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Article

THE EFFECT OF FINANCIAL LEVERAGE ON PROFITABILITY SHARIA LIFE INSURANCE COMPANY

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Abstract: The purpose of this study is to determine the effect of Financial Leverage on the Profitability of Jasa Mitra Abadi Tbk Sharia Life Insurance Company on the Indonesia Stock Exchange. This study uses Debt to Asset Ratio and Debt to Equity Ratio as indicators in measuring Financial Leverage and Return On Equity indicators in measuring Profitability. This research method is a quantitative associative approach by sampling financial statements in 2018-2021 using documentation techniques in the form of secondary data and data tested using partial tests (t), Chi square tests, determination coefficient tests and nonparametric Correlation tests to test hypotheses.

The results obtained in this study in testing the analysis of normally distributed data requirements with a value of 0.136 can be said to be normally distributed. Based on the results of correlation and nonparametric correlation tests , it can be concluded that there is no significant relationship between the Financial Leverage variables consisting of Debt to Asset Ratio and Debt to Equity Ratio to profitability consisting of Return On Equity. Based on the results of the partial test (t), the coefficient of determination of R^2 Obtained an R square value of 0.010 or 10% with a significant value of DAR from the persial test of 0.993 > 0.05 and a DER of 0.983 > 0.05%, it can be concluded that Ho is accepted and Ha is rejected which means that there is no relationship between Financial Leverage to Profitability. Therefore, it can be concluded that variable X does not have a significant effect on variable Y. While the Chi Square result obtained a significant value of 0.238 > 0.05, it can be concluded that there is no influence between the Financial Leverage variable on profitability.

Keywords: Financial Leverage, Profitability, Funds

1. Introduction

The company always strives to increase its profits in carrying out its activities, to achieve this goal every company needs funds. To finance its operations, the funds can come from own capital, as well as outside parties in the form of short-term debt or long-term debt obtained from creditors and shareholders. The use of these funds has an impact on fulfilling the company's obligations to fund owners and the company must also contribute to increasing the company's profit. Funds used to finance the company's business activities can also use borrowed funds. By using borrowed funds, the company will increase the value of its debt which means that the company in question will have to bear higher capital costs and financial risks or increase the company's financial risks. Debt is an inevitable reality. Almost no modern society has been spared from the influence of debt, only that the difference lies in the degree of debt dependence. The company is more dependent on debt, which is called leverage in modern business terms. Leverage is the use of funds or sources of capital to increase the potential profit of shareholders. The[1] leverage ratio describes the relationship between a company's debt to capital and assets. This ratio can see how far the company is financed by debt or outsiders with the company's ability described by capital (equity). Several types of[2] leverage ratios are debt to asset ratio (DAR), debt to equity ratio (DER), long-term debt to aquity

[1] Rebin Sumardi and Suharyono, *Basics Management Finance* (Jakarta: LPU-UNAS, 2020), p. 91.
[2] Sofyan Syafri Ha, *Analysis Crisis above Report Finance* (Jakarta: PT. RajaGrafindo Persada, 2007), p. 306.

ratio (LTDER), time interest earnet ratio (TIER), and fixed charge coverage (FCC). This study only used 2 leverage ratios, namely using DAR and DER. The reason is because it can provide an idea of how much debt is in the company and can compare the total debt owned and the total capital, as well as total debt with total assets in the company, as well as the ability of the company to be able to pay the interest costs it has due to the use of funds. The profitability ratio is a ratio used to measure a company's ability to make a profit from the normal activities of its business. The profitability ratio used in this study is return on equity (ROE). This ratio was chosen because it can describe the level of company profit by utilizing the total capital (equity) owned by the company so that it can be used as a means of measuring the company's performance over a certain period. ROE is used because it relates to the source of funding of the company that is related to the owner. The company will have a low ROE if it only relies on its own capital and the ROE will be high if the company uses debt or loans to carry out company activities. Financial leverage is the use of debt financing. The use of debt does not always adversely affect the company. It can be seen that as long as the company can still increase profits, any debt will lead to an increase in the ROE (Retrun On Equity) figure, which certainly benefits shareholders. This means that debt users are expected to generate higher operating profits, thereby increasing the company's profitability.[3]

Table 1.1
Sharia Life Insurance Financial Ratio

Ratio	2018	2019	2020	2021
Debt to Asset Ratio	36%	49%	56%	54%
Debt to Equity Ratio	57%	86%	116%	117%

