
The Effect of Efficiency, Profitability, Claims and Firm Size on Financial Distress Mediated by Risk-Based Capital in Insurance Companies Registered with the Financial Services Authority

KEYWORDS

Efficiency, Profitability, Claim, Firm Size, Risk Based Capital, Financial Distress

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ABSTRACT

The financial health of a life insurance company is important to ensure its ability to pay life insurance benefits to policyholders. Companies that experience financial difficulties put their ability to pay claims at risk, resulting in delays or inability to pay benefits that should be provided. The aim of the research is to analyze the influence of efficiency, profitability, claims and firm size on the financial distress of life insurance companies both directly and through risk based capital mediation. The research used 25 life insurance companies for the 2018-2022 period. Determination of the sample using purposive sampling technique. Data analysis uses path analysis with the help of a computer program. The analysis results show that efficiency, profitability and firm size have a significant effect on risk based capital, but the claims ratio has no effect on risk based capital. The profitability and firm size and risk based capital have a significant effect on financial distress, but efficiency and claims have no effect on financial distress. The risk based capital is able to mediate the influence of efficiency, profitability and firm size on financial distress in life insurance companies in Indonesia. The use of risk based capital as a mediating variable is a research novelty, then efficiency, profitability, claims and firm size as independent variables simultaneously also becomes a research novelty.

INTRODUCTION

An important phenomenon in the insurance industry is the occurrence of claim defaults by a number of national insurance companies (Schwarcz & Schwarcz, 2014). Life insurance claims refer to the ratio between the total claims paid by life insurance companies and the total premiums collected from policyholders within a certain period of time, the lower the life insurance claims, the better the financial performance of the life insurance company. The following is data on life insurance claims and general insurance in Indonesia (Otoritas Jasa Keuangan, 2022). The phenomenon of claim default is an indication that the company is in a bad financial condition or

financial distress. Financial distress occurs when a company fails or is unable to fulfill its obligations to creditors due to a lack of funds (Nurhayati, et al., 2017). The phenomenon of five insurance companies failing to pay claims can be analyzed with financial distress theory (Michalkova, et al., 2018; Brigham & Ehrhardt, 2017; Nurhayati, et al., 2017; Connelly, et al., 2011). Platt & Platt (2002), financial distress is a stage of decline in the financial condition experienced by a company, which occurs before bankruptcy or liquidation.

There are various indications that indicate a company is in a phase of financial distress such as workforce layoffs or not making dividend payments, interest coverage ratio and cash flow that is less than current long-term debt (Platt & Platt, 2002). In addition, costs include employee turnover, decreased employee performance, decreased product quality due to cost-cutting measures, reduced credit extended by suppliers, loss of customers, and higher interest rates demanded by lenders (Rosslyn-Smith, De Abreu, & Pretorius, 2020). Financial distress in insurance companies can occur when the company experiences significant financial difficulties and is unable to meet its financial obligations, such as paying insurance policy claims or meeting debt payment obligations.

Various factors that can cause financial distress in insurance companies include the level of efficiency of the company, for example in the field of investment (Sporta, 2018). Efficiency is the best comparison between input and output, between profit and resources used, and the maximum results achieved by using limited resources (Asyikin, n.d.). Insurance companies usually have large investment portfolios to generate sufficient income to pay claims and other financial obligations (Zelie, 2019). When an insurance company is inefficient in managing its operations, it can experience a significant decline in financial performance, thus increasing the likelihood of financial distress. Insurance companies must be efficient in handling insurance policy claims, including verifying claims, evaluating losses, and processing claim payments (Komperla, 2021). If the company is not efficient in managing claims, it can increase operational costs and increase the risk of financial distress. This condition can occur when there is an unexpected increase in claims, for example related to natural disasters, then insurance companies can experience financial difficulties because they have to pay more claims than previously thought. Inefficiency in managing operating costs may also increase the likelihood of financial distress (Opler & Titman, 1994). Insurance companies that are inefficient in managing operational costs can increase costs and reduce profitability, thereby increasing the likelihood of financial distress.

