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THE ROLE OF THE BOARD OF COMMISSIONERS IN IMPROVING THE FINANCIAL PERFORMANCE OF SHARIA INSURANCE INDUSTRIES IN INDONESIA

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Abstract—This study analyzed the factors that influence financial performance and further analyzed the role of the board of commissioners in improving the financial performance of Sharia insurance companies in Indonesia. Financial performance is measured by the surplus related to its contributions, while the predictor variable is size, age and company status. The study was conducted with and focused on Islamic insurance companies and Islamic business units in conventional insurance companies. The research period was 2012 to 2017. The data was analyzed using moderated regression analysis. The results showed that size had a positive effect, age had a negative effect and status had no effect on financial performance. The board of commissioner's moderates (weakens) the relationship between size and status with financial performance and further moderates (strengthens) the relationship between age and financial performance in Sharia insurance companies.

Keywords— surplus on contribution, board of commissioners, Sharia insurance

I. INTRODUCTION

The existence of Islamic insurance companies in Indonesia is getting better, marked by the growth of new insurance companies every year. In order to be able to survive, Islamic insurance companies must have good performance. Good performance improvements will show that the Sharia insurance business has been successfully implemented. This is a form of business success that is supported by the ranks of management in terms of controlling the company's potential resources.

The facts on the ground are that management policy is certainly influenced by the existence of the board of commissioners in overseeing the work. This will cause rigidity in the work, even though the board of commissioners has the duty to keep the company running well. Therefore, in order to run its business, the board of directors will optimize its functions, especially in terms of making company policies.

In accounting research, performance appraisal is measured through the analysis of financial statements. Financial report analysts usually use the data presented in financial statements. One commonly used measure of insurance company performance is Surplus on Contribution (SOC). Therefore, this study will focus on financial performance using SOC. Surplus shows the difference in the total contribution of participants into tabarru funds after deducting compensation/claims for reinsurance and technical reserves in a given period. Contribution is the gross amount that is liable to insurance participants in order to pay claims for certain risks due to disaster to the soul, body or object experienced by the eligible participant and to pay for ujrah.

Based on the literature study, one of the factors suspected of influencing financial performance is the size of the company. Companies that have large assets are usually more flexible in obtaining a decent level of financial performance compared to companies that have small assets; therefore, size will affect financial performance (Hidayat & Firmansyah, 2017; Almajali, Alamro, & Al-soub, 2012). Another factor that influences performance is the age of the company. Age is thought to influence performance according to several studies that have proven so (Almajali, Alamro, and Al-soub 2012; Alomari and Azzam 2017; Batra 1999; Burca and Batrînca 2014; Lumpkin and Dess 1996). Companies that are older are able to control the company better, so it is therefore easier for them to improve performance.

Therefore, considering that Sharia insurance companies in Indonesia are experiencing continuous development, it is very urgent to conduct research on the factors that cause the high and low financial performance of Sharia insurance companies so then the increasing trend in the performance of Sharia insurance companies in developing countries can be maintained.

After determining the factors predicted to affect financial performance, the next step was to place the composition of the board of commissioners variable, which was the form of the mechanism of good corporate governance (Chapra and Umar 2002) as a moderating variable. This is based on previous studies

which showed that *good corporate governance* (GCG) has the goal of improving company performance. The results of the Klapper (2002) study showed the influence of GCG implementation on performance. Therefore, the existence of the board of commissioners as a contributing factor in running the company will be tested as a moderating variable on the relationship between the factors that affect financial performance in Islamic insurance companies in Indonesia.

