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## The Influence Of The Rupiah Exchange Rate, Inflation And Interest Rates On Investment Returns On Islamic Life Insurance Companies In The Bei For The 2018-2020 Period

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### **Abstract:**

*Investment opportunities greatly determine the company value based on formed share prices. Growth of capital is often observed by the indicator of the market Stock Price Index. Stock Price Index fluctuation is significant to determine whether investors will sell, hold, or buy more shares. This study aims to analyze and examine the factors influencing the exchange rate, inflation and interest rates on return investment in the Sharia Life Insurance Companies in the period 2018-2020. The method of research is using the quantitative and regression analysis. The sample is the Sharia Life Insurance Companies which are consistently publish financial reports for the 2018-2020 period listed on the Indonesia Stock Exchange with a total sample of 52 companies. The sampling technique is non-probability sampling with saturated sampling method. The data was analyzed with IBM SPSS version 21 and was carried out by several tests such as validity test, reliability test, classic assumption test, linear regression analysis and coefficient of determination test. The results of this study indicate that the exchange rate, inflation and interest rates simultaneously and significantly influence on investment returns. The results of the partial test demonstrates that the exchange rate, inflation and interest rates have a significant but negative effect on return investment. If the exchange rate increases, investors will not be interested in holding their shares. It causes the investor not interested to switch their portfolio into deposit because of the low interest rate and the declining trend of inflation, which caused inflation does not have significant effect on return.*

**Keywords:** Exchange Rate, Inflation, Interest Rates, Investment Return, Sharia Life Insurance Companies

### **1. Introduction**

In the current era, there are many investment media, including the stock exchange. Having a fundamental role, the capital market is a link between companies that need capital for their business and people who want to invest their funds. (Kusnandar et al., 2022). Investors need to understand the historical data of stock movements if they want to make transactions on the Indonesia Stock Exchange (IDX). For investors, the movement of the stock price index is a reference for investors' decisions on stocks.

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The stock price index is a barometer for transactions on the IDX because the decline and increase in prices of all types of shares can be seen. (Rizki, 2021).

One company that is very attractive to investors today is the Islamic insurance industry. Based on the report of the Indonesian Sharia Insurance Association (AASI) In 2020, the resilience of the Islamic insurance industry despite the sentiment of the Covid-19 pandemic, Islamic life insurance assets increased by 80.98% or 36.3 Trillion. Likewise, Islamic reinsurance which grew 4.75% or increased by 2.1 trillion and Islamic general insurance was no less vibrant with a growth of 13.53% or 6.0 trillion. Meanwhile, *Return on Investment* (rate of return on investment) reached 5.3% and *Return on Asset* (rate of return on assets) of 7.27% for Islamic insurance with the highest growth rate in 2020.

The desire of investors to invest can increase when they see good prospects from companies *going public*. The importance of firm value is because it shows the quality of the company itself. (Gunanti & Mahyuni, 2022). The high existence and credibility of the company will be able to increase the value of a company. When the company has a high value, investor confidence can increase, because the company's performance and prospects must be good. Investors will certainly be interested in companies with good reputation and quality as a place to invest capital (Ratmojoyo et al., 2020). (Ratmojoyo et al., 2021).. Surely the company's value will be good if the profit generated is high every year. Yields are strongly influenced by several, including the rupiah exchange rate, inflation and interest rates (Sula, 2004). (Sula, 2004).

**Table 1. Development of the Sharia Life Insurance Industry for the 2018-2020 Period**

Year	Rupiah Exchange Rate	Inflation	BI Rate	Sharia Life Insurance Assets (Trillion)	Sharia Life Insurance Investment (Trillion)
2018	14.481	3,13 %	5,10%	34.28	31.87
2019	13.901	2,72 %	5,62%	37.89	34.40
2020	14.529	1,68 %	4,25%	36.32	37.34

Source: Financial Services Authority 2020 (Data Processed)

Based on table 1, the rupee exchange rate, inflation and interest rates always fluctuate, meaning that the growth has a value that is not fixed. Of course this will affect the investment returns obtained (Purwaningrum & Filianti, 2020).

