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**THE ANALYSIS OF FACTORS INFLUENCING DIVIDEND PAYOUT RATIO IN INSURANCE COMPANIES LISTED IN INDONESIA STOCK EXCHANGE (IDX) PERIOD 2011-2015.**

*ANALISA FAKTOR-FAKTOR YANG MEMPENGARUHI RASIO PEMBAGIAN DIVIDEND DALAM PERUSAHAAN-PERUSAHAAN ASURANSI YANG TERCATAT DI BURSA EFEK INDONESIA (BEI) PERIODE 2011-2015*

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**Abstract:** This study aims to analyze factors which are Profitability, Growth Opportunity, Firm Size and Leverage that influence the Dividend Payout Ratio in insurance companies listed in Indonesia Stock Exchange period 2011-2015. This study is a quantitative study and Multiple Linear Regression used as analysis tool. The sample are 10 companies who already made IPO before year 2011 and data were gathered from the company annual financial report. Result shows that Profitability measured by ROE and Growth Opportunity have a significant and negative association with DPR. Meanwhile Firm Size and Leverage have insignificant and negative relation with the DPR in insurance companies that listed in IDX. The negative association by ROE and Growth Opportunity to the DPR. It thus, tends to retain their earnings more than to pay it as dividend. Companies should improve their product so they can cover all of the customer needs.

**Keywords:** *dividend payout ratio, insurance company, profitability, growth opportunity, firm size, leverage.*

**Abstrak:** Penelitian ini bertujuan untuk menganalisis faktor Profitabilitas, Peluang Pertumbuhan, Ukuran Perusahaan dan Leverage yang mempengaruhi Rasio Pembayaran Dividen pada perusahaan asuransi yang terdaftar di Bursa Efek Indonesia periode 2011-2015. Penelitian ini merupakan penelitian kuantitatif dan Regresi Linier Berganda digunakan sebagai alat analisis. Sampelnya adalah 10 perusahaan yang sudah melakukan IPO sebelum tahun 2011. Data dikumpulkan dari laporan keuangan tahunan perusahaan. Hasil penelitian menunjukkan bahwa Profitabilitas yang diukur oleh ROE dan Growth Opportunity memiliki hubungan signifikan dan negatif dengan DPR. Sementara itu Firm Size and Leverage memiliki hubungan tidak signifikan dan negatif dengan DPR di perusahaan asuransi yang tercatat di BEI. Hubungan negatif dengan ROE dan Growth Opportunity ke DPR. Dengan demikian, cenderung mempertahankan pendapatan mereka daripada membayarnya sebagai dividen. Perusahaan sebaiknya meningkatkan produk mereka sehingga dapat mencakup semua kebutuhan pelanggan.

**Kata Kunci:** *rasio pembagian dividend, perusahaan asuransi, profitabilitas, peluang pertumbuhan, ukuran perusahaan dan leverage.*

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## INTRODUCTION

### Research Background

In terms of investment, the investor's main objective to invest their funds into the company is to earn income or level of return on investment in the form of dividends (dividend yield) as well as income from the difference between the selling price of stock over its purchase price (capital gain). Investors prefer dividend yield rather than capital gain because dividend is a more certain earning compared to capital gain.

Nowadays, the insurance industry has become one of the promising industry in Indonesia. The change in urban life style nowadays leads people to realize the needs of protection that guarantee them from any harm. Insurance is classified as a service company based on the activities of the company and as intermediaries, insurance companies are not only providing the mechanism of risk transfer, but also helping to channel the funds in an appropriate way to support the business activities in the economy. So, people starts to understand that insurance is part of risk management that they must prepare in life, whether as self-protection, business and other needs.

It is also supported by the report of insurance statistics. Until 2015, after *time deposit and certificate of deposit* the second largest investment portfolio was in *shares* which is Rp155.7 trillion and accounted for 22.7% of the total investments of insurance industry. The number of total insurance companies in Indonesia also increased with the total of 146 companies (OJK, 2015: 1-14). Although the industry is growing, it was not followed by the development in the field of science for this sector especially in Indonesia. There is still lack of literature in explaining dividend payout ratio especially insurance companies in Indonesia.

### Research Objective

The research aim to analyze:

1. The simultaneous effect of profitability, growth opportunity, firm size and leverage on dividend payout ratio (DPR).
2. The partial effect of profitability, growth opportunity, firm size and leverage on dividend payout ratio (DPR).

## THEORETICAL FRAMEWORK

### Dividend Policy

Dividend policy is a decision made by an organization to determine the amount of dividend to be paid and the level of profit to be retained (Mui & Mustapha, 2016).

### Payout Ratio Basics

The dividend payout ratio is used to examine if a company's earnings can support the current dividend payment amount. It can be calculated by taking the dividend and dividing it by the company's earnings per share. If there is a company has a dividend payout ratio over 100% then that means the company is paying out more to its shareholders than earnings coming in. This is typically not a good recipe for the company's financial health, it can be a sign that the dividend payment will be cut in the future.