Financial distress can also occur because the company is unable to manage and maintain stable financial performance (Nurhayati, et al., 2017). This means that poor financial performance may be a factor that causes financial distress. Financial performance can be reflected in the profitability ratio. The financial performance of insurance companies has a very large influence on the risk of financial distress (Asyikin, 2021; Susanti, et al., 2020; Zelie, 2019; Dwiantari & Artini, 2021). If the profitability of an insurance company is poor, it increases the risk of financial distress. Poor financial performance reflected in negative profitability ratios can be a cause of financial distress in insurance companies. Poor financial performance can be seen from investment losses, increased claims and high operating costs. Large investment losses can reduce the value of the

company's assets and cause a decrease in financial performance (Gatzert, 2015). If the insurance company cannot improve its investments or has an overly concentrated investment portfolio, it increases the risk of investment losses and decreased financial performance. Then an unexpected increase in claims or unbalanced risk distribution can result in increased claim costs and damage the financial performance of the insurance company. Insurance companies must be able to anticipate the risk of high claims and have sufficient reserves to pay claims. In addition, high operating costs can reduce the profitability of insurance companies and increase the risk of financial distress. Insurance companies must be able to manage operating costs effectively and efficiently to ensure good profitability (Nyongesa, 2017).

Claims can also be an indication in determining the level of financial health of an insurance company. The Claims Expense Ratio is a metric that reflects how well the company manages claims from policyholders and reflects the extent to which the company can fulfill claim obligations. In addition, this ratio also reflects how well the company manages the insurance that has been provided to customers and how well the company responds to claims submitted by policyholders (Ummah & Priyanto, 2023). High claims can lead to an increase in the claims burden that insurance companies have to pay, which can reduce their net profit. If an insurance company cannot manage its claims well, this can lead to ongoing financial losses. Insurance companies generally maintain financial reserves to address future claims. High claims can result in the depletion of these reserves, which in turn can affect the company's financial condition.

Company size can also determine the level of risk of financial distress (Oktaria, et al., 2021). Larger companies tend to have more financial resources and capital reserves that can be used to cope with financial stress. Larger companies often have more experienced management teams and greater resources to cope with financial distress situations. They may have more experience in managing financial problems and strategies to get out of the crisis. Large companies may be better able to obtain additional loans or raise capital more easily than smaller companies. The smaller the size of the company, the fewer assets the company has, and small companies tend to be more unstable in the face of financial distress (Hakim, et al., 2022).

The results of the study state that the factors that influence financial distress include efficiency, profitability, claims and company size (Asyikin, 2021; Arifiana & Khalifaturafi'ah, 2022; Anggraini, et al., 2022; Hakim, et al., 2022). However, different findings were found that efficiency, profitability, claims and company size have no effect on financial distress (Zelie, 2019; Rokhayati, et al., 2022; Ummah & Priyanto, 2023). The occurrence of this research gap is possible because there are still intermediary or mediating factors. The weaknesses of life insurance companies that default start from low solvency or risk-based capital (RBC) ratios and even minus, low investment adequacy ratios, and low liquidity ratios. The results showed that risk-based capital negatively affects the probability of financial distress (Harjadi & Sihombing, 2020). This study aims to analyze the effect of efficiency, profitability, claims and company size on financial distress with risk-based capital mediation to be applied to life insurance companies periode 2016-2022.

The claim ratio of insurance companies has increased, this is not good for the company's financial condition, this is reinforced by the existence of five insurance companies declared in default.

METHODS

This research is categorized as quantitative research to test hypotheses statistically. The research was applied to insurance companies listed on the Financial Services Authority for the period 2016 – 2022(Ahmeti, Kalimashi, Ahmeti, & Aliu, 2022). The sample determination was carried out using purposive sampling technique, so that a sample of 25 companies was obtained. Variable efficiency, profitability, claims and company size as independent variables, risk-based capital as a mediating variable and financial distress as the dependent variable. Variable measurements are described as follows.

Financial Distress as the first year in which cash flow is less than current maturities of long-term debt(Bashaija, 2022). Financial distress occurs when a company fails or is no longer able to fulfill debtor obligations due to lack and insufficient funds to run or continue its business again. Calculation of financial distress using the Altman Z-score model(Nustini & Amiruddin, 2019).

RESULTS

Life insurance companies in Indonesia indicate unhealthy, it can be seen that of the 175 observed data there are 72% categorized in distress, then 25.7% in the gray area while there are only 2.3% healthy companies (non-distress). These results explain that most insurance companies have very unhealthy financial conditions. Through path analysis, the following results are obtained.

