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The Influence Of Accounting Profit And Cash Flow On Bankruptcy Prediction In Insurance Companies On The Indonesian Stock Exchange

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ABSTRACT
This research investigates the influence of profit and cash flow on bankruptcy prediction in insurance companies listed on the Indonesia Stock Exchange. The research sample is determined through purposive sampling, with inclusion criteria for issuers that have published audited financial reports between 2017 and 2021. The collected data are processed using multiple regression analysis with SPSS 26.00. The research results indicate that profit does not significantly affect bankruptcy prediction in insurance companies. This may be attributed to the distinct characteristics of the insurance industry compared to other sectors, where profit only sometimes reflects the overall financial condition, especially when facing large claims or unpredictable risks. Conversely, cash flow significantly influences bankruptcy prediction in insurance companies. Cash flow is considered a primary indicator to assess a company's ability to meet claim payment obligations and address liquidity issues, particularly in the insurance industry, which frequently faces significant payment obligations. The conclusion of this research provides insights that a better understanding of cash flow dynamics is more relevant in predicting the bankruptcy conditions of insurance companies than profit. Practical implications of this research include emphasizing the importance of risk management, effective capital structure, and special attention to cash flow as a critical factor in maintaining insurance companies' stability and operational continuity.

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INTRODUCTION

The era of globalization has a positive impact on a country's economic growth. Business is increasingly developing, and companies are founded to achieve long-term profits and survive intense competition. In this competition, trading companies try to sell goods at the prices consumers want, manufacturing companies try to produce goods that meet consumer desires, and service companies focus on providing services that satisfy

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consumers. One example of a competing service company is an insurance company. Insurance companies are ready to cover various risks faced by the insured, both individuals and companies.

Law no. 40 of 2014 concerning Insurance states that Insurance is an agreement between the insurance company and the policyholder. This is the basis for insurance companies to receive premiums in return for two things: first, providing compensation to the insured or policyholder due to various losses or costs arising from uncertain events, and second, providing payments based on the life or death of the insured with benefits that have been determined or is the result of fund management. Insurance is an important mechanism to protect the insured from future risks, where customers pay premiums for compensation from the insurance company. Insurance involves many parties in efforts to deal with uncertainty and various risks that can result in losses, be it loss of life or property.

Insurance is a protection mechanism for the insured party if they experience risks in the future, where the insured party will pay a premium to obtain compensation from the insurer [1]. According to Fazri & Kurniawan[2], Insurance is a request where one party has the incentive to transfer risk by paying a certain amount of funds to avoid the risk of losing several assets they own. Insurance is an effort carried out by many parties to deal with uncertainty in the future and the possibility of risks occurring, which give rise to losses, whether in the form of loss of life or loss of goods owned by a person[3]. Uncertainty in the future as a condition that will occur is almost entirely a risk to humans and the goods they own; among the many risks that humans will face, risks that give rise to loss of life and loss of property are losses that no one expects to occur[3].

In the competitive insurance industry, companies must prioritize consumer trust and provide services that meet their expectations. Improving service and building consumer trust are the main focuses for insurance companies that want to compete. If this company cannot meet consumer expectations, its performance will be disrupted, and its goals will be challenging. If companies cannot overcome this problem, over time, they will experience difficulty maintaining their liquidity, which can lead to financial difficulties or even bankruptcy[4].

Company bankruptcy occurs because financial problems are not appropriately handled[5] when companies face financial difficulties, they have several options, such as borrowing, collaborating through mergers, or even closing their operations in the short term. "Financial distress" refers to a situation where a company experiences financial difficulties, such as bankruptcy, failure, inability to pay debts, and default [6][7][8].

As explained by Wruck in Riantani et al[9], financial distress is a decline in company performance. Elloumi and Gueyie[10] stated that a company experiences financial distress if it has a negative net profit for two consecutive years. Platt and Platt in Setyowati & Sari[11] define financial distress as a stage of decline in a company's financial condition before bankruptcy or liquidation, often characterized by delivery delays, decreased product quality, and delayed payment of bills to banks. Early identification of financial distress

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makes it possible to take corrective action to prevent the company from being trapped in a more severe situation, such as bankruptcy or liquidation.

The inability to pay debts indicates liquidity problems, while default means breaking agreements with creditors, which could lead to legal action. Financial distress generally occurs when companies cannot fulfill their financial obligations[12]. The first sign of this condition is a violation of debt terms, often with the elimination or reduction of dividend payments[13]. Classens et al in Fatmawati & Wahidahwati [14] also consider that a company experiences financial distress if operating profit to interest costs or interest coverage ratio is less than one.