II. LITERATURE REVIEW

A. Agency Theory

In practice, regarding the relationship between the factors that influence the performance of Sharia insurance companies, there is one thing that cannot be separated from the achievement of the goals of the company's organization and its performance, which is management. Achieving the goals and peak performance of the company cannot be separated from the performance of the management itself. In this regard, the relationship between the management of the company and the owner will be stated in a contract. The contractual relationship between the owner and management is in line with Agency Theory (Jensen and Meckling 1976). In this case, the management is expected by the owner to be able to optimize the existing resources in the company to the fullest. If both parties maximize their role, then it is reasonable that the management will not always act in the interests of the owner. This is very reasonable because owners generally have *welfare motives* as a long-term goal whereas management is more short-term in nature, so sometimes they tend to maximize profit in the short term regardless of the *sustainability of* long-term profits. Corporate governance is the effectiveness of the mechanism aimed at minimizing agency conflict, so it is expected that through the optimization of the board of commissioners, the company's operations will run accordingly.

B. Financial Performance

One method that is used to assess the financial performance of a Sharia insurance company is by looking at its Surplus on Contribution (SOC) (Syahrum, Mokhtar & Aziz, 2015). Surplus underwriting is calculated using the difference in the total contribution of participants into tabarru funds after deducting compensation / claims for reinsurance and technical reserve contributions within a specified period. The higher the surplus in the Islamic insurance company, the higher the level of performance in the insurance company itself. Effective surplus will not only help the existence of Sharia insurance companies in the long term, but this can also attract customers to insure in the Sharia insurance company. In the end, this will increase the market share of Sharia insurance which has an impact on the increasing financial performance of Sharia insurance as a whole.

1) Size

The size of a company is measured on a scale, which can be classified as small. The company's size is more likely to be determined from the total asset power that the companies have in terms of the operations, which is total assets. The assets are sourced from debt and equity capital. A company with large assets has the possibility to generate greater profits. The results from the studies of Almajali et al (2012), Alper and Anbar (2011), Hidayat and Firmansyah (2017), Kemal (2018), Mehari (2013), Menicucci and Paolucci (2016), Short (1979) and Smirlock (1985) showed that there is a relationship between size and performance. The first hypothesis is that:

H1: *Size has a positive effect on the financial performance of Sharia insurance companies*.

2) Age

The age of the company is where the distance of time is measured from when the company began to stand up until now. Companies that have a long life will have more knowledge and experience in terms of running their company's operations, so they will therefore manage the company's resources well. This has been proven by several studies, namely by Almajali et al (2012), Alomari and Azzam (2017), Batra (1999), Burca and Batrînca (2014) and Lumpkin and Dess (1996), which indicate a positive relationship between age and company performance. Therefore, the second hypothesis is:

H2: *Age has a positive effect on the financial performance of Sharia insurance companies.*

C. Board of Commissioners

The board of commissioners, as part of the corporate organ, has the duty and responsibility collectively to supervise and provide advice to the directors/management and to ensure that the company implements Islamic principles. According to Chtourou, Marrachi and Bedard (2001), the greater the number on the board of commissioners, the better that the monitoring mechanism of the company's management will be. The large number of council benefits the company from the perspective of resource dependence. The purpose of resources dependence is that the company will depend on its board to be able to better manage its resources. The existence of the board of commissioners, as a mechanism for good corporate governance, will therefore have a major influence when it comes to improving the performance of the company (Kusmayadi and Hermansyah 2018). Klapper (2002) found, in the results of their research, that there was an effect from the implementation of GCG on company performance. Therefore, the third, fourth and fifth hypotheses are:

H3: *The board of commissioners has a positive effect on the financial performance of Sharia insurance companies.*

H4: *The board of commissioners moderate the relationship between size and the financial performance of Sharia insurance companies.*

H5: *The board of commissioners moderates the relationship between age and the financial performance of Sharia insurance companies*.

III. METHODS

A. Population and Samples

This study used a population drawn from the Sharia sector of insurance companies in Indonesia from 2014 to 2017. These were divided into 2 categories, namely Sharia insurance companies and Sharia business units within insurance companies. For the entire population, the method was used purposive sampling to select the samples used in this study. The population retrieval undertaken in that period was limited by the researcher's ability to obtaining the data.