Table 1.
Path Analysis

		b	T ratio	Sig.	Description
1	Efisiensi ->Risk Based Capital	.214	2.807	.006	H1 Retrieved
	Profitabilitas ->Risk Based Capital	.230	3.092	.002	H2 Retrieved
	Klaim ->Risk Based Capital	.008	.105	.917	H3 rejected
	Firm Size -> Risk Based Capital	-.326	-3.957	.000	H4 rejected
	R Square	.186			
	F Statistik	9.687			
	Sig.	.000b			
2	Efisiensi ->Financial Distress	-.130	-1.894	.060	H5 Retrieved
	Profitabilitas ->Financial Distress	.572	8.485	.000	H6 Retrieved
	Klaim ->Financial Distress	.003	.051	.959	H7 rejected
	Firm Size -> Financial Distress	-.422	-5.551	.000	H8 Retrieved
	Risk Based Capital -> Financial Distress	-.330	-4.877	.000	H9 Retrieved
	R Square	.369			
	F Statistik	19.785			
	Sig.	.000b			

Source: Secondary Data processed (2023)

The r square value that is closer to 1 indicates the better the research model (Ahmeti et al., 2022). It can be seen that model 1 has an R Square value of 0.186, meaning that the variance of the efficiency, profitability, claim ratio and company size variables is only able to contribute in explaining the variance of the RBC variable by 18.6% only, while the contribution of variables outside the model is still very large. Meanwhile, the R Square value in model 2 is 0.369, meaning that the variance of efficiency variables, profitability, claim ratio and company size and RBC are only able to contribute in explaining the variance of financial distress variables by 36.9%, while the rest is explained by other variables outside the model. Variables are said to have a significant influence when they have a value of $-1.96 < t \text{ ratio} > 1.96$ (Goenawan, 2023), thus H1, H2, H4, H5, H6, H8 and H9 are accepted while H3 and H7 are rejected. The equation in the model is as follows.

Model 1:

$$RBC = \beta_1 BOPO + \beta_2 ROA + \beta_3 Klaim + \beta_4 Size + e_1$$

$$RBC = 0,214 BOPO + 0,230 ROA - 0,008 Klaim - 0,326 Size + e_3$$

The path coefficient value (β) shows the magnitude and direction of influence between variables, so that when the path coefficient value is positive, it indicates a positive or unidirectional direction of influence, while when the path coefficient value is negative, it indicates the opposite direction of influence.

1. Every one unit increase in the efficiency variable (BOPO) will lead to an increase in risk-based capital of 0.214 units.
2. Each one unit increase in the profitability variable (ROA) will bring changes to the increase in risk-based capital by 0.230 units.
3. Each one unit increase in the call variable will bring changes to the decrease in risk-based capital by 0.008 units.
4. Each one unit increase in the company size variable (Size) will bring changes to the decrease in risk-based capital by 0.326 units.

Model 2:

$$FD = \beta_5 BOPO + \beta_6 ROA + \beta_7 Klaim + \beta_8 Size + \beta_9 RBC + e_2$$

$$FD = -0,130 BOPO + 0,572 ROA + 0,003 Klaim - 0,422 Size - 0,330 RBC + e_4$$

Explanation:

1. Each one unit increase in the efficiency variable (BOPO) will lead to a decrease in financial distress (Z Score) by 0.130 units.
2. Each one unit increase in the profitability variable (ROA) will bring changes to the increase in financial distress (Z Score) by 0.572 units.
3. Each one unit increase in the calim variable will bring changes to the increase in financial distress (Z Score) by 0.003 units.

4. Each one unit increase in the company size variable (Size) will bring changes to the decrease in financial distress (Z Score) by 0.422 units.
5. Each one unit increase in the risk-based capital variable will bring changes to the decrease in financial distress (Z Score) by 0.330 units.

Meanwhile, to analyze the indirect effect, the Sobel test is used with the following results.

Table 2.
Mediation Test (Indirect Effect)

Interaction	Coefficient	(t) tsatistik	Description
Efisiensi ->Risk Based Capital -> Financial Distress	-0,071	-2,104	Significant
Profitabilitas ->Risk Based Capital -> Financial Distress	-0,076	-3,135	Significant
Klaim ->Risk Based Capital -> Financial Distress	-0,003	-0,091	No
Firm Size ->Risk Based Capital -> Financial Distress	0,108	3,112	Significant

Source: Secondary Data processed (2023)

The results of the analysis show that risk-based capital has been able to mediate the variables of efficiency, profitability and company size on financial distress, but risk-based capital has not been able to mediate the effect of claims on financial distress in life insurance companies registered with OJK.