Any change in the exchange rate will certainly affect the type of stock. For issuers that have debts in dollars, a sharp increase in the US\$ exchange rate has a negative impact on local sales of the issuer's products. The decline in value that occurs on the Indonesia Stock Exchange because the issuer's share price is negatively affected while the share price that increases in value for the issuer is positively affected. The decline in investor confidence is caused by unstable exchange rate fluctuations. This phenomenon must be responded to by Islamic life insurance companies where when there is a fluctuation in the rupiah this will reduce the investment returns obtained

because the expenditure of investment capital allocation decreases. (Sukirno, 2000). Based on research from (Wulandari, 2020) Based on research from (Wulandari, 2020), investment returns are strongly influenced by the rupiah exchange rate. While research (Arisah, 2015) states that the rupiah exchange rate does not have a significant impact on investment returns in Islamic life insurance companies.

Inflation also has an impact on investment returns, because when there is inflation that exceeds the receipt of investment returns, the investment may be canceled, and vice versa. (Fahmi, 2012). In general, inflation is a comprehensive decline in the value of money and causes disruption of economic growth. For companies, high inflation is a negative signal because it will be accompanied by an increase in raw materials which results in a decrease in the value of money and an increase in prices. When product prices increase, sales also decrease followed by a decrease in company profits so that the stock price will fall. (Antasari & Akbar, 2019). Research conducted (Khairina, 2020) (Khairina, 2020) found that inflation has a significant negative effect on Islamic life insurance investment returns, meaning that if inflation increases, Islamic life insurance investment will decrease. The government must maintain and oversee economic stability in the hope that the price of basic necessities does not increase so as not to trigger a decrease in investors' interest in investing.

Inflation and exchange rates are not the only factors that affect investment returns, but are also affected by interest rates. The price that someone has to pay when exchanging the current rupiah for the future rupiah is called the interest rate. (Faoriko, 2013). In simple terms, the interest rate is the price of using investment funds. Interest rates are also used as a parameter when someone will invest or save. Because if the *BI Rate* rises 1%, it can reduce interest in investing and investment returns in Islamic life insurance companies, the impact is very much felt. (Khairina, 2020). An increase in interest rates gives a negative signal to investment, where the relationship between investment and interest rates is inverse. High interest rates cause the urge to invest in companies to decline, and vice versa. (Wulandari, 2020). Study conducted (Khairina, 2020) (Khairina, 2020) found that investment returns are not affected by interest rates because the management of Islamic life insurance does not use interest. Likewise, research from (Wulandari, 2020), investment returns are not significantly affected by interest rates in Islamic insurance companies.

For industry players, the Islamic capital market must be well understood so that it can be used as a basic capital in development so that the results obtained can be optimal, including in introducing services and products. A well-literate society will have many choices as a medium for investing. The support of policy makers in the development process in a sustainable manner is also needed in order to increase the growth of the Islamic capital market in the future. (Sari & Putri, 2022).

The purpose of this study is to explore the influence of each factor, namely the rupiah exchange rate, inflation and interest rates on investment *returns on* Islamic life insurance companies on the IDX for the 2018-2020 period.

## 2. Theoretical Background

### Rupiah Exchange Rate

The definition of a money exchange rate is the price that the market records for a foreign currency against a domestic currency. Used for a variety of transactions, both international trade and investment, reflected in the money exchange rate is the exchange price of money against other currencies. The balance of supply and demand for foreign currencies and rupiah is reflected in the exchange rate. (Sukirno, 2006). The decline in demand for the rupiah reflects the decline in the exchange rate, because only foreign currency is used in global payments so that there is an increase in demand for it. The pace of inflation resulted in the domestic exchange rate continuing to weaken. It also has an impact on reduced capital market investment, due to declining company performance. The costs incurred and will be obtained in securities and stock transactions in the capital market are strongly influenced by the exchange rate of the rupiah against foreign currencies (Sari et al., 2018). (Sari et al., 2018).

Reduced confidence of foreign investors due to unstable exchange rate fluctuations. Of course this can lead to the tendency of investors to withdraw their capital so that it has an adverse impact on stock sales, can also have an impact on the decline in the level of *return* shared and the occurrence of *capital of flow*. The impact will be felt by 3 major groups due to currency exchange rates, namely the government, investors and companies. The exchange rate for companies is very necessary in relation to operational aspects, such as production, marketing and investment. The exchange rate of the rupiah against the US dollar for industries whose products are export-oriented greatly affects the level of profit. (Sumarto & Rachbini, 2020).

