Factors afffecting on the growth assets of sharia life insurance companies in Indonesia

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Abstract

Purpose - The objective of this research is to present a summary and examination of the impact of investment returns, claims, and premiums on asset growth in Indonesian sharia life insurance firms from 2018 to 2022.

Method - This study uses quantitative methods. The study's population consists of sharia life insurance companies that are registered with the OJK, and its sample consists of seven such companies that provide complete financial reports through 2022. Panel data analysis is the data analysis technique employed in this study, and the Common Effect Model (CEM) was selected using eviws 10.

Result - This study provides evidence that premiums and claims have a detrimental effect on Indonesian Islamicic life insurance businesses' asset growth. Low premiums and high claims inhibit asset growth. On the other hand, investment returns have a positive effect, because Islamicic insurance companies gain opportunities for asset growth from investments in various sectors. Therefore, claim management and optimization of investment returns are very important to encourage the growth of company assets.

Implication - These findings have implications from the results of this investigation, which show that a company is better and can be considered healthy if its assets are larger.

Originality - This study is the first to employ profit-sharing finance as an intervening variable.

Keywords: premium; claims; investment result; asset growth

Mega Mushrifah, Slamet Haryono, Bill Pangayow

Introduction

Humans are constantly exposed to various risks throughout their lives, especially those that are uninsured and potentially harmful (pure risks), such as risks associated with business, accidents, and illness. Risk is defined as uncertainty that leads to losses. Insurance is now essential in ensuring human protection, whether for commercial or non-commercial purposes. Sharia-compliant insurance companies are already expanding daily. The overall assets acquired through sharia insurance do not now match the increase of assets under sharia life insurance, which is currently slowing down. In comparison to the increase of sharia life insurance in 2019—a rise of just 38% in terms of assets.

Due to a drop in investment income, the growth of sharia life insurance assets slowed down in 2018, leading to a dip (Baroroh, H., 2021). The Financial Services Authority (OJK) released figures showing investment outcomes for sharia insurance of negative IDR 495 billion, a decrease of 138.46% from the realization of IDR 1.07 trillion during the same time last year. The overall sharia life insurance investment only increased somewhat, by 1.2%, in tandem with the drop in investment returns. because of the decrease in investment income from bonds and stocks that did not occur in 2018, which resulted in negative investment. The increase of sharia life insurance assets was impacted by a 15.5% decrease in investment outcomes in 2018 (Sari, Rosalina,

Mursid (2018); Ghozali & Afifah (2020) claimed that a company's profit increased in proportion to the premium it got. Gor's (2013) research provides support for the idea that premium income positively impacts profit, with each rise in premium income translating into a corresponding increase in profit. However, when considering an insurance business from the standpoint of an investment fund manager and a new fund manager, it makes sense that the insurance company needs a specific quantity of assets in order to cover expenditures or expenses all at once. Expense is the monetary unit used to

assess the worth of anything that is directly sacrificed. To earn revenue or profit, the expenditure entails a drop in income (Ghozali & Afifah, 2020).

Insurance policies before the end of the contract, or cash withdrawals and investments. (Kembara & Kamaliyah, 2023) . Based on growth data sharia life insurance asset *year-on-year* (YoY) October 2015-2022, sharia life insurance asset continues experience growth since 2015 to 2019. However, in 2020, there was a decline due to the COVID-19 outbreak in Indonesia, which impacted various industries, including the insurance sector. Nonetheless, from October 2021 to 2022, with the recovery of the economy in Indonesia, sharia life insurance asset has started to improve. In 2015, the assets of sharia-life insurance amounted to 19,824 billion Rupiah, and by 2019, it had increased to 36,847 billion Rupiah. In 2020, there was a decline by 9.46% to 33,361 billion Rupiah, but by 2022, the assets had improved by 5.99% to 35,358 billion Rupiah (Suparyanto and Rosad, 2022) .
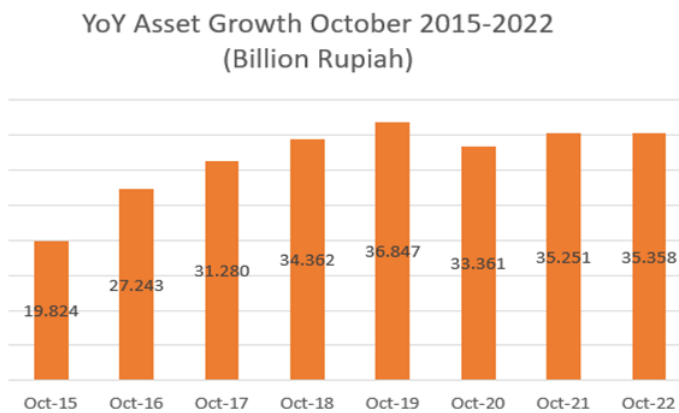