Effect of Efficiency on Risk Based Capital

The results of the analysis showed that H1 was accepted, meaning that efficiency has a significant effect on risk-based capital in life insurance companies in Indonesia (Apriani, 2020). This finding is reinforced by the positive path coefficient value of 0.214. This finding explains that the efficiency of insurance companies as measured by operating costs to operating income can have a positive effect on risk-based capital, this also indicates a relationship between operational efficiency and the ability of insurance companies to manage risk and maintain adequate capital levels. More efficient insurance companies tend to have lower operating costs compared to operating income, this means that insurance companies have more resources that can be allocated to managing risks. By minimizing operating costs, insurance companies can have more capital available to tackle risks that may arise, such as unexpected claim losses. An efficient insurance company can also generate greater profits, which can be used to strengthen the company's capital (Adeniyi, Adeyinka, & Babayaro, 2019). Adequate capital is essential in the insurance industry to ensure that the company has the ability to fulfill its claim obligations and pay policyholders. With sufficient capital, insurance companies can keep their RBC at an adequate level.

Effect of Profitability on Risk Based Capital

The results of the analysis showed that H2 was accepted, meaning that profitability has a significant effect on risk-based capital in life insurance companies in Indonesia (Manurung, Sudaryanto, & Ediraras, 2022). This finding is reinforced by the positive path coefficient value of 0.230. This finding explains that profitability as measured by ROA can have a positive effect on

RBC in the insurance industry. The ROA ratio reflects the ability of insurance companies to generate profits from their assets (Bustani, 2020). More profitable insurance companies tend to generate greater profits. These profits can be used to strengthen the company's capital. With greater capital, insurance companies can keep their RBC level at an adequate level or even increase it if needed. More profitable insurance companies have more resources to fulfill obligations to policyholders and pay claims, this means they have more funds available to keep their RBC level at a safe level, as RBC is a measure of capital availability to address risks that may arise. In addition, profitable insurance companies tend to be more attractive to investors and shareholders (Chen & Wong, 2004). They may find it easier to raise additional capital through the sale of shares or bonds. Investor confidence can help insurance companies raise additional funds that can be used to strengthen their RBC.

Effect of Claims on Risk Based Capital

The results of the analysis showed that H3 was rejected, meaning that claims have no effect on risk-based capital in life insurance companies in Indonesia (Larouche, 2017). This finding explains that claims on insurance companies are not the main factor considered in the calculation of RBC. Claims are the ratio between the total claims paid by insurance companies and the total premiums received from policyholders. The rejection of this hypothesis allows insurance companies to diversify their portfolios (Berry - Stölzle, Liebenberg, Ruhland, & Sommer, 2012). If the insurance company has a highly diversified portfolio, where risks are evenly distributed among various types of assets and policies, then individual claims may not have a significant impact on RBC, in which case, losses from one claim may be covered by gains from other claims. The next possibility relates to the level of claims reserves held by the company. Insurance companies usually have reserves to cover claims that may arise in the future. If these reserves are large enough and well managed, then a sudden or large claim may not have a significant impact on RBC, as the company has prepared sufficient funds.

Effect of Firm Size on Risk Based Capital

The results of the analysis obtained that H4 is accepted, meaning that company size has a significant effect on risk-based capital in life insurance companies in Indonesia (Manurung et al., 2022). This finding is reinforced by the negative path coefficient value of -0.326. This finding explains that the larger the insurance company, the smaller the RBC level. Larger insurance companies may have larger and more complex business portfolios. This could include diverse product offerings, policies with high coverage amounts, and exposure to different types of risks (Culp, 2008). On this scale, the risks faced by the company tend to be larger and more diverse, which can reduce the company's RBC if not managed properly. Large insurance companies may be more prone to accumulation risk. Accumulation risk occurs when companies face many claims that arise simultaneously or in similar situations, for example during the Covid-19 Pandemic. Accumulation risk can drain capital and affect RBC if there is no adequate diversification in the insurance portfolio.