Based on the results of financial data from the Sharia Life Insurance company Jasa Mitra Abadi Tbk on the Indonesia Stock Exchange that financial leverage in 2021 can fulfill its debt repayment obligations, both bank debt, business debt and debt to other third parties, as in the ratio of liabilities to total assets (Debt to Asset Ratio) in 2018 it was 36% in 2019 at 49% in 2020 at 56% and in 2021 at 0.54%, while in the Debt to Equity Ratio in 2018 it was 57% in 2019 at 86% in 2020 at 116% and in 2021 at 117%. Although the company is able to repay debts. However, as the leverage increases, the profitability obtained by the company will decrease. A significant influence suggests that leverage is a major factor affecting a company's profitability. based on the discrepancy in the facts, a company that has a high level of debt use basically has the potential to have large profits so that it can cause the company to develop better, but the higher the level of leverage Finance, the more debt is used so that the company's cash is more to pay debt. From this background, the researcher is interested in conducting a study entitled "The Effect of Financial Leverage on the Profitability of Sharia Life Insurance Company Jasa Mitra Abadi Tbk on the Indonesia Stock Exchange".

2. Methodology

The type of research used is quantitative approach research, which puts more emphasis on the measurement or calculation aspects and usually there are numbers that support research data and this type of[4] research is associative, namely asking for the relationship between two or more variables that aim to find out the relationship of independent variables (variables that affect) to dependent variables (influenced variables).. The data analysis process uses [5] quantitative descriptive data and the data analysis test uses simple linear regression.

3. Result

A. Descriptive Statistical Analysis

Descriptive statistics are statistics used to analyze data by describing or describing the data that has been collected as it is without intending to make conclusions that apply to the general public or generalizations. The descriptive statistical test results used are the maximum value, minimum value, and average value. Here are the results of the descriptive statistics test:

[3] Ali Geno Berutu, *Indonesia Sharia Capital Market, Institutions Research and Devotion To IAIN Society Salatiga* (Salatiga:Institution Research and Devotion To IAIN Society Salatiga, 2020), pp. 1-2

[4] A. Mun Joseph, *Method Research: Quantitative, Qualitative, Research Combined,* (Jakarta: Gold, 2014), p.58.

[5] Sugiono, *Method Research Education Approach Quantitative, Qualitative,* and R&N, (Bandung: Alfabeta, 2015), p.57.

Table 1.1 Descriptive Statistical Test Results

Descriptive statistics				
	N	Minimum	Maximum	Mean
DAR	4	36,00	56,00	48,75 00
DER	4	57,00	117,00	94,00 00
ROE	4	,04	1,10	,6825

Data Source: Data processed author 2022

The explanation in the table above is as follows: Debt to Asset Ratio produces an average value of 48.75 or 49% with a minimum value of 36.00 or 36% and a maximum value of 56.00 or 56%. As for the Debt to Equity Ratio, it shows a sample (N) of 4 obtained from one company. The Debt to Equity Ratio produces an average value of 94,000 or 94% with a minimum value of 57.00 or 57% and a maximum value of 117.00 or 117%. Retrun On Equity (Y) yields an average value of 0.68 with a minimum value of 0.04 and a maximum value of 1.10. Standard deviation of 0.51591

Table 1.2 Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardiz ed Residual
N		5
Normal Parameters[a,b]	,0000000	.0000000
	,69901457	6.42941355
Most Extreme Differences	,308	.150
	,206	.150
	-,308	-.124
Test Statistics		,308
Asymp. Sig. (2-tailed)		,136c
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Data Source: 2022 author processed data

Based on the results of the normality test using the One-Sample Kolmogorov-Smirnov Test in table 4.5, the results of a significant value of 0.136 which means greater than 0.05. So it can be concluded that the value of Asymp. Sig (2-tailed) > 0.05 or 1.000 > 0.05 then it can be said to be normally distributed and the results of this analysis can be continued for the next regression analysis because in this test a normally distributed rasidual value was obtained.

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B. Correlation Test

The correlation test is used to determine the relationship between two variables. With this correlation analysis, the relationship between these variables can be known. Positive correlation, negative correlation, neither correlation nor perfect correlation can occur between two variables.