YoY Asset Growth October 2015-2022 (Billion Rupiah)

Figure 1. YoY Asset Growth October 2015-2022

The novelty of the research title *"Factors Affecting the Growth of Sharia Life Insurance Companies' Assets in Indonesia"* can be found by considering several important aspects. First, the sharia context provides significant opportunities for novelty, especially if this research explores specific factors that only apply in the sharia-based insurance industry, such as sharia

regulations, DSN-MUI fatwas, or public perceptions of sharia insurance products. Furthermore, the research can introduce novelty by analyzing the latest developments in Indonesia, such as economic policies and the newest regulations from the OJK that impact the sharia insurance sector, which have not been extensively discussed in previous studies. Utilizing the most recent data from the last 1-2 years can also enhance relevance and offer new insights into trends influencing the growth of sharia insurance company assets. Additionally, employing different or innovative analysis methods, such as comparisons between sharia and conventional insurance companies, and focusing on specific regions in Indonesia, can strengthen the novelty of this research. If the research can identify new variables that have never been thoroughly analyzed, it will make a significant scientific contribution.

On the contrary, along with conventional insurance institutions, the spirit of the Sharia economy is also growing. This enthusiasm is based on the resilience of Bank Muamalat during the 1998 crisis. This background led to the establishment of financial institutions that focus on Islamicic finance and banking. One of these institutions is Sharia insurance.

Literature Review

The main theories that may be relevant as *grand theories* in this study are *the Sharia Finance Theory* and *the Economic Growth Theory*, with additional concepts from *the Company Theory* and *Stakeholder Theory* that can help analyze the factors that influence the growth of assets of sharia insurance companies. Asset growth is the rate of change (increase or decrease) in total assets experienced by the company each year, which shows the condition of the company's assets against all of its operational activities in obtaining profit or gain. Assets are assets used in the company's operations. The greater the assets, the greater the operational results are expected to be generated by the company. An increase in assets accompanied by an increase in the company's operational results will increase trust from external parties to the company.

Insurance premiums for participants are generally useful for determining the amount of savings of insurance participants, getting charity benefits or

claim funds for an incident that results in a claim, adding investment in the following period. While for companies, premiums are useful for adding investment to a managed business. Premiums collected from participants must be sufficient to cover at least three things, guaranteed risks, acquisition costs, and operational management costs of the company, from graph 1.2 it shows that premiums contribute greatly to the growth of sharia insurance assets, this is because premiums are the main source of income from sharia insurance so that the smoothness of premiums will increase the company's assets.

Claim is a submission of rights made by the insured to the insurer to obtain his rights in the form of coverage for losses based on the agreement or contract that has been made. In other words, a claim is a submission process by a participant to obtain his insurance money after the insured has carried out all his obligations to the insurer, namely in the form of settlement of premium payments according to the previous agreement. Claim payments in sharia insurance are taken from the tabarru' funds of all participants. The company, acting as the mudharib, is obligated to promptly, accurately, and efficiently complete the claims process in accordance with the received mandate. While providing timely claims may reduce the company's assets, it will enhance the company's reputation and lead to increased premium payments, ultimately contributing to the growth of the company's assets.