### Insurance

Insurance is a contract of reimbursement. It reimburses for losses from specified perils, such as fire, hurricane, and earthquake. An insurer is the company or person who promises to reimburse. The insured (sometimes called the assured) is the one who receives the payment, except in the case of life insurance, where payment goes to the beneficiary named in the life insurance contract. The premium is the consideration paid by the insured-usually annually or semiannually-for the insurer's promise to reimburse. The contract itself is called the policy. The events insured against are known as risks or perils (Mayer et al., 2012: 571).

### Profitability

Important measure of performance is Return on Equity (ROE), a performance measure closely monitored by many investors to decide whether the company is creating an adequate return on their investment. By measuring how much profit a company can generate from assets financed by equity capital, ROE offers a superior measure of companies' profit-generating efficiency. ROE analysis across countries provides valuable information

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for potential investors to assess the attractiveness of a particular country for equity investment opportunities (Gnanasooriyar, 2014).

**Growth Opportunity**

Dividend policy is also affected by corporate growth opportunity. Companies with the prospect of future growth opportunities tend to retain a significant part of their profit to use as an internal source of financing these opportunities. Companies choose to use retain profit rather than external sources of funding since it is easier to obtain, incurs less cost, and is less risky (Manneh & Naser, 2015).

**Firm Size / Corporate Size**

It is claimed that larger firms are more likely to pay higher dividends because larger firms tend to be more mature and have higher cash flows. Large companies tend to pay more dividends than small companies since the prospect of growth and expansion in their activities are less than small companies. Hence, they do not need to retain a significant part of their profit for future expansion and growth. They might use dividend payout to signal information about themselves (Manneh & Naser, 2015).

**Debt Ratio or Leverage**

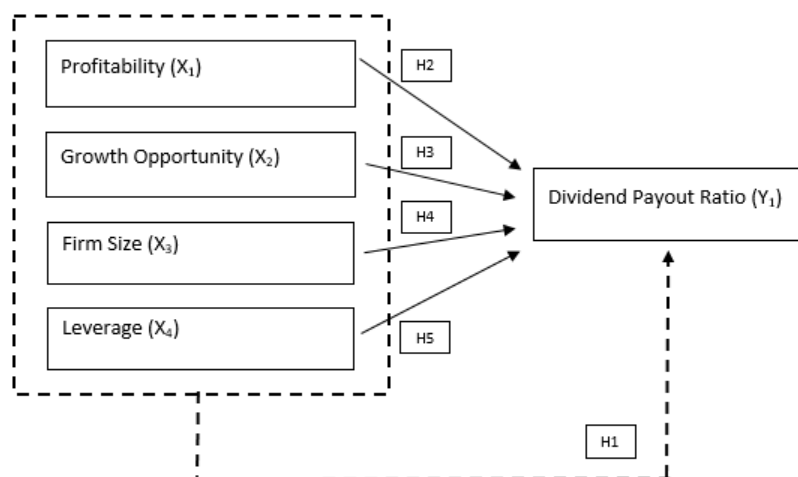
A relationship exists between dividend policy and corporate leverage. When a company is in shortage of cash due to high dividend payout, management will consider either issuing additional shares or look for lenders. In this case, the company needs to strike a balance between dividend payout, leverage and shares issue. However, empirical evidence on the strength and direction of the relationship between dividend payout and leverage is inconsistent (Manneh & Naser, 2015). When there is high leverage, it is said that a firm is associated with more liabilities. It incurs transaction costs to the company which they need to pay the principals borrowed together with interest charged (Patra et al., 2012).

**Previous Research**

Research by Tefera (2016: 61-67), variables profitability, liquidity, growth opportunity and lagged dividend payout ratio have a significant relationship with dividend payout ratio. Also, the study found that leverage, firm size, and business risk were found to be insignificant in dividend payout decision of Ethiopian insurance companies.

Meanwhile in Malaysia, research conducted by King'wara (2015) shown that dividend payout ratio is impacted negatively by the growth rate, debt ratios and firm size and positively by earnings, market-to-book ratio and retained earnings to total assets ratio.

**Conceptual Framework**



Notes:

- Partially  →
- Simultaneously  →

**Figure 1. Conceptual Framework**

Source: Data Processed, 2017

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**RESEARCH METHODS**
**Type of Research**

This is a causal research, conducted by using quantitative method and multiple linear regression as an analysis tool.

**Place and Time of Research**

This research took place in Manado, North Sulawesi Indonesia and was conducted from June 2017 to September 2017.