Table 1.3 Correlation Test Results

Correlations				
		DAR	DER	ROE
DAR	Pearson Correlation	1	,973*	,007
	Sig. (2-tailed)		,027	,993
	N	4	4	4
DER	Pearson Correlation	,973*	1	-,017
	Sig. (2-tailed)	,027		,983
	N	4	4	4
ROE	Pearson Correlation	,007	-,017	1
	Sig. (2-tailed)	,993	,983	
	N	4	4	4
*. Correlation is significant at the 0.05 level (2-tailed).				

Based on the relational test above, the significance value of the Debt to Asset Ratio and Retrun On Equity variables is 0.993. So that 0.993 > from 0.05. It can be concluded that Ho is accepted and Ha is rejected, which means that there is no relationship between Debt to Asset Ratio and Return On Equity. Based on the correlation test above, the significance value of the Debt to Equity Ratio and Return On Equity variables is 0.983. So 0.983 > out of 0.05. It can be concluded that Ho is accepted and Ha is rejected which means that there is no relationship between Debt to Equity Ratio and Return On Equity.

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C. Simple Regression Analysis

Simple regression analysis to test the effect of one free variable on a bound variable. Decision making in a simple linear regression test can refer to two things, namely: comparing the significance value with the proficiency value of 0.05. If the siginifiancy value < 0.05. meaning that variable X affects variable Y. while if the significance value is > 0.05. meaning that variable X has no effect on variable Y.

Coefficients[a]						
Type		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,209	5,253		,040	,975
	DAR	,025	,249	,440	,101	,936
	DER	-,008	,078	-,445	-,103	,935
a. Dependent Variable: ROE						

Source: data processed with SPSS, 2022

Based on the results of the constant simple linear regression test (α) obtained, it was 0.209, while the regression coefficiency (β) values obtained were 0.025 and -0.008. So that the result can be entered into a simple linear regression equation as follows:

$$\mathbf{Y = \alpha + Bx + e}$$
$$\mathbf{Y = 0.209 + 0.025}$$

The value of the constant obtained is 0.209 which indicates that the consistency value of profitability is 0.209. The regression coefficient value obtained by 0.025 indicates that the addition of 25% of the Debt to Asset Ratio value, then the profitability measured using Retrun On Equity will increase by 0.025. Based on the results of the significance value obtained from the table above, it is 0.936, which means 0.936 > from 0.05. So it can be concluded that the Debt to Asset Ratio Variable has no effect on the profitability variable measured using Return On Equity.

$$\mathbf{Y = \alpha + Bx + e}$$
$$\mathbf{Y = 0.209 + -0.008}$$

The value of the constant obtained is 0.209 which indicates that the consistency value of profitability is 0.209. The regression coefficient value obtained is -0.008. Based on the results of the significance value obtained from the table above, it is 0.935, which means 0.935 > from 0.05. So it can be concluded that the Debt to Equity Ratio Variable has no effect on the profitability variable measured using Return On Equity.

D. Hypothesis Test

Partial Test (T)

The T test is carried out to test whether or not there is an influence of the independent variable return on equity (ROE) on the dependent variable of the company's value. The test value criterion is that if the significant level (sig t) is smaller than $\alpha = 0.05$ then Ha is accepted which means that the independent variable partially has a significant effect on the dependent variable. Conversely, if sig t is greater than $\alpha = 0.05$ then H_a is rejected and H_o is accepted which means that the independen variable has no significant effect on the dependent variable.

Table 1.7 Partial Test Results (t)

Coefficients[a]

Type		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,664	2,002		,332	,772
	Return On Equity	,000	,041	,007	,009	,993

a. Dependent Variable: Company Value

Based on the partial test (t) above, the Debt to Asset Ratio variable gets a regression coefficient value of 0.00 and obtains a calculated t of 0.009. The significance value is 0.993. So that 0.993 > from 0.05. It can be concluded that Ho is accepted and Ha is rejected which means not to the relationship between Debt to Asset Ratio and Return On Equity.

Coefficient Determination Test (R^2)

The coefficient of determination essentially measures how far the model is capable of explaining the variation of dependent variables. The value of the coefficient of determination is zero and one. A small R^2 value means that the ability of independent variables to describe the variation of dependent variables is very limited. A value close to one means that independent variables provide almost all the information needed to predict a dependent variable.