### Inflation

Inflation according to (Tandelilin, 2010) is a comprehensive trend of increasing product prices. The real return on investment is reduced due to high inflation. Conversely, if inflation decreases, it indicates that investors get a positive signal even though real income and purchasing power risks decrease. Companies eventually have difficulty producing goods due to high production costs, so consumers cannot afford to buy, causing sales to decline and affecting stock *returns*. A decrease in company income will be responded negatively by the market to stock prices and cause the stock market to become sluggish. (Setyaningrum & Muljono, 2016).

For individuals, society and economic activity as a whole, inflation can have adverse consequences. Based on the statement (Marhen & Yusra, 2016)(Marhen & Yusra, 2016), inflation is a prolonged rise in prices that can affect governments, businesses and individuals. For investors, inflation is a negative signal in the capital market because it increases production costs. There is a decrease in profitability if production costs exceed the company's capital. Investors are no longer interested in investing if they only get a small profit, resulting in a decrease in stock prices. (Andriyani & Armereo, 2016).

### **Interest Rate**

Defined as the difference in the price paid from the borrower (*debtor*) to the lender (*creditor*) for the utilization of resources within the agreed time. There is a negative relationship between stock prices and interest rates. The company's cost of capital and investors' expectation of high *returns* are not worth the high interest rate payments. Many investors shift their stock portfolios as interest rates increase, so deposit yields become more attractive. (Sunariyah, 2011). The resulting impact is a downward shift in the JCI as demand for stocks decreases over a period of time. In the scope of investment, the desire to invest decreases due to the high interest rate. Investors assume that if profits should be higher than the interest that must be paid, then investors will increase their investment expenditure. (Alvian et al., 2019).

Investors are more encouraged to invest when the interest rate is low, because the use of funds is also less. According to (Gujarati, 2006) there is an opposite relationship between interest rates and stock prices. Stock prices become low when there is an increase in interest rates. Conversely, an increase in stock prices occurs when interest rates are small. The fall in stock prices is influenced by an increase in interest rates on loans (deposits). Conversely, stock prices on the stock exchange increase when there is a decrease in lending rates. The increase in deposit interest rates causes investors to shift their investments towards deposits. Falling stock prices on the stock exchange are caused by massive sales of shares (Samsul, 2006). (Samsul, 2006).

### **Investment Return**

One of the goals of investment is to optimize *returns* but not to ignore the various risks. *Return* is the acquisition of profit from the results of the investment policy carried out, both companies and individuals. (Hartono, 2017). Investment *return* has two elements, namely *yield* and *capital gain (loss)*. The decrease or increase in the share price that brings profit to investors is called *capital gain (loss)*. While the change in share price is called *yield*. So that investment income will be reflected periodically. For example, in bonds, the *yield is* determined based on the interest that has been paid. If someone buys shares, the amount of dividends earned is referred to as *yield*. (Tandelilin, 2017).

There is a strong correlation between *return* as profit and investment risk. In the portfolio concept, it is explained that if risk and *return are* positively correlated if a high *return is* offered, then the risk must also be high (*high return high risk*). Indicating that there must be risk from every investment because there is uncertainty.

### **The Effect of Rupiah Exchange Rate on Investment Return**

The balance between the demand and supply of rupiah and foreign currencies is reflected through the exchange rate. A decline in demand for the rupiah can reflect a fall in the exchange rate as the performance of the national economy also declines. The weakening of the rupiah exchange rate is an impact on the higher inflation rate (Adeputra & Wijaya, 2016). (Adeputra & Wijaya, 2016). Resulting in reduced capital market investment because the company's performance decreases. Substantial changes in exchange rates occur when the economic situation of a country changes. Conducive business climate will be achieved if the exchange rate is stable (Saputra &

Dharmadiaksa, 2016). (Saputra & Dharmadiaksa, 2016).. If the dollar strengthens and the rupiah weakens, it causes investors to be more interested in buying dollars than stocks. The impact that arises is that stock purchases are reduced and have an effect on investment *returns*. This is certainly in line with the results of research (Latha et al., 2016; Setyaningrum & Muljono, 2016) In this study, it is stated that the exchange rate has a significant negative effect on investment *returns*. In this research, the hypothesis proposed is:

**H1:** The rupiah exchange rate has a significant negative effect on investment *returns* on Islamic life insurance companies.