**Population and Sample**

The population in this research are the insurance companies listed in Indonesia Stock Exchange (IDX). While using purposive sampling method which is the non-probability sampling procedure in which the judgement of the researcher used to select the cases that make up the sample. This sampling method is to ensure that the full variety of responses are obtained from a range of respondents from the population (Saunders et al., 2009: 237). The sample here are those insurance companies that already made an IPO (Initial Public Offering) in Indonesia Stock Exchange (IDX) before year 2011.

**Data Collection Method**

Secondary data are sourced from insurance companies' annual financial reports and annual reports listed in the Indonesian Stock Exchange (IDX).

**Operation Definition and Measurement of Research Variables****Table 1. Definition and Measurement of Research Variables**

No	Variable	Definition	Measurement
1.	Dividend Payout Ratio	Dividend payout ratio is the amount of dividends that the stockholders will receive for each share of stock held	$DPR = \frac{\text{Dividend per share}}{\text{Earning per share}}$
2.	Profitability	Profitability is the ability of enterprise to get sufficient return on the capital and employees used in the business operation	$ROE = \frac{\text{Net Profit}}{\text{Total Equity}} \times 100\%$

3.	Growth Opportunity	Growth Opportunity is an investment or project that has the potential to grow significantly leading to a profit for the investor	$\Delta S = \text{change in sales for firm } i \text{ at time } t$
4.	Firm Size	Firm Size is the size of a company in a given industry at a given time	Change in total assets for firm $i$ at time $t$
5.	Leverage	Leverage is the ratio of a company's loan capital (debt) to the value of its common stock (equity)	$Lev = \frac{\text{Total Liabilities}}{\text{Total Equity}}$

Source: Data Processed, 2017

### Data Analysis Method

#### Multiple Linear Regression Method

This analysis determines the direction of the relationship between the dependent and independent variables whether each independent variable positively or negatively impacts the results, and to predict the value of the dependent variable when the independent variable values increase or decrease. The formula of multiple linear regression in this research is shown as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y = Dividend Payout Ratio

X<sub>1</sub> = Profitability

X<sub>2</sub> = Growth Opportunity

X<sub>3</sub> = Firm Size

X<sub>4</sub> = Leverage

E = Error term

#### Classical Assumption Test

This classical assumption test consist of normality test, multicollinearity test, heteroscedasticity test and autocorrelation test. This regression mode has been basically meet the testing requirements of the classical assumption, it means the resulting equation can be used as an estimation tool of unbiased and reliable forecasting.

**Hypothesis Test**

The relationship between dependent and independent variables have been proofed using  $F_{test}$  and  $t_{test}$ .

**RESULT AND DISCUSSION****Multiple Linear Regression Analysis****Table 2. Multiple Linear Regression Result****Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	5.335	1.256		4.248	.000
	ROE	-.931	.443	-.320	-2.104	.044
	Growth	-2.388	1.087	-.366	-2.197	.036
	FirmSize	-2.342	1.161	-.327	-2.017	.053
	Leverage	-.028	.023	-.195	-1.219	.233

a. Dependent Variable: DPR

Source: Data Processed, 2017

**Discussion**

This research investigates how several factors can affect the dividend payout ratio in insurance company industry that is listed in Indonesia Stock Exchange (IDX). Insurance companies observed in this research are mostly a general insurance company but some of these companies also have life insurance products as well as maintain and developing sharia business units along with the conventional one.

Based on  $t_{test}$  result the value of Profitability measured by ROE is -2.104. Means that ROE has negative partial effect on DPR. Based on the coefficient for regression model from the statistical result also found that ROE with value of -0.931 has significant and negative effect on Y (DPR). So every increase of one unit in ROE then DPR of sampled Indonesian insurance companies predicted to be decreased by 93.1%. This finding is in line with

Gnanasooriyar (2014) and Ahmed (2015) that also measure profitability using ROE and found that ROE has a negative significant effect to the company's DPR. The reasonable reason ROE has negative effect is that the size of average equity investment in developing countries lower than developed countries. The low levels of equity investment seems to be due to several factors, such as poor equity markets and the high interest rates available to non-equity investors. These findings are contrary with Tefera (2016: 61-67), Waswa (2013: 46-50) and Kanwal and Hameed (2017) who found that Profitability measured by ROE has significant and positive relationship. This may cause by the lack of profitable investment opportunity in the country.

Growth Opportunity as measured by natural logarithm of change in total net premium of insurance companies that listed in Indonesia stock exchange (IDX) has a partial effect on the dependent variable Y (DPR) by the value of -2.197 as presented in table  $t_{test}$ . While from the table multiple linear regression result, coefficient of regression model shows that growth opportunity value is -2.388 and significant on Y (DPR) variable. Means when Growth opportunity increases one unit then the DPR of sampled Indonesian insurance companies is predicted to be decreased by 238%. The negative and significant association between Growth Opportunity and DPR may cause by the fact that most profit is re-invested into company or treated as capital reserve similar with the research result of Tefera (2016: 61-67), Nuredin (2012: 61-64), Cheng et al., (2014), Waswa (2013: 46-50), Manneh and Naser (2015), King'wara R (2015). This means the insurance companies listed in IDX are in the growth stage and because of that the higher the growth opportunity the more the need for funds to finance expansion and the firm tends to retain the earnings rather than pay them as dividend.