Table 1.8 Coefficient Determination Test Results (R^2)

Model Summary				
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,102[a]	,010	-1,969	,88888
a. Predictors: (Constant), Return On Equity				

Data Source: SPSS 26 output result, data processed author 2022

Based on the results of the coefficient of determination test, a correlation value (R) of 0.102 was obtained, indicating that the independent variable has a relationship in the medium category to the dependent variable. The determinization coficient value in the R square column of 0.10 or 10% means that 10% profitability can be explained by Financial leverage while the other 90% is explained by other variables outside the variables studied. Based on the intrepretation table of the coefficient of determination, 0.10 falls into the category of low relationships, the effect is only 10% meaning that financial leverage has a low relationship to profitability.

4. Discussion

A. **How good is the Financial Leverage** on the **Sharia Life Insurance company Jasa Mitra Abadi Tbk on the Indonesia Stock Exchange**

The Debt to Asset Ratio and Debt to Equity were chosen as financial leverage gauge indicators of how well money or loans (debt) are used to finance asset purchases in the hope that the income or profits from the new assets will exceed the cost of the loan. Debt to Asset Ratio is a debt ratio used to measure the ratio between total debt and total assets. If the Debt to Asset Ratio yield is less than 0.5%, it means that the company's assets are financed from equity or own capital. If the Debt to Asset Ratio yield is greater than 0.5%, it means that the company's assets are financed from debt. If the yield of the Debt to Asset Ratio is 0.6%-0.7% then it is said to be normal. Debt to Asset Ratio in Sharia Life Insurance company Jasa Mitra Abadi in 2018 was 36% in 2019, namely 49% in 2020, namely 56% and in 2021 which was 54%. Thus, it is implied that the Debt to Asset Ratio in the Asurasi Jiwa Syariah Jasa Mitra abadi company for the 2018-2021 period is in an abnormal state because it exceeds 0.6% and 0.7%. If the Debt to Asset Ratio yield is high, the higher the company's risk in paying off its obligations. According to cashmere, the Debt to Asset Ratio can also be used to measure how much a company's assets are financed by debt or how much the company's debt affects asset management. Debt to Equity Ratio is a financial ratio that compares the amount of debt to equity. If the debt to equity ratio is below or equal to 100% or 1, then the company's condition is in the good category. The reason is, if the company defaults, the company's equity is proven to be able to pay these debts. The Debt to Equity Ratio in Sharia Life Insurance company Jasa Mitra Abadi in 2018 was 57% in 2019, namely 86% in 2020, which was 116% and in 2021 it was 117%. So it is concluded that the Debt to Equity Ratio is included in the good category in 2018-2019 because it is below 100% while in 2020-2021 it is included in the category of not good because it is above 100%.

B. **How good is the profitability of sharia life insurance company perpetual partner services tbk on the Indonesian stock exchange**

Return On Equity (ROE) was chosen as a profitability measuring indicator to give an indication of how well a company will use investors' investment money to make a profit. ROE is the ratio between net profit after tax and total equity. By knowing ROE, we can find out how good the company's potential is in making a profit. Thus, if the greater the ROE, the better the performance, because the rate of change is greater.

C. **Is there a positive and significant relationship between Financial Leverage and the Profitability of Jasa Mitra Abadi Tbk Sharia Life Insurance Company on the Indonesia Stock Exchange**

The results of the study were based on the correlation test of the significance value of the Debt to Asset Ratio and Retrun On Equity variables, which was 0.993. So that 0.993 > from 0.05. It can be concluded that Ho is accepted and Ha is rejected, which means that there is no relationship between Debt to Asset Ratio and Return On Equity. Based on the correlation test above, the significance value of the Debt to Equity Ratio and Return On Equity variables is 0.983. So 0.983 > out of 0.05. It can be concluded that Ho is accepted and Ha is rejected which means that there is no relationship between Debt to Equity Ratio and Return On Equity.