Investment activities carried out by the community continuously will increase insurance assets. This role comes from three important functions of investment activities, namely (1) investment is one component of aggregate expenditure, so that an increase in investment will increase aggregate demand, national income and employment opportunities; (2) the addition of capital goods as a result of investment will increase production capacity; (3) investment is always followed by technological developments so that if the company can attract investment it will increase the company's assets, graph 1.2 shows that insurance investment tends to increase, this shows that finding investors is important for the company.

Rusydiana & Nugroho (2017), the goal of this study is to assess the level of efficiency of the life insurance business in Indonesia. Data Envelope Analysis is the technique employed (DEA). The study's focus is on the following eight sharia insurance industries: Insurance Jiwasraya, Insurance Takaful, Amanahjiwa Giri Insurance Syariah, Islamic life insurance Al-Amin, BNI Life, PaninDai-IchiLife, and Insurance Jiwasraya. Commission Fee (X1), Operational Cost (X2), and Total Equity (X3) are the three input variables in this study. The two output variables are Premium (Y1) and Investment Income (Y2). This research the study's findings demonstrate that up to 15 DMUs are 100% efficient and up to 24 DMUs are inefficient. It is visible from this angle.

In order to ascertain the impact of operational expenses, investment return growth, contribution, and profitability on the expansion of assets of Islamicic insurance businesses, additional research was carried out (Lilavira & Zulaikha, 2020). Multiple linear regression analysis is used in this study, which has a sample size of 21 and data on Islamicic insurance financial reports from 2013 to 2017. This study demonstrates that the rise in return on investment, contribution, and profitability are the three factors that have a major beneficial impact on asset growth. On the other hand, operating expenses don't really matter.

Hypotheses Development

Based on the framework that i attach, the one below show connection between three variables independent (Premiums, Claims, and Investment Results) with variable dependent (Asset Growth), a hypothesis that can submitted is as following:

H1: Premium (X1) has an effect positive and significant to Company Asset Growth (Y) insurance the soul of sharia in Indonesia.

H2: Claim (X2) has an effect negative and significant to Company Asset Growth (Y) insurance the soul of sharia in Indonesia.

H3: Investment Results (X3) have an effect positive and significant to Company Asset Growth (Y) insurance the soul of sharia in Indonesia.
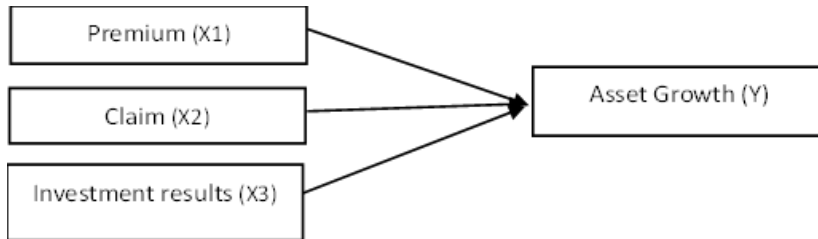
Figure 2. Conceptual Framework

Research Methods

The research methodology employed in this work is the causality technique with a quantitative approach. The goal of quantitative research is to generate mathematical models, theories, and/or hypotheses about the phenomena under study through the use of numerical or numerical data analysis. The study's population consists of a sharia life insurance firm registered with the Financial Services Authority (OJK) from 2018 to 2022. The sample for this study was chosen using the purposive sampling technique. Secondary data from each company's financial documents were used in this analysis, and the criteria for sampling were determined by the researchers. The criteria set for determining the sample are as follows:

- Types of sharia life insurance registered with the OJK
- Sharia life insurance companies or institutions whose financial reports are well published in the period 2018-2022 (including data on Company Asset Growth, Tabarru' Funds, Claims and Investments) or types of sharia unit life insurance that have the potential to become *full* sharia and have achieved several achievements as the best sharia insurance. Thus, the research sample was determined to be 7 sharia insurance companies that meet the above criteria.