Altman's bankruptcy prediction model has an accuracy rate of 90% yearly before the company goes bankrupt. However, the accuracy rate dropped to 72% for the second year before bankruptcy. Moreover, it continued to fall five years before the bankruptcy, namely by 48%, 29%, and 36%. This indicates a decrease in the predictive power of financial ratios over more extended periods. Altman tested the weight of each variable using regression analysis; the test results were used to obtain certain constants as the weight of each predetermined variable[15]. The value obtained from the calculation results is then adjusted to the cut-off value determined to determine the company's classification. The Z-score model was developed to combine traditional index analysis with rigorous statistical techniques.

Insurance companies' main goal is to make a profit, which is reflected in their financial statements. One of the essential parts of this financial report is the profit and loss statement, which describes the company's operating results in a certain period. Profit is the amount that comes from reducing the cost of production, other costs, and losses from income or operating income[16]. Profit/loss is the excess or deficit of income over costs during one accounting period[17], the general meaning of profit is an increase in prosperity in a period that can be distributed or withdrawn as long as the initial prosperity is still maintained[18]. Profit or profit can be defined in two ways. Profit in pure economics is defined as the increase in an investor's wealth due to his investment after deducting the costs associated with the investment, including opportunity costs. Meanwhile, profit in accounting is defined as the difference between sales price and production costs [19].

An insurance company's operating profit is calculated by comparing revenue and costs. If revenue exceeds costs, the insurance company makes a profit, and vice versa[20]. Profit information has many benefits, including helping decision-making and assessing company performance[21]. Profit information also helps predict a company's future earnings and assess investment risks[22]. As reflected in its financial reports, a company's ability to generate profits reflects its ability to manage its business[23]. However, if the insurance company continues to experience repeated losses, this can cause problems, such as customers stopping using the service or filing claims. This condition, if continued, could lead to bankruptcy. Therefore, empirical research is needed to measure how much earnings information can predict the possibility of financial distress in insurance companies. This research uses profit before tax (EBIT) for all non-bank companies listed on the Indonesia

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Stock Exchange. The calculation uses the ratio of profit to total assets, namely profit before tax divided by total assets. The year used is 2018-2021 to see bankruptcy predictions in the following year.

Previous research on the effect of profits on financial distress has provided inconsistent results. Several studies, such as Isdina & Putri[24], Harto & Napisah[13], Kurniawan[25], and Nailufar et al.[26], concluded that profit has a significant influence in predicting financial distress. However, other research, such as that conducted by Hariyanto[27] and Tumangger[28], shows that profits do not significantly influence predicting financial distress. The discrepancy in these results makes research on the relationship between profits and financial distress an exciting area for further research.

Cash flow is a report that records a company's cash receipts and expenditures in a certain period [29]. Every company experiences cash inflows and outflows during its operations. If cash inflow exceeds cash outflow, it indicates positive cash flow, whereas if cash inflow is lower than cash outflow, it will result in negative cash flow[27]. Creditors need cash flow information to assess the company's ability to pay debts. If the company's cash flow is large enough, creditors will feel confident that the company can repay the loan well. However, if a company's cash flow is limited, creditors may doubt the company's ability to pay debts. If this situation continues, creditors may not provide further loans because the company is considered to be facing financial problems or financial distress[24]. Therefore, cash flow can be an indicator for creditors to evaluate a company's financial condition. For this reason, empirical research was conducted to test whether cash flow information can predict the possibility of financial distress in a company.

Previous research regarding the influence of cash flow on financial distress has produced inconsistent findings. Several studies, such as Harto & Napisah[13] and Nailufar et al. [26], stated that cash flow significantly influences financial distress prediction. However, research conducted by Isdina & Putri [24], Hariyanto[27], Kurniawan[25], and Tumangger[28] shows that cash flow does not have a significant effect on financial distress. The discrepancy in these results makes research on the relationship between cash flow and financial distress an exciting subject for further research.

METHOD

Quantitative research on insurance issuers listed on the Indonesia Stock Exchange for the period 2017 - 2021, the sample was determined using purposive sampling. The sampling technique in this research was carried out using the purposive sampling method [30]. The sampling criteria in this research include the following:

a. Issuers have published audited financial reports between 2017-2021.
b. Companies that have complete financial report data are included in the sample.