### **The Effect of Inflation on Investment Return**

The relationship between investment and inflation is negative. When the inflation rate in a country is stable, there is a tendency to invest in that country (Marhen & Yusra, 2016). The creation of stable inflation will not cause a spike in the price of goods. The real return on investment is reduced due to high inflation. Conversely, if inflation declines, it can be a positive signal for investors as purchasing power and real income decline. The inflation rate can be good or bad depending on the inflation rate. Low inflation leads to sluggish economic growth which in turn leads to sluggish stock price movements. Meanwhile, high inflation can bring down stock prices in the market. In line with the research results (Jamaludin, 2017; Ouma & Muriu, 2014) it is stated that inflation has a significant negative effect on investment *returns*. So that the proposed hypothesis:

**H2 :** Inflation has a significant negative effect on investment *returns* in Islamic life insurance companies.

### **Effect of Interest Rate on Investment Return**

Investment choices in the form of deposits, stocks and bonds are influenced by interest rates. If *return* expectations do not match reality, investors are not interested in buying shares and prefer to place their funds into deposits. The desire for investment decreases if interest rates are low. This is due to the company's cost of capital and the investor's expectation of a high *return* is not proportional to the high interest payment rate. (Gujarati, 2006). Low interest rate offers result in investors will choose investment because of the use of small funds. The high interest rate causes an increase in production costs, so the selling price is higher but the purchase interest decreases so that profits decrease. As stated (Karim, 2015), small interest rates lead to low borrowing costs so as to increase investment and affect the increase in stock prices. This is in accordance with research (Oshaibat, 2016; Maronrong & Nugroho, 2019) stated that interest rates have a significant negative effect on investment *returns*. Thus, the hypothesis proposed in this research is:

**H3 :** Interest rates have a significant negative effect on investment *returns* on Islamic life insurance companies

## **3. Methodology**

This research uses quantitative methods with regression analysis to explore the correlation between variables. (Santoso & Madiistriyatno, 2021). This study applies a

quantitative descriptive approach where the data source is secondary data in the form of financial reports of Islamic life insurance companies whose consistent financial reports are published on for the 2018-2020 period. Data is collected through a process of observation and documentation on Islamic life insurance companies and this data is obtained through the official website of the IDX (Indonesia Stock Exchange). This research also uses a literature study approach, namely by observing, analyzing and quoting directly from journal articles and books that are relevant to the research that will be used as a theoretical basis. The total sample of this research is 52 companies using *purposive sampling* method so that Islamic life insurance companies are obtained according to the criteria and have complete financial ratio data.

There are 2 variables in this study, namely the independent variable and the dependent variable.

a) *Independent Variable*

The independent variables are Rupiah Exchange Rate ( $X_1$ ), Inflation ( $X_2$ ) and Interest Rate ( $X_3$ ).

b) *Dependent Variable*

The dependent variable is the Company's Investment Return ( $Y$ ).

After all data is obtained, it is then analyzed using SPSS 21 for windows software with several tests, namely validity, reliability, classical assumptions, multiple linear regression analysis to the coefficient of determination test

#### 4. Empirical Findings/Result

##### Descriptive Statistical Analysis

In this study, descriptive statistics show the maximum and minimum values, *mean* and standard deviation.

**Table 2. Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Rupiah Exchange Rate	52	12.620	16.366	5.515	1.2141
Inflation	52	1.322	7.267	3.668	1.4711
Interest Rate	52	3.756	7.755	13.860	65.7458
Investment Return	52	-40.709	54.195	12.104	163.9005
Valid N (listwise)	27				

