%, the remaining 30.3% is explained by other variables not analyzed in this study. Working capital variables have a significant effect on rentability. A regression coefficient of 0582, it gives the sense that if the working capital increased by one point then Rentability will be increased by 0582 points, and vice versa.

Variable ratio of activity has had a significant effect on rentability. A regression coefficient of 0483, it gives the sense that if the variable Activities ratio unchanged at one point then rentability will be unchanged at 0,483 points with a positive direction. Positive direction gives the sense that if rssio activity increased the rentability will also increase.

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