D. Does the Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER) affect the **Retrunt On Equity (ROE) at the Sharia Life Insurance Company Jasa Mitra Abadi Tbk on the Indonesia Stock Exchange**

The results of the study based on the partial test (t) on the Debt to Asset Ratio variable obtained a regression coefficient value of 0.00 and obtained a calculated t of 0.009. The significance value is 0.993. So that 0.993 > from 0.05. It can be concluded that Ho is accepted and Ha is rejected which means not to the relationship between Debt to Asset Ratio and Return On Equity. The results of the study based on a partial test (t) on the Debt to Equity Ratio variable obtained a regression coefficient value of 0.00 and obtained a calculated t of -0.024 greater than t table = -4.302 (-0.024 < -4.302) with a significance level of 0.983. Using the limit of 0.05 the significance value is greater than the 5% level which means that Ho is accepted and Ha is rejected. Thus, the hypothesis of this study is not proven, it means that there is no significant effect of the Debt to Equity Ratio on Return On Equity. The results of this study are supported by research conducted by Cholifia Dwi Agustin Pangestuti and Hening Widi Oetomo which states that Financial Leverage does not affect profitability. This is because financial leverage occurs after the company uses a fixed load, the higher the fixed costs from using funds, the greater the risk that must be faced. Financial risk occurs as a result of the use of company debt, if the company uses larger debt, the interest that must be paid is also greater, this will have an impact on the company's profitability. Evidenced by the results of the t test with a significance value of 0.191 > 0.05. The results of this study are contrary to the results of research conducted by Muhammad Fuad, Oyami Sara and Muhammad Nur Daud which stated that financial leverage partially affects profitability. Financial leverage is significant to profitability which means that management must be able to design a strategy to achieve high profitability value for the company. The relationship with the theory according to Donaldson, namely the Pecking Order Theory, based on the existence of asymmetric information, which is a situation where the management has more information about the company than the owner of the capital. This asymmetric information will influence the choice between users of internal funds or external funds and between the choice of adding new debt or by making new equity deposits. Therefore, the use of financial leverage in companies requires a strategy so that the company can increase its profitability. Financial leverage of companies that have a high level of debt use basically has the potential to have large profits so that the company can develop better, but this theory is not in accordance with what happened to the Sharia Life Insurance company Jasa Mitra Abadi because the higher the level of financial leverage, the more debt used so that the company's cash is more to pay debt.

5. Conclusion

Based on the results of the research and discussion that has been described, the author concludes that:

1. Based on the results of the Debt to Asset Ratio criteria of less than 0.5%, it means that the company's assets are financed from equity or own capital and if it is 0.6%-0.7% then it is concluded to be normal. However, if it is above 0.6-0.7% or exceeds then it is concluded to be abnormal. Debt to Asset Ratio in Sharia Life Insurance company Jasa Mitra Abadi annually obtained by 36%, 49%, 56% and 54%. Therefore, it is implied that the Debt to Asset Ratio in the Asurasi Jiwa Syariah Jasa Mitra abadi company for the 2018-2021 period is in an abnormal state because it exceeds 0.6% and 0.7%. The yield of the Debt to Equity Ratio is below or equal to 100% or 1. Debt to Equity Ratio in Sharia Life Insurance company Jasa Mitra Abadi annually is 57%, 86%, 116%, 117% and 100%. Therefore, it is concluded that the Debt to Equity Ratio is included in the good category in 2018-2019 because it is below 100% while in 2020-2021 it is included in the bad category because it is above 100%.
2. The percentage rate of Return On Equity in Sharia Life Insurance company Jasa Mitra Abadi has increased and decreased every year in 2018 the percentage of ROE is 0.049% in 2019 the percentage of ROE is 1.10% in 2020 the percentage of ROE is 0.04% and in 2021 the percentage of ROE is 1.10%. Based on the assessment rating, Return On Equity is ranked fourth, namely 0.49%, 1.10%, 0.04% and 1.10% ≤5%. Therefore, it is concluded that the Return On Equity in the Sharia Soul Asuration company Jasa Mitra abadi for the 2018-2021 period is not in a good condition.
3. The results of the Correlation Test of the significant value of the Debt to Equity Ratio of 0.993 > of 0.05 and the significant value of the Debt to Asset Ratio of 0.983 > of 0.05. It can be concluded that Ho is accepted and Ha is rejected which means that there is no relationship between Financial Laverage and Return On Equity. Nonparametric correlations test results obtained values of 0.684 > 0.05 meaning that there was no significant relationship between the two variables.
4. The results of the overall financial laverage research test and analysis did not have a significant effect on the profitability of the Sharia Life Insurance Company Jasa Mitra Abadi Tbk on the Indonesia Stock Exchange. This shows that profitability is not only influenced by financial laverage but there are many other factors and variables that affect the profitability of a company.

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