Mega Mushrifah, Slamet Haryono, Bill Pangayow

Table 1. Sharia Life Insurance Company

No.	Insurance Company Name
1	PT. Family Takaful Insurance
2	PT. Insurance The Trusted Life of Giri Artha Syariah
3	PT. Syariah Life Insurance Jasa Mitra Abadi (JMA Syariah)
4	PT. Al-Amin Sharia Life Insurance
5	PT. Allianz Syariah
6	PT. Manulife Indonesia Life Insurance
7	PT. Prudential Syariah

The data analysis technique was carried out using panel data regression to obtain the best model for further use in this study.

The data analysis technique in this study uses descriptive analysis which aims to provide an overview or description of research variables such as company asset growth, premiums, claims and investment returns. Descriptive statistics are a form of statistics that describe the characteristics of data, especially the distribution of the data. This study uses the Generalized Least Square (GLS) model. In general, there are three approaches in selecting an estimation model, namely (1) Common Effect Model; (2) Fixed Effect Model (FEM); and (3) Random Effect Model (REM). The Chow test and the Hausman test are also known as the F-statistic test to determine the choice between the common or fixed effect model, this decision is based on the probability results of the random cross-section. If the probability value exceeds 0.05, then the random effect model is selected. Conversely, the fixed effect model is chosen if the probability is smaller than 0.05. Following this, classical assumption tests are conducted using the panel data regression equation, which is as follows:

$$Yit = ÿ + ÿ1X1it + ÿ2X2it + ÿ3X3it + ÿ$$

Where :
Y = Asset Growth
X1 = Premium

X2 = Claim
X3 = Investment Results
ÿ = Error
i = company data
t = period

Next, hypothesis testing is carried out to assess the level of significance of the regression coefficient obtained. When making a decision regarding the hypothesis, a comparison is made between the probability value and the level of significance. ÿ 0.05. Hypothesis testing includes partial tests (t-test), simultaneous tests (F-test) and coefficient of determination tests (R2).

Table 2. Operational Definition of Variables

Variable	Indicator	Scale
Premium(X1)	Total premium income from premium income (Jamaludin & Syafrizal, 2020)	Ratio
Claim (X2)	Total claim expenses in 1 year (Syarifuddin et at., 2020)	Ratio
Result Invesment (X3)	Investment Results received in 1 year (Hartoko, 2019)	Ratio
Growth Asset (Y)	$\dfrac{\text{Total Asset } t - \text{Total Asset } t-1}{\text{Total Asset } t-1} \times 100\%$ (Setiobekti et al., 2020)	Ratio

Results and Discussion

Statistics Descriptive

Based on the statistical test results in the table, it is known that this study fulfills the condition of normality because the amount of data used is greater than 30. The study includes 7 company specifications for sharia insurance in Indonesia, with an estimated research period of 5 years (2018-2022).

Table 3. Statistics Descriptive

	Y	LOGX1	LOGX2	LOGX3
Mean	0.293400	5.466899	5.733380	1.538310
Median	0.176000	5.232530	5.794467	1.813195
Maximum	0.981000	6.886698	6.861825	2.288080
Minimum	0.035000	4.609461	4.615200	0.046884
Std.Dev.	0.303616	0.739199	0.679936	0.717891
Obs	35	35	35	35

Source: processed data by eviews 10, 2024

Panel Data Regression Test

In this study, to determine the best model there are three methods used, namely the chow method, the haustman test and the LM test. From the three methods used, the final result of the LM test was that the selected model was the common effect.

Table 4. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section	1.869311	(6.25)	0.0435

Source: processed data by eviews 10, 2024

Table 5. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.370783	3	0.3379

Source: processed data by eviews 10, 2024

Table 6. Breuch Pagan LM Test Results

	Cross-Section	Time	Both
Breusch-Pagan	0.819761	1.158703	1.978464
	(0.3652)	(0.2817)	(0.1596)

Source: processed data by eviews 10, 2024

Table 4 shows Chow test results indicate a market probability of 0.0435, suggesting a fixed effect model (FEM) due to the probability being less than 0.05. Test results in Table 5 show that the probability of the cross-section is 0.3379, which is greater than 0.05. Therefore, the recommended model is the random effects model (REM). According to the results in Table 6, the Breusch-Pagan test indicates a Breusch-Pagan probability value of 0.3652. Since this value is greater than 0.05, the recommended model for estimating panel data regression is the Common Effect Model (CEM).