Effect of Efficiency on Financial Distress

The results of the analysis showed that H5 was rejected, meaning that the efficiency variable has no effect on financial distress in insurance companies in Indonesia. Efficiency strategies carried out by insurance companies do not have a significant impact in reducing the company's financial distress condition. When the company is in a state of financial distress, the efficiency strategy carried out by the company does not have an impact on restoring the company's finances significantly, so that to make the company's finances healthy it takes a long time by the company when the company only relies on efficiency in the company's finances. The results of this study are not in line with previous research showing that efficiency has a significant effect on financial distress (Asyikin, et al., 2021). Efficiency as the ability of insurance companies to produce the required output with the minimum possible burden. Efficiency also shows the best comparison between input and output, between profit and resources used, and the maximum results achieved using limited resources. When insurance companies can perform efficiency in various aspects, they will avoid financial distress. This finding is less in line with the findings of previous research which states that efficiency has a negative effect on the possibility of financial distress (Shahwan& Habib, 2020).

Effect of Profitability on Financial Distress

The results of the analysis obtained that H6 is accepted, meaning that the profitability variable has a significant effect on financial distress in insurance companies in Indonesia. This significant effect is supported by a positive coefficient value (0.572). An increase in company profitability as seen from return on assets can have a significant impact on making the Z-Score ratio higher, meaning that the more the company avoids symptoms of financial distress. The study results also identified that most insurance companies experienced financial distress, so that companies need to be consistent in several periods to nourish the company's financial condition, especially for companies that have a high debt ratio. The study results are less in line with previous research showing that profitability has a significant effect in reducing the level of financial distress (Asyikin, et al., 2021). Assessment of profitability in insurance companies as an analysis carried out to see the extent to which an insurance company has implemented it by using the rules of financial implementation correctly. Profitability as a measure of financial performance has a significant negative effect on financial distress (Widhiastuti, et al., 2019). The profitability of a good insurance company includes the company experiencing a continuous increase in profits, the company is able to pay off its debts, both current and long-term liabilities. Through good profitability, it is possible for an insurance company not to experience financial difficulties, especially in covering all of the company's operating costs and obligations.

Effect of Claim on Financial Distress

The results of the analysis showed that H7 was rejected, meaning that claims have no effect on financial distress in life insurance companies in Indonesia. This finding explains that claims on insurance companies are not the main factor considered in the calculation of financial distress (Murigu, 2014). There are several possibilities why claims may not have a significant impact on the financial distress of a company or entity, one of which is the adequacy of claim reserves. Entities that manage risk well usually have reserves that are large enough to cope with

emergency situations, including sudden claims. These reserves can be used to cover losses and help maintain financial stability (Obstfeld, Shambaugh, & Taylor, 2010). In addition, insurance companies that have sufficient size and financial capacity to handle losses that may occur are usually more resistant to financial distress, this is because insurance companies have more resources to overcome financial challenges.

The Effect of Firm Size on Financial Distress

The results of the analysis obtained that H8 is accepted, meaning that company size has a significant effect on financial distress in life insurance companies in Indonesia. This finding is reinforced by the negative path coefficient value of -0.422. This finding explains that the larger the insurance company, the smaller the Z-score value and the greater the chance of financial distress. Larger companies often have greater risks because they may have more liabilities and exposure to various risks, including market risk, operational risk, and others. Larger size can increase risk diversity and make companies more vulnerable to potentially significant financial stress (Zheng, Wang, & Jiang, 2019). In addition, larger insurance companies in Indonesia tend to have higher levels of debt as they may require additional resources to support their operations or make larger investments. High leverage can increase the risk of bankruptcy if the company has difficulty paying its debts. This makes the company size variable able to determine the condition of financial distress.

Effect of Risk Based Capital on Financial Distress

The results of the analysis obtained that H9 is accepted, meaning that the risk-based capital variable affects financial distress in insurance companies in Indonesia. This significant effect is supported by the negative coefficient value (-0.330). An increase in risk-based capital can significantly reduce Z-Score, meaning that it can make the chances of financial distress become greater. The level of risk faced by insurance companies has a significant impact on the company's financial distress condition. This research is in line with the results of a study which states that the implementation of enterprise risk management was found to affect financial distress (Luthfiyanti & Dahlia, 2020), companies that cannot manage their risks properly will have a negative impact on their financial performance, and have the potential to cause financial distress. Efforts to minimize risk are carried out by implementing measures directed at reducing the rate of return obtained from risk analysis. Although risk management can be realized in one or more ways applied simultaneously or simultaneously such as reducing risk while transferring risk (Mardiana, et al., 2018). The main reason a company should manage their risk exposure is to avoid financial distress. When the company has a high level of risk, the chances of the company being in financial distress also increase.