Table 1. Research Sample

No	Code	Name	IPO
1	ABDA	Asuransi Bina Dana Arta Tbk	06-Jul-89
2	AHAP	Asuransi Harta Aman Pratama Tbk	14-Sep-90

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No	Code	Name	IPO
3	AMAG	Asuransi Multi Artha Guna Tbk	23-Dec-05
4	ASBI	Asuransi Bintang Tbk	29-Nov-89
5	ASDM	Asuransi Dayin MitraTbk	15-Dec-89
6	ASJT	Asuransi Jasa Tania Tbk	23-Dec-03
7	ASMI	Asuransi Mitra Maparya Tbk	16-Jan-14
8	ASRM	Asuransi Ramayana Tbk	19-Mar-90
9	LIFE	Asuransi Jiwa Sinarmas MSIG Tbk	July 09, 2019
10	LPGI	Lippo General Insurance Tbk	22-Jul-97
11	MREI	Maskapai Reasuransi Indonesia Tbk	04-Sep-89
12	PNIN	Paninvest Tbk	20-Sep-83
13	TUGU	Asuransi Tugu Pratama Indonesia Tbk	May 28, 2018
14	VINS	Victoria Insurance Tbk	28-Sep-15

The data collection method employed in this research is documentation. Documentation involves gathering data using written materials or information created by other parties. The data include the names of all non-banking companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021, obtained from the Indonesian Capital Market Directory (ICMD). Additionally, audited financial statement data for each company from 2017-2021 is acquired through www.idx.co.id.

In this study, the dependent variable is Financial Distress (Y). The Z-score model used, as stated by Isayas in 2021, is as follows:

$$\text{Altman Z– score} = 3.25 + 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$$

With the following explanations:

Z is Financial Distress (measured using the Altman Model).
X1 is Working Capital/Total Assets.
X2 is Retained Earnings/Total Assets.
X3 is Gross Profit/Total Assets.
X4 is Book Value of Equity/Total Liabilities.

The profit used in this study is the earnings before tax (EBIT) for all non-bank companies listed on the Indonesia Stock Exchange. The calculation involves the profit-to-total assets ratio, where earnings before tax are divided by total assets. The years considered for analysis are from 2018 to 2021, aiming to predict financial distress in the subsequent years. Furthermore, in presenting the cash flow statement, transactions are categorized into three types as outlined by Harahap (2002): cash derived from or used in operational activities, cash derived from or used in investment activities, and cash derived from or used in financing activities.

The regression equation in this research is as follows:

$$Y=a+b_1X_1 + b_2X_2+e$$

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Explanation:
Y : Bankruptcy Prediction
A : Constant
b1,b2,...,bn: Regression coefficients
X_1 : Accounting Profit
X2 : Cash Flow
E : Error

RESULT AND DISCUSSION

Descriptive Statistical Analysis

The objects in this research are companies registered as Insurance companies whose financial reports are listed on the Indonesia Stock Exchange.

Table 1. Descriptive Statistics

		Financial Distress	Profit	Cash Flow
N	Valid	56	56	56
	Missing	0	0	0
Mean		13.1305	213.7606	504.5077
Std. Error of Mean		1.40169	67.62393	82.30183
Median		9.2329	33.1529	216.8098
Mode		4.58[a]	.32[a]	8.25[a]
Std. Deviation		10.48932	506.05113	615.89052
Variance		110.026	256087.747	379321.127
Minimum		4.58	.32	8.25
Maximum		52.02	2292.57	2514.46
Sum		735.31	11970.59	28252.43

a. Multiple modes exist. The smallest value is shown

Source: Results by SPSS data, 2023

The Financial Distress variable has an average score of 13.13 with a standard deviation of 1.40, indicating a moderate level. The median score of 9.23 indicates a central tendency, while the mode has a value of 4.58, suggesting potential variation. The range of financial bankruptcy scores ranges from a minimum of 4.58 to a maximum of 52.02, reflecting the diversity of financial bankruptcy. Furthermore, the Profit variable averages 213.76 with a standard deviation of 67.62. The median of 33.15 is a central reference point, and the mode value of 0.32 emphasizes potential variation. The profit range ranges from 0.32 to a maximum of 2292.57, displaying significant variability.