Classical Assumption Test

Based on Figure 2, it is known that the Jarque-Bera statistic is 2.166317 with a probability value of 0.338525 > 0.05. This means that the normality assumption is met.
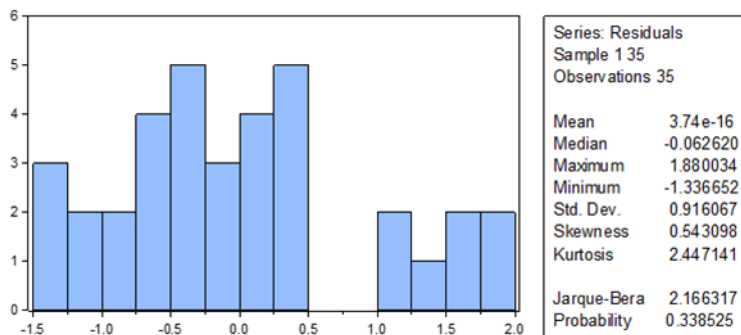

Figure 2. Normality Test

Table 7. Multicollinearity Test Results

Variabel	Coefficent Variance	Uncentered VIF	Centered VIF
C	0.005680	1.988721	NA
X1	0.062030	2.299041	1.013220
X2	0.004432	1.356111	1.132253
X3	0.010419	1.355710	1.138884

Source: processed data by eviews 10, 2024

Table 8. Heteroscedasticity Test Results

Variabel	Coefficient	Std. Error	t-Statistic	Prob.
C	0.220241	0.052874	-0.485562	0.0003
X1	-2.255005	0.111996	1.863961	0.0662
X2	-1.097645	0.135026	-0.723160	0.4718
X3	-0.150555	0.136801	1.100537	0.2746

Source: processed data by eviews 10, 2024

It is possible to conclude that there are no signs of multicollinearity between the independent variables based on the multicollinearity test findings in the table. This is due to the fact that all cantered VIF values do not exceed 10. From the data listed in table 8, it can be seen that in this study, there is no indication of heteroscedasticity in the premium, claims and investment return variables, because the probability value exceeds 0.05 (Prob. > 0.05).

Hypothesis Testing

The t-test was performed with objective prove existence influence of independent variables in a way partial or individual on the dependent variable with based on the probability value, if Prob < 0.05 then hypothesis rejected and if Prob < 0.05 then hypothesis accepted.

- Shows that the premium variable has a coefficient value of 0.125690 Prob. 0.0392 in this study, the premium partially has a positive effect on asset growth in Islamic life insurance companies for the period 2018-2022. That H1 is accepted.

- Shows that the claim variable has a coefficient value of 0.387272 and a Prob. value of 0.0247 in this study, claims have a partial positive effect on asset growth in Islamic life insurance companies for the 2018-2022 period. That H2 is accepted.

- Shows that the investment result variable has a coefficient value of 0.057134 and a Prob. value of 0.0357 in this study, partially the

investment result has a positive effect on asset growth in Islamic life insurance companies for the period 2018-2022. That H3 is accepted.

Based on the data listed in table 10, we can see the results of the F test by considering the comparison between the Probability value (F-statistic) with the significance level applied in this study, namely $\alpha = 0.05$. The results of the F-statistic test show that the Probability value (F-statistic) is 0.000000, which is smaller than 0.05. Therefore, it can be concluded that there is a simultaneous influence between the independent variables, namely premiums, claims, and investment returns on the dependent variable, namely asset growth.

The coefficient of determination (R2) is used as an indicator to assess the extent to which the regression line represents the pattern of observation data. The higher the R2 value, the better the accuracy of the regression line. Based on the data listed in Table 11, the analysis results show that the R-square value in the context of this study is 0.499685. This indicates that the independent variables consisting of Premiums, Claims, and Investment Results are able to explain variations of 0.499685 or equivalent to 49%. Meanwhile, the remaining 51% is influenced by other factors not included in the analysis model.