The Effect of Efficiency on Financial Distress through the Mediation of Risk Based Capital

This finding explains that efficiency in the company's operations is a consideration in the measurement of risk-based capital so that it will ultimately have an impact on financial distress conditions. Efficient insurance companies tend to be able to operate their business at a lower cost, but in an effort to achieve efficiency, they may tend to take greater risks in their operations. This

could mean offering policies with lower premiums or having less stringent policies in risk assessment. These risks may lead to potentially higher claims in the future. RBC can act as a mediator that illustrates the relationship between operational efficiency and the risks taken by insurance companies. If efficiency leads to a significant increase in risk, then RBC may indicate that the company needs more capital to cover the risk. This can have an impact on the Z-Score, which reflects the risk of bankruptcy.

The Effect of Profitability on Financial Distress through the Mediation of Risk Based Capital

The results of the analysis obtained that H11 is accepted, meaning that profitability has a significant effect on financial distress through mediation of risk-based capital in life insurance companies in Indonesia. This finding is reinforced by the negative path coefficient value of -0.076. This finding explains that the company's profitability is a consideration in measuring risk-based capital so that in the end it will have an impact on financial distress. High profitability in some situations can reduce the capital requirements needed to address financial risks. However, this depends on how the company manages profitability and risk. A lower RBC value can be interpreted as an indication that the company has a lesser level of capital to cope with risks, this can have a negative impact on the Z-Score, where a low Z-Score can also indicate a greater risk of bankruptcy. Thus, insurance companies should also consider good risk management and wise financial policies to ensure that they can maintain their financial stability. In the context of Z-Score analysis, high profitability can be a good indication of good management and a positive impact on financial stability. However, the effect of profitability on Z-Score through the mediation of RBC is highly dependent on various factors and cannot be viewed as a general rule.

The Effect of Claims on Financial Distress through the Mediation of Risk Based Capital

The results of the analysis showed that H12 was rejected, meaning that claims have no significant effect on financial distress through the mediation of risk-based capital in life insurance companies in Indonesia. This finding explains that risk-based capital does not mediate the effect of claims on financial distress. The rejection of this hypothesis is because RBC is a capital measure used specifically in the context of the insurance industry to assess the financial health of insurance companies and their ability to cover the risks associated with the insurance business. RBC measures the extent to which the company has sufficient capital to cover insurance risks that may arise in its operations. The rejection of this hypothesis is also because claims are not a factor that is the main consideration in calculating risk-based capital, this happens in some conditions such as the possibility of insurance companies that have sufficient claims reserves, so that increasing claims do not interfere with the risk mapping of the capital owned by insurance companies.

The Effect of Firm Size on Financial Distress through the Mediation of Risk Based Capital

The results of the analysis obtained that H13 is accepted, meaning that company size has a significant effect on financial distress through risk-based capital mediation in life insurance companies in Indonesia. This finding is reinforced by the positive path coefficient value of 0.108. This finding explains that company size is a consideration in measuring risk-based capital so that in the end it will have an impact on financial distress. Companies with larger assets often have access to more financial resources and capacity to address financial risks. Companies with larger

assets also usually have more assets and revenues. This can result in a greater RBC, which reflects the company's ability to cover risks that may arise. A higher RBC can provide greater protection against potential financial stress and financial distress.

CONCLUSION

This study found that efficiency, profitability and company size directly have a significant effect on risk-based capital and financial distress, but the claims variable has no effect on risk-based capital and financial distress. Risk based capital has been able to mediate the variables of efficiency, profitability and company size on financial distress, but risk based capital has not been able to mediate the effect of claims on financial distress in life insurance companies registered with OJK. the variable that has the most dominant influence on risk based capital is company size with a path coefficient value of -0.326, meaning that company size has an influence of 0.326 units in the opposite direction. Meanwhile, the variable that has the most dominant influence on financial distress is company profitability with a path coefficient value of 0.572, meaning that profitability has a directional effect of 0.572 units.

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