Source: SPSS Processed Data, 2023

Referring to table 2, investment *return* has a standard deviation of 163.9% with a *mean* value of 12.1%, so the standard deviation is greater than the mean value, so it is concluded that the results are not good. While the minimum value of investment *return* is -40.7%, meaning that investment does not provide prosperity and also profits for shareholders. The Rupiah Exchange Rate with a standard deviation of 1.21% and an average of 5.51%, means that the results are not good. The minimum value of the Rupiah Exchange Rate is 12.62%, meaning that the investment capital used to operate does not provide profits for companies and investors. Inflation has a standard deviation of 1.47% with a *mean* value of 3.66%, identifying unfavorable results. The

minimum value of Inflation is 1.32%, meaning that by using its own capital the company is unable to generate profits. The Interest Rate has a standard deviation of 65.74% and an average of 13.8%, so it is said that the results are not good. The minimum value of the Interest Rate is 3.75%, this means that investors are more interested in placing their funds in the form of deposits than buying shares.

### Classical Assumption Test

#### Normality Test

Referring to the opinion (Ghozali, 2018), this test can be done with the *One Sample Kolmogorov Smirnov* test, namely if the Asymp Sig (2-tailed) score > 0.05, it can be stated that the data is normally distributed. However, when the Asymp Sig (2-tailed) score < 0.05, it can be stated that the data is normally distributed.

**Table 3. Normality Test**

		Unstandardized Residuals
N		52
Normal Parameters <sup>a,b</sup>	Mean	,0000000
	Std. Deviation	11,40512908
Most Extreme Differences	Absolute	,049
	Positive	,046
	Negative	-,049
Kolmogorov-Smirnov Z		,049
<b>Asymp. Sig. (2-tailed)</b>		<b>,200</b>
a. Test distribution is Normal		
b. Calculated from data.		

Source: SPSS Processed Data, 2023

Based on table 3, the significance score (2-tailed) is 0.200. Since the significance value (2-tailed) is 0.200 > 0.05, then it is stated that there is a normal distribution so that it can be used.

#### Multicollinearity Test

In regression equations, multicollinearity problems are not found if VIF < 10 and Tolerance > 10.

**Table 4. Multicollinearity Test**

Model		Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
		B	Std. Error	Beta	Tolerance	VIF
1	(Constant)	4,435	2,035			
	Rupiah Exchange Rate	,761	,150	,236	,855	1,313
	Inflation	,363	,083	,215	,871	2,754
	Interest Rate	,431	,098	,240	,820	2,320

a. Dependent Variable: Investment Returns

Source: SPSS Processed Data, 2023

Referring to table 4, the overall independent variable in this study has a value > 0.10 (tolerance > 0.10). While the VIF value is less than 10 (VIF < 10). The conclusion



drawn is that multicollinearity symptoms are not found among the independent variables.

### Autocorrelation Test

In this study, the authors used the Durbin-Watson Test in order to test for autocorrelation. If  $D-W > (dU)$  and  $< (4-dU)$  indicates that there is no autocorrelation.

Table 5. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Durbin-Watson
1	,717 <sup>a</sup>	,552 ,483		1,610

a. Predictors: (Constant), NTR, I, TSB

b. Dependent Variable: RI

Source: SPSS Processed Data, 2023

Based on table 5, then  $1.610 < 1.835 < (2.241)$  and obtained autocorrelation 0, indicating autocorrelation is not found.

### Heteroscedasticity Test

The goodness of the regression model is seen from the presence or absence of heteroscedasticity. This study uses the *Glejser* test, where the significance score is less than 5% (0.05), then heteroscedasticity is not found.

Table 6. Heteroscedasticity Test

Mode		Unstandardized		Standardized		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	610,274	185,019		,328	,744
	NTR	0,77	,127	-,067	-1,340	,541
	I	-11,064	82,187	-,243	-,134	,883
	TSB	-126,068	91,034	,082	,603	,174

a. Dependent Variable: RI

Source: SPSS Processed Data, 2023

Based on table 6, the independent variables used are above 0.05, which concludes that heteroscedasticity is not found.