Table 9. Partial Test Results (t test)

Variabel	Coefficient	Std. Error	t-Statistic	Prob.
C	5.248360	5.008032	1.047988	0.3027
LOG(X1)	0.125690	0.224281	0.560416	0.0392
LOG(X2)	0.387272	0.252149	1.535882	0.0247
LOG(X3)	0.057134	0.239028	0.239025	0.0357

Source: processed data by eviews 10, 2024

Table 10. Simultaneous Test Results

F-statistic	0.954807
Prob(F-statistic)	0.000000

Source: processed data by eviews 10, 2024

Table 11. R Square Result

R-squared	0.499685
Adjusted R-squared	0.473002

Source: processed data by eviews 10, 2024

The Impact of Premiums on Asset Growth

In Indonesia, eleven Islamicic life insurance companies have experienced a decline in premium growth over the past six years. The premium is the amount that the insured pays to the insurer in order to make up for any losses, damages, or anticipated profit loss resulting from the formation of a risk transfer agreement between the insured and the insurer (transfer of risk from the insured to the insurer). risk). Another name for premiums is the money that clients provide the insurance firm in order to receive benefits. The underwriter's risk selection process yields results that are used to calculate the premium amount. Underwriting is a method of choosing. ascertain the premium amount that the client must pay. Put differently, clients will be required to pay insurance premiums based on the degree of risk associated with their individual circumstances. The findings of the computation indicate that premiums have a detrimental impact on asset growth. The idea of income accounting theory is not supported by this. Income can be defined as a growth in the value of an entity's assets, a payment made to fulfil its liabilities, or a combination of producing and delivering goods to support other projects, which are the main operations of the company. This implies that income and a company's asset expansion are correlated in one direction. Therefore, the higher the amount of money invested and the faster a company's assets expand, the higher the premiums collected by the insurance company.

The Impact of Claims on Asset Growth

The computation's outcomes demonstrate that claims significantly impede asset growth. Asset growth is negatively impacted by claims, meaning

that for every rise in claims, asset growth declines. The notion of accounting burden theory, which asserts that burdens take the form of a reduction in economic gains through the depletion of an asset's use, theoretically aligns with the findings of this study. A rise in liabilities or a fall in assets is reflected in burdens. Consequently, it can be said that claim burdens influence asset growth. Insurance companies view claims as a burden or burdensome situation, meaning that if a If a claim is made, both the invested funds and the company's tabarru' funds will decline. In order for the company to make less profit, the pace of asset growth for insurance companies will also decline. Therefore, prior research has concluded that claims have a negative impact on asset growth in Indonesian Islamicic life insurance companies. This is supported by empirical facts and aligned with the theoretical concepts found in this study. As a result, the findings obtained from this research align with and reinforce the conclusions of multiple prior studies.

The Influence of Investment Results on Asset Growth

The computation's findings indicate that asset growth is positively and significantly impacted by investment returns. Because of the substantial investment returns, these findings are consistent with those of several earlier research that found that investment has an impact on asset growth. This demonstrates that asset growth in Indonesian sharia insurance businesses is positively correlated with investment levels. The idea that investment spending sends a favourable signal for future business growth and raises stock prices, which serve as a gauge of a company's worth, is further supported by these data. The company's investment spending indicates to creditors and investors alike that it intends to expand in the future.

Therefore, it can be concluded that sharia insurance businesses with large investments across a variety of sectors will benefit from more opportunities as a result of their investments, leading to an increase in the growth of their assets. Investment Outcomes' Impact on Asset Growth The research findings align with the theoretical framework of the study, which posits that asset growth is influenced by investment. The study's findings indicate that rising

investment will have an impact on asset growth. Asset growth will accelerate in tandem with increased investment. Thus, based on the findings in this study which are associated with theoretical concepts and backed by empirical facts, earlier studies may be deduced that investment results have a good effect on asset growth in sharia life insurance enterprises in Indonesia.