D. Research Variables

This study used 3 types of variables as follows. The Independent variables consisted of size as measured by total assets, age as measured by company standing and status (1 = Sharia insurance company, 2 = Sharia business unit). The moderating variable used was the number on the board of commissioners as a GCG mechanism. In this study, the dependent variable used was SOC, which is the difference between the participants 'contributions into tabarru' funds minus payment of compensation/claims for reinsurance and technical reserve contributions.

E. Data Analysis Methods

The data processing method used in this study was moderation regression analysis (MRA). The basic MRA model can be formulated as follows:

$$SOC = a + \beta_1 \ln.Size + \beta_2 Age + \beta_3 Stat + e \quad (1)$$

$$SOC = a + \beta_1 \ln.Size + \beta_2 Age + \beta_3 Stat + \beta_4 Com + e \quad (2)$$

$$SOC = a + \beta_1 \ln.Size + \beta_2 Age + \beta_3 Stat + \beta_4 Com + \beta_5 (\ln.Size * Com) + \beta_6 (Age * Com) + \beta_7 (Stat * Com) + e \quad (3)$$

Where:

SOC: surplus on contribution, ln. Size: company size, Age: company age, Stat: Company Status as control variable (1 = Sharia insurance company, 2 = Sharia business unit) and Com: Number of Board of Commissioners.

IV. RESULTS AND DISCUSSION

The results of the study show that not all of the data needed can be collected due to the researchers' limited access to the data itself. The companies studied according to the data requirements were 19 companies consisting of 5 Islamic insurance companies and 14 Islamic business units in insurance companies.

First, a data quality test was carried out to ensure that the data is feasible for analysis. The testing was done using a classical assumption test which consisted of a multicollinearity test, autocorrelation test, heteroscedasticity test and normality test. Table 1 shows that the data was good within all classic assumption tests.

TABLE 1. CLASSIC ASSUMPTION TEST

Classic Assumption Test			**Conclussion**
Kolmogorov-Smirnov Test	Asymp. Sig. (2-tailed)	0,120	Good
Durbin Watson		1,724	Good
Glejser Test	Sig. ln.size	0,225	Good
	Age	0,101	
	Com	0,527	
	Stat	0,945	
Collinearity Statistics	TOL. Ln.size 0,750	VIF. Ln.size 1,334	Good
	Age 0,723	Age 1,383	
	Com 0,882	Com 1,134	
	Stat 0,875	Stat 1,143	

(Source: Output SPSS (data processed))

A. Regression Analysis - Model 1

Model 1 analyzes the effect of company size, age and company status on financial performance. Table 2 is the output of the F test and t test. The results of the F test analysis show a significance value of 0.004, so that it is significant at the 5% level and the model is therefore accepted for partial testing.

TABLE 2. OUTPUT MODEL 1

F	Sig.	Variable	t	Sig
4,695	0,004	Ln.Size	3,612	.000*
		Age	-2,598	.011**
		Stat	.080	.936

* sig. at level 1%
** sig. at level 5%

The regression analysis of Model 1 shows that size has a significant value of 0.000 with a positive coefficient. Size has a positive effect on financial performance and age, with a significance value of 0.011 with a negative coefficient, has a negative effect on financial performance. The variable of status has a significance value of 0.936 (above 0.05), so status does not affect financial performance.

The conclusion of the analysis above according to Model 1 is that the greater the size, the more financial performance increases. A large company is a company that has large assets, so the greater the assets that the company has, the easier it will be to improve its performance. Large companies certainly have high flexibility in terms of using their funds because the assets that they have will be able to encourage companies to further develop strategies for developing Sharia insurance products to achieve their company goals. This study corroborates the results of previous studies conducted by Almajali et al (2012), Hidayat and Firmansyah (2017), Mehari (2013) and Menicucci and Paolucci (2016).