### Multiple Linear Regression Analysis

Table 7. Multiple Linear Regression

Model		Unstandardized		Standardized		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	28,290	352,336		8,174	,000
	NTR	-2,015	173,217	-,810	-8,308	,125
	I	-36,289	156,242	-,328	-2,338	,122
	TSB	104,467	,241	,088	,602	,549

a. Dependent Variable: RI

Source: SPSS Processed Data, 2023

Based on table 7, the constant value ( $\alpha$ ) is 28.290, the Rupiah Exchange Rate gets ( $\beta$ ) -2.015, while Inflation gets ( $\beta$ ) 0-36.289 and the Interest Rate gets ( $\beta$ ) 104.467, the equation is formed, namely:

$$Y = \alpha + \beta X_{11} + \beta X_{22} + \beta X_{33} + e$$

$$Y = 28.290 + -2.015X_1 + -36.289X_2 + 104.467X_3$$

Description:

1. The constant value is 28.290, which means that if the Rupiah Exchange Rate, Inflation and Interest Rate ( $X_1$ ,  $X_2$  and  $X_3$  are 0), then the Investment Return ( $Y$ ) of Islamic life insurance companies ( $Y$ ) has a percentage of 28.290.
2. The coefficient value of the Rupiah Exchange Rate ( $X_1$ ) is negative, namely -2.393, meaning that every Rp. 1000 increase in the Rupiah Exchange Rate, it will reduce the investment return by Rp. 2.393.
3. The coefficient value of Inflation ( $X_2$ ) is negative, namely -36.289, meaning that a 1% increase in inflation will reduce investment returns by 36.289%.
4. The coefficient value of the Interest Rate ( $X_3$ ) is positive, namely 104.467, meaning that a 1% increase in interest rates will increase investment returns by 104.467%.

### Hypothesis Testing

#### Simultaneous Test (F Test)

When the significance is  $<0.05$ , it means that  $H_0$  is rejected, meaning that the independent and dependent variables have a significant effect. If the significance value is  $> 0.05$ , it indicates the acceptance of  $H_0$ , so it can be stated that the independent and dependent variables have no effect.

**Table 8. Simultaneous Test**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	9768,417	3	3256,472	23,962	0,000 <sup>b</sup>
Residuals	9236,556	49	1358,151		
Total	19004,973	52			

a. Dependent Variable: Investment Return

b. Predictors: (Constant), Rupiah Exchange Rate, Inflation, Interest Rate

Source: SPSS Processed Data, 2023

Based on the results obtained from table 8, it is stated that the  $F_{\text{count}}$  value is 23.962 and  $F_{\text{tabel}}$  2.74, obtained a significant value of 0.000  $<0.05$  significant level, so it is said that together  $X_1$ ,  $X_2$  and  $X_3$  affect Investment Return ( $Y$ ).

#### Partial Test (t test)

If the resulting probability  $<0.05$ , it will be stated that there is a significant implication of the independent variable to the dependent variable. If the resulting probability  $> 0.05$ , it is said that it will not have a significant effect.

**Table 9. Partial Test (t test)**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	28,290	352,336		8,174	,000
	NTR	-2,015	173,217	-,810	-8,308	,125
	I	-36,289	156,242	-,328	-2,338	,122
	TSB	104,467	,241	,088	,602	,549

a. Dependent Variable: RI

Source: SPSS Processed Data, 2023

Referring to table 9, the Rupiah Exchange Rate ( $X_1$ ) has a significance of  $0.125 > 0.05$ . Signaling the acceptance of  $H_1$  and the rejection of  $H_0$ , so that investment returns are significantly negatively affected by the Rupiah Exchange Rate in Islamic life insurance companies.

Inflation ( $X_2$ ) has a significance of  $0.122 > 0.05$ . Signaling the acceptance of  $H_2$  and the rejection of  $H_0$ , so it can be concluded if the investment return is significantly negatively affected by Inflation in Islamic life insurance companies.

Interest Rate ( $X_3$ ) has a significance of  $0.549 > 0.05$ . Signaling the acceptance of  $H_1$  and the rejection of  $H_0$ , so it is concluded that investment returns are significantly negatively affected by the Interest Rate in Islamic life insurance companies.

### Determination Coefficient Test

This test is expected to produce an r squared score greater than 0.5, because a good value is between 0 and 1.

**Table 10. Test Coefficient of Determination ( $R^2$ )**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
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1	,717 <sup>a</sup>	,652	,632	116,491
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a. Predictors: (Constant), Rupiah Exchange Rate, Inflation, Interest Rate

Source: SPSS Processed Data, 2023

Based on table 10, it is known that the Adjusted R Square value is 0.632, indicating that the independent variable (Rupiah Exchange Rate, Inflation and Interest Rate) affects the dependent variable (Investment Return) by 63.2% and the remaining 36.8% is caused by other variables not studied in this research.