On the other hand, Cash Flow has an average of 504.51 with a standard deviation of 82.30. The median of 216.81 serves as the central reference point. Like other variables, there are several modes, with the smallest value being 8.25, indicating potential variation. Cash flow varies from a minimum of 8.25 to a maximum of 2514.46, illustrating significant

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variability. Standard deviation and variance provide an overview of the distribution of data. For Financial Bankruptcy, the standard deviation is 10.49; for Profit, it is 506.05; and for Cash Flow, it is 615.89. The variance values are 110.03 for Financial Distress, 256087.75 for Profit, and 379321.13 for Cash Flow.

Classic Assumption Test

1) Normality Test

Table 2. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		56
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	8.89277020
Most Extreme Differences	Absolute	.140
	Positive	.140
	Negative	-.102
Test Statistic		.140
Asymp. Sig. (2-tailed)		.058[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Source: Results by SPSS data, 2023

Based on the normality test results, it is known that the significance value is 0.058, meaning that the value is greater than 0.05. So it can be concluded that the residual value is normally distributed.

2) Multicollinearity Test

Table 3. Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Profit	.832	1.202
	Cash Flow	.832	1.202

Source: Results by SPSS data, 2023

Based on the table displayed above, it can be seen that the Profit and Cash Flow variables show a tolerance value greater than 0.10, namely 0.832 and a VIF value smaller than 10.00, namely 1.202. So, in this test, there are no symptoms or problems of multicollinearity.

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3) Autocorrelation Test

Table 4. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.530[a]	.281	.254	9.05900	1.812

a. Predictors: (Constant), Cash Flow, Profit
b. Dependent Variable: Financial Distress

Source: Results by SPSS data, 2023

Based on the data above, it is known that the DW value is 1.812. Next, the value will be compared with the significance table value of 5%, the number of samples = 56 and the number of independent variables is 2, so K = 2, and the dU value is 1.6413, (4-dU) = 2.3587, dL 0.6972. So it can be concluded that dU < DW < 4-dU, namely 1.6413 < 1.812 < 2.3587 and it can be said that there is no negative autocorrelation.

4) Heteroscedasticity Test

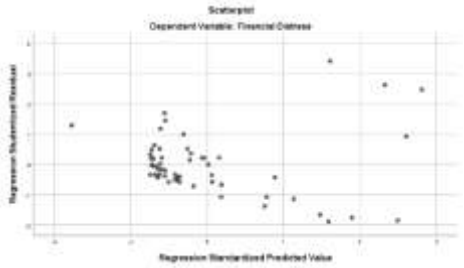

Figure 1. Heteroscedasticity Test Results

Based on the provisions above, it can be concluded that there is no heteroscedasticity problem because the data points spread above and below or around the number 0, the points gather only above or below, and the distribution of data points does not form a wide wavy pattern. Then, it narrows and widens again, and the distribution of data points is not patterned. So, from the four classical assumption tests, it is certain that you have met the requirements to proceed to multiple linear regression analysis.

Multiple Linear Regression Analysis

Table 5. Multiple Linear Regression Analysis Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.911	1.575		5.659	.000
	Profit	-.003	-.003	-.165	-1.292	.202
	Cash Flow	.010	.002	.576	4.513	.000

Source: Results by SPSS data, 2023

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Based on the Coefficients table above, the multiple regression equation in this research can be explained. The formula for the multiple regression equation in this research is:

$$Y = 8.911 - 0.003X_1 + 0.010X_2$$

From the regression equation above, conclusions can be explained is:

1) The constant value (α) is 8.911, with a positive sign indicating that if the Profit and Cash Flow variables are considered constant, the Y value is 8.911.
2) The regression coefficient value for the Profit variable is 0.003, meaning that if the Profit variable increases by one unit, assuming other independent variables remain constant, it will result in a decrease in the bankruptcy prediction by 0.003. The Sig value of 0.202 is greater than 0.05, so it can be concluded that profit does not significantly affect the bankruptcy prediction of insurance companies on the Indonesia Stock Exchange.
3) The regression coefficient value for the Cash Flow variable is 0.010, meaning that if the Cash Flow variable increases by one unit, assuming other independent variables remain constant, it will result in an increase in the bankruptcy prediction by 0.010. The Sig value of 0.000 is smaller than 0.05, so it can be concluded that Cash Flow significantly influences the bankruptcy prediction of insurance companies on the Indonesia Stock Exchange.