The second important factor involved in improving the financial performance of Sharia insurance companies is age. The results of the analysis show that age negatively influences financial performance. This means that the longer the company exists for, the more that th company will encounter a decline in performance. This finding is very surprising because many previous studies have shown that age is positively related to performance (Almajali, Alamro, and Al-soub 2012; Alomari and Azzam 2017; Batra 1999; Burca and Batrînca 2014; Lumpkin and Dess 1996) and so this is not in accordance with the empirical studies. Therefore the differences in the results of this study indicate an important finding, showing that business competition in Indonesia is so tight that long-standing companies are able to lose to newly established insurance companies. Some of the predicted factors include product competition, innovation and technology. Newly established insurance companies are certainly better prepared to compete by offering better products than long-established insurance. In contrast to the status of the company, there is no difference in the influence between the status of Islamic insurance companies and Islamic business units in conventional insurance companies in terms of improving financial performance.

F. Regression Analysis Model 2

In the second model, there were additional variables, namely the number on the board of commissioners. The factors that affect financial performance consist of company size, age, company status and the number of commissioners. Table 3 is the output of the F test and t test for Model 2. The results of the F test analysis show a significance value of 0.009, so it is significant at the 5% level and the model is accepted for a partial test.

TABLE 3. OUTPUT MODEL 2

F	Sig.	Variable	t	Sig
3,585	0,009	Ln_Size	3,577	,001*
		Age	-2,629	,010**
		Stat	,253	,801
		Com	-,579	,564

* sig. at level 1%
** sig. at level 5%

The results of the second model analysis show that the board of commissioners has a significance value of more than 0.05, meaning that the board of commissioners does not influence the financial performance of the Sharia insurance company. To ensure its role in improving financial performance, we proceeded with the analysis of Model 3.

G. Regression Analysis Model 3

The data analysis of this model determines the status of the board of commissioners variable. Model 2 shows that the board of commissioners is not significant, so this variable can thus be a moderating variable if the multiplication between the board of commissioners and the independent variable is significant.

TABLE 4. OUTPUT MODEL 3

F	Sig.	Variable	t	Sig
3,585	0,009	Ln.Size	4,095	,000 *
		Age	-2.294	,024**
		Stat	3,082	,003 *
		Com	4.120	,000*
		Ln.size_Com	-3.648	,000 *
		Age_Com	1.981	,050**
		Stat_Com	-3.190	,002*

* sig. at level 1%
** sig. at level 5%

The results of the analysis show that the significance values of the variables Ln.size_Com, Age_Com and Stat_Com are significant. Therefore, the board of commissioners moderates the relationship between size, age and status with financial performance.

The board of commissioners has a negative coefficient within the size and status variables, thus weakening the relationship between size and company status with financial performance. This means that the positive relationship between size and financial performance is weakened by the board of commissioners. The more people there are on the board of commissioners, the more there will be interests and differences of opinion between them. This will reduce the quality of supervision which ultimately results in a decline in performance. The company should minimize the number on the board of commissioners to ensure that there is effective monitoring. In addition, commissioners also weakened the relationship between company status and performance. However, because the status variable has no effect on financial performance, although it is moderated by the board of commissioners, this does not have a significant impact on improving financial performance.

Other findings indicate that the board of commissioners strengthens the relationship between age and financial performance. The age of the company has a negative relationship with financial performance, but the board of commissioners plays a role in controlling this condition so then the company will immediately evaluate that the older the company, the more they must be careful when it comes to their business competitors.

V. CONCLUSION

Assessing the financial performance of the Sharia insurance industry is measured by an increase in surplus on contribution (SoC). Among the factors that influence the increase in financial performance is size. This is an important finding, in that assets are factors that play a major role in developing the business of Sharia insurance companies. However, the age of the company does not guarantee that the company's financial performance will be better. This research proves that age decreases financial performance. Today, the market competition is so tight that the presence of a new insurance company often means that it beats the old company.

The study also found that the board of commissioners weakened the relationship between company size and financial performance. This proves that an increased number on the board of commissioners will have a bad impact on performance. In addition, this study explains that the board of commissioners can strengthen the relationship between age and performance as a form of commissioner's responsibility in terms of overseeing the company.

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