Growth asset sharia life insurance Company in Indonesia is influenced by three main factors: premiums, claims, and investment results. Premium received company is source main income and capital that can be obtained invested , where the premium is higher big will give more Lots opportunity For develop asset through safe and halal sharia investment . However, claims paid to customers can reduce the company's assets, making efficient claims management important for financial stability. Investment results also play a key role in increasing the company's assets, especially through appropriate sharia-compliant financial instruments such as sukuk and sharia mutual funds, which are expected to generate significant returns without violating sharia rules. Additionally, factors such as sharia fairness, transparency, and compliance with Sharia law influence customer trust and public perception of sharia insurance, ultimately contributing to the growth of premiums and company assets. Therefore, the success of a sharia-compliant insurance company in managing premiums, claims, and investment results in accordance with sharia principles is crucial to ensuring sustainable growth and stable assets.

Conclusion

The eleven Indonesian Sharia Life Insurance Companies included in the study experienced a decrease in asset growth between 2018 and 2022. This decline was attributed to a drop in financial instruments related to sharia insurance. Over the past six years, premiums have decreased due to the limited market share of sharia life insurance, making it difficult to compete with traditional life insurance providers. Another issue is the increase in claims at sharia life insurance firms during the same period. The high volume of requests for early settlement or cancellation of insurance policies before to

the end of the contract period, as well as cash withdrawals and investments, contributed to the rise in claim value. Moreover, the investment performance of sharia life insurance businesses has also declined over the last six years. The decrease in investment outcomes is attributed to the loss of unrealized investment income from stocks and bonds. In summary, these findings highlight the challenges faced by Indonesian sharia life insurance companies in terms of asset growth:

- In Indonesia, premiums have a detrimental effect on the asset growth of sharia life insurance businesses. It is believed that losses result from both the deteriorating performance of bancassurance distribution channels and investments that are managed by insurance companies.

- The increase of sharia life insurance firms' assets in Indonesia is adversely affected by claims. This implies that the growth of assets acquired by sharia life insurance businesses will be slower the more claims they handle, or vice versa.

- Investment returns have a favourable impact on the asset expansion of Indonesian sharia life insurance firms. This is a result of the numerous investments made by sharia insurance businesses across a range of industries, which present them with several options and boost asset growth.

A phenomenon's logical ramifications are known as implications. The study's conclusions imply that a sharia life insurance firm is considered healthy if it has a larger asset value than its competitors. However, if the company's assets are smaller, its financial performance would likewise suffer, which will make insurance participants less trusting of the business. Insurance companies must enhance their financial performance by spending their capital more carefully in profitable sectors if they hope to boost participant trust. An increase in premiums leads to an increase in asset growth. In other words, the higher the premiums received by the insurance company, the larger the funds allocated for investment, the higher the

benefits and profits realized by the company, and the higher the rate of asset growth for that company. Insurance firms create large amounts of premium funds, but because not all of them are invested, there is little chance of making a profit, which slows down asset growth.

The insurance firm's poor performance suggests a decline in asset growth. The more claims the company has to pay, the unhealthier it is considered. When a risk materializes, the insurance company must pay claims. A high degree of claim burden is caused by specific substantial claims that can seriously threaten the firm's financial stability, thereby increasing the risk for the company. The high claim burden raises concerns among insurance participants about the insurance company's financial stability by disclosing information about the company's subpar performance and high degree of reliance on the payment of insurance claims. This could lead to a decline in the company's growth.

Due to the high rate of return on investment, the insurance company has a significant chance of turning a profit the more money invested in it. This indicates that the insurance company's assets will increase in proportion to the amount spent. Investing in the company sends a positive signal to the market, as stock prices rise as a measure of a company's worth. The company's investment expenditures indicate that it may expand in the future, particularly to creditors and investors. Therefore, it can be concluded that sharia insurance businesses with a large investment portfolio across several sectors will benefit from more opportunities as a result of their investments, leading to a rise in their asset growth.

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