Table 6. Simultaneous Test Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1701.947	2	850.974	10.369	.000[b]
	Residual	4349.475	53	82.066		
	Total	6051.422	55			

a. Dependent Variable: Financial Distress
b. Predictors: (Constant), Cash Flow, Profit

Source: Results by SPSS data, 2023

The results of data processing show that the Sig = 0.000 value is smaller than 0.05, meaning that the Profit (X1) and Cash Flow (X2) variables simultaneously have a significant effect on the bankruptcy prediction (Y).

Table 7. Coefficient of Determination

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.530[a]	.281	.254	9.05900	1.812

a. Predictors: (Constant), Cash Flow, Profit
b. Dependent Variable: Financial Distress

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Based on the table above, it is known that the R Square value is 0.530, so this means that the influence of the independent variable simultaneously on the dependent variable is 53.0%. Meanwhile, the remainder (100% - 53.0% = 47.0%) is influenced by other variables outside this regression equation or that were not studied

Discussion

The research findings indicate that profit does not significantly influence bankruptcy prediction in insurance companies listed on the Indonesia Stock Exchange. This can be attributed to the distinct characteristics of the insurance industry, where profit may not directly reflect the financial condition of insurance companies, especially when facing large claims or unpredictable risks. As insurance is a long-term business, financial outcomes are influenced by long-term factors not fully captured in annual profit reports. Short-term fluctuations in profit may occur in some insurance companies without indicating severe financial issues. Additionally, the capital structure and risk management in insurance companies can determine the extent to which profit can predict financial conditions. Companies with effective risk management policies and sound capital structures tend to have better capabilities to withstand risks, thereby reducing the impact of profit on predicting potential bankruptcy.

The research also reveals that Cash Flow significantly influences the prediction of bankruptcy in insurance companies on the Indonesia Stock Exchange. Cash Flow, as a primary indicator assessing the ability of insurance companies to meet payment obligations for potentially significant and unforeseen claims, becomes a crucial factor. Therefore, the sustainability of positive cash flow is pivotal, enabling companies to manage financial burdens and prevent potential liquidity issues, especially in the insurance industry, which frequently faces substantial payment obligations. Creditor and shareholder confidence increases when insurance companies demonstrate positive cash flow. Creditors are inclined to place more trust in companies capable of generating sufficient cash to settle their debts. Similarly, shareholders are more likely to retain their investments in companies that consistently produce stable cash flows. Furthermore, positive cash flow provides flexibility for insurance companies to invest in business development, service improvement, and capital enhancement. This flexibility directly contributes to enhancing the competitiveness of companies in the long term, ultimately reducing the risk of potential bankruptcy.

Moreover, insurance companies with positive cash flow have an advantage in financial and operational risk management. The practical ability to manage risks can prevent financial distress conditions or assist companies in responding quickly and efficiently to potential risks. Flexibility in crisis management becomes an asset for insurance companies with positive cash flow. In the insurance industry, frequently confronted with sudden and significant claim events, responding quickly is critical to preventing potential bankruptcy conditions. Shareholders evaluate company performance based on profits and the company's ability to generate reliable cash flows. With positive cash flows, companies can meet shareholders' expectations regarding stability and operational sustainability, maintaining their trust in the long term.

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CONCLUSION

Based on the research findings, profit does not significantly impact the bankruptcy prediction in insurance companies listed on the Indonesia Stock Exchange. This is likely due to the unique characteristics of the insurance industry, where profit may only sometimes reflect the overall financial condition, especially when facing large claims or unpredictable risks. Factors such as capital structure and risk management can also influence the extent to which profit can predict the company's financial condition. Meanwhile, the research results indicate that cash flow significantly impacts the prediction of bankruptcy in insurance companies. Cash flow, a vital indicator of the company's ability to meet claim payment obligations and address potential liquidity issues, becomes a crucial factor in the insurance industry, which is often confronted with significant payment obligations. Creditor and shareholder confidence also increase with positive cash flow, indicating the stability and ability of the company to pay debts and maintain investments. Insurance companies with positive cash flow demonstrate advantages in risk management, investment flexibility, and rapid crisis response. The ability to effectively manage risks helps prevent financial distress conditions, while investment flexibility and quick crisis response make the company more resilient and reduce the risk of bankruptcy. Thus, this research concludes that cash flow plays a more significant role than profit in predicting the bankruptcy condition of insurance companies on the Indonesia Stock Exchange. A better understanding of cash flow dynamics can provide a more solid foundation for evaluating the financial health of insurance companies, especially when facing the inherent uncertainty and risks in this industry.

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