Table  $t_{test}$  shows that Firm size measured by natural logarithm of change in total asset is  $t\text{-count} < t\text{-table value}$  (-2.017 < 2.042) which has negative and no partial effect to the dependent variable DPR. While the coefficient value of regression model also shows that Firm size has negative and insignificant at 5% of significant level to dependent variable DPR of sampled Indonesian insurance companies. When Firm size increases one unit, the variable Y (DPR) predicted to be decreased by 234%. Literatures show mixed results on the relationship between Firm Size and dividend paying behavior. In previous studies Nuredin (2012: 61-64), Tefera (2016: 61-67) and King'wara (2015) found that negative insignificant relationship between firm size and DPR indicates that company size does not determine the dividend payout ratio. This is related to the Indonesian insurance companies listed in IDX that currently in growth stage. The bigger the company the more they tends to invest their profit for expansion in order to increase their market share or to maintain their current status rather than paying it as a cash dividend. Another possible reason is that there is a high variation in company size but a close DPR of these insurance companies. A contrary findings of Firm Size and DPR stated at Malik et al., (2013), Al-Kunari (2010) and Mui and Mustapha (2016) who have significant positive relationship with dividend behavior. Al-Kunari (2010) found that larger firms tend to have higher payout compared to small firms. Larger firms have easier access to the capital markets and therefore less dependent on internal funds.

Leverage in this research is measured by ratio of total liability to total equity. As from table  $t_{test}$ , the value of leverage lower than  $t\text{-table value}$ , means that leverage has no partial effect on Y variable (DPR). Statistical result of the coefficient regression model and significant value are statistically insignificant (-0.028 and 0.233). If one unit increases in Leverage then DPR of sampled Indonesian insurance companies predicted to be decreased 2.8%. Many researchers such as Malik et al., (2013) and Rehman and Takumi (2012) found it has a significant positive relation with DPR. Meanwhile this study found that Leverage is less important or not an essential factor to influence the DPR in Indonesia insurance companies listed IDX. This negative relationship can be explained through the agency theory that insurance company with low debt ratio tends to pay more dividend and increasing leverage are associated with decrease in dividend payout. It is consistent with the research conducted by Waswa (2013: 46-50) and King'wara (2015).

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

Conclusion in this research are as follows:

1. The Profitability ( $X_1$ ), Growth Opportunity ( $X_2$ ), Firm Size ( $X_3$ ) and Leverage ( $X_4$ ) have simultaneous effect on Dividend Payout Ratio (Y) in Insurance Companies listed in Indonesia Stock Exchange (IDX)
2. Profitability is measured by Return on Equity has significant negative effect on Dividend Payout Ratio. Current insurance companies that are listed in IDX still have a low ROE ratio and tend to retain their earnings. These retained earnings whether they invest it or use for company's funding needs.

3. Growth Opportunity is measured by natural logarithm of change in premiums shows a significant negative effect on Dividend Payout Ratio. Current insurance companies that listed in IDX follow the trend that growing companies tend to retain the earnings in addition to fund their growth.
4. Firm Size is measured by natural logarithm of change in total assets shows a negative insignificant relationship on Dividend Payout Ratio. Insurance company that listed in IDX does not show that large firms pay more dividend. This also indicates those companies are still not in the mature position, for that companies prefers to retain earnings for maintaining or expand their market share.
5. Leverage is measured by liability to equity ratio has negative insignificant effect on Indonesian insurance companies listed in IDX in term of Dividend Payout Ratio. This can be explained through agency theory.

### Recommendations

Based on the conclusions and study findings, the recommendations are:

1. As an indicator to measure profitability and signaling how well the company maintains the third-party fund, insurance companies listed in IDX and investors should pay attention to the proportion of ROE on DPR. Internal strategy should be improved to maintain this ratio.
2. Growth opportunity is crucial in every business but insurance companies that are listed in IDX should pay more attention to the amount of percentage that effect DPR. Companies should improve their performance especially in term of how well their product can cover the needs of customer. This effort in order to boost company's revenue.
3. This study examined profitability measured by ROE, growth opportunity, firm size and leverage on Dividend Payout Ratio in insurance companies listed in Indonesia Stock Exchange, in order to develop and provide wider knowledge and empirical study about Dividend Payout Ratio in Indonesian insurance companies, expected in the future to find more explanatory variable to be examined since this study's variables are just explaining 40% and the other 60% is not examined in this study.

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