### The Effect of Rupiah Exchange Rate on Investment Return

Based on the results of data analysis, investment returns are significantly negatively affected by the Rupiah Exchange Rate in Islamic life insurance companies as evidenced by the probability of  $0.125 > 0.05$ . The harmony between the level of demand and supply of currencies is reflected in the exchange rate. When the exchange rate falls, it indicates that the demand for the currency has decreased. As a result of an increase in the inflation rate, there is a weakening of the domestic currency exchange rate. This condition can have implications for a decline in company performance and a reduction in the amount of capital market investment. Through the exchange rate,

the level of investment can be pushed up, as a stronger currency can increase the return on investment. However, when the currency weakens, investment returns may decline. In this research, it is stated that investment returns are significantly negatively affected by the rupiah exchange rate in Islamic life insurance companies. Signaling that an increase in the exchange rate causes a decrease in investment returns in Islamic life insurance companies. However, when there is a decrease in the exchange rate, it has an impact on increasing investment returns. The results of this research are in accordance with the study of (Latha et al., 2016; Setyaningrum & Muljono, 2016) that the exchange rate has a significant negative effect on investment *returns*.

### **The Effect of Inflation on Investment Return**

Referring to data analysis, Inflation has no significant effect on investment *returns on* Islamic life insurance companies as evidenced by the probability of  $0.122 > 0.05$ . High inflation in a country results in increased money supply and consequently a decrease in consumer purchasing power so that investment returns decrease. This means that if there is an increase in inflation, investment returns in Islamic life insurance companies will decrease. Such high inflation indicates a great risk when investing, because if inflation is too high, it can reduce company income and automatically investors will get small investment returns. When inflation increases, it will have an impact on the increase in raw materials and production. As a result, there is an increase in production costs and automatically the company's income will decrease. In the end, the company's performance becomes poor based on the stock *return* given. In accordance with the results of research studies (Jamaludin, 2017; Ouma & Muriu, 2014) that inflation has a significant negative effect on investment *returns*.

### **Effect of Interest Rate on Investment Return**

Based on the results of data analysis, that the Rupiah Exchange Rate has no significant effect on investment *returns on* Islamic life insurance companies as evidenced by the probability of  $0.549 > 0.05$ . When wanting to invest, the first thing investors compare is the quantity of equity (internal capital) of the company with liabilities (loans) so that the condition of the company will be seen. When it is found that the amount of equity is higher than the company's loans, it will be declared that the company is healthy so that it is not likely to go bankrupt. Interest rate analysis is also done by investors when estimating whether the interest rate on loans or deposits will increase or decrease. Because the increase in deposit interest rates occurs when there is an increase in the BI rate. Resulting in many investors shifting their investments from stocks to deposits. When dominant investors do this, stock sales can increase so that a decrease in stock prices will occur. Sales of stocks increase because many investors shift their investments to deposits because banks offer higher interest rates than stocks, and the risk of deposits is lower. However, when the BI rate decrease occurred, the interest rate given by deposits decreased as well. As a result, investors are more interested in investing in stocks. This is in line with the results of research from (Oshaibat, 2016; Maronrong & Nugroho, 2019) stated that interest rates have a significant negative effect on investment *returns*.

## 5. Conclusions

Based on the results of the analysis, the rupiah exchange rate has a significant negative effect on the investment returns of Islamic life insurance companies. An increase in the exchange rate will be able to reduce investment returns. However, a decrease in the exchange rate will increase investment returns. The inflation rate also has a significant negative impact on the investment returns of Islamic life insurance companies in Indonesia. When an increase in inflation occurs, investment returns decrease, but a decrease in the value of inflation causes investment returns to increase. Interest rates do not affect investment returns. The increase in interest rates causes companies to look for other financing alternatives, so it does not interfere with company profits. These findings can be a reference for companies and investors to be able to analyze the risks that will be obtained when inflation and interest rate increases occur. Management is also expected to be able to minimize risks and pay attention to the value of the company and apply guidelines for evaluating corrective actions in Islamic life insurance companies.

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