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Determinants of Palestine Takaful Insurance Companies Profitability

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Abstract

The purpose of this paper is to investigate the factors that determine the profitability of insurance Takaful companies in Palestine; the study population consisted of insurance Companies listed at the Palestine Stock Exchange during the period (2018-2022). We collected the data from the reports of two Takaful Insurance companies for the period 2018-2022. The researcher used the multiple regression econometrics models. The study shows that profitability was usually expressed as a function of internal and external determinants. Results of the study confirm that liquidity, Leverage are the factors that significantly affect the profitability of Takaful insurance companies in Palestine. Size, Leverage, Tangibility of assets, Growth rate of GDP, and Inflation Rate affect the profitability positively, but liquidity has a negative effect on profitability. Size, Tangibility of assets, Growth rate of GDP, and Inflation Rate have insignificant impacts on ROE and ROA. The key implications of these findings suggest that Palestinian insurance companies should consider diversifying their portfolios beyond motor insurance to improve profitability. Additionally, it is recommended that companies explore merger opportunities to increase operational scale and achieve economies of scale. Furthermore, maintaining a high level of liquidity is crucial, as it allows companies to effectively secure bids and promptly settle claims, which not only enhances their reputation but also positively impacts profitability.

Keywords: *Financial Performance; Palestine Stock Exchange; Profitability; ROA; ROE; Takaful*

INTRODUCTION

The insurance sector is one of the essential elements of any modern economic activity in the world. The importance of the insurance sector lies in its contribution to providing economic protection for individuals and institutions against the various risks they may face. This protection includes financial compensation for damages, thereby ensuring the continuity and stability of institutions and projects in their activities, which positively impacts the overall business environment (Haerani & Kholis, 2024; Romadhon et al., 2024; Saleha et al., 2023).

Takaful, rooted in Islamic principles, is a cooperative system where members mutually protect each other against specified risks. Takaful emphasizes communal support and risk-sharing among participants. Takaful has developed as a result of the growing desire of customers of faith-based financial services for an insurance system that satisfies their religious convictions and offers the appropriate risk coverage for individuals and businesses (Indra et al., 2022; Kholis & Afifah, 2022; Radianti et al., 2023). In the Shari'ah-compliant eco-system, Islamic banking, financial markets, and insurance have complemented one another. In such a short time, the sector has expanded quickly in both Muslim and non-Muslim countries

According to The Business Research Company (2024), the global takaful market size is USD 33415.2 million in 2024 and will expand at a compound annual growth rate (CAGR) of 9.50% from 2024 to 2031. Consequently, takaful research has developed and created a number of takaful organizations internationally. It indicates that there has been an improvement in people's understanding of takaful. Life for most individuals and groups must be underwritten, which reason why many of them need insurance (Purnamasari & Alam, 2020). Due to the great potential of the takaful industry, experts persistently encourage

the evolution of takaful, especially in the Muslim countries (Kusmayadi & Firmansyah, 2021).

North America held the major market of around 40% of the global revenue with a market size of USD 13366.08 million in 2024 and will grow at a compound annual growth rate (CAGR) of 7.7% from 2024 to 2031, Europe accounted for a share of over 30% of the global market size of USD 10024.56 million, Latin America market of around 5% of the global revenue with a market size of USD 1670.76 million in 2024 and will grow at a compound annual growth rate (CAGR) of 8.9% from 2024 to 2031, Middle East and Africa held around 2% of the global revenue with a market size of USD 668.30 million in 2024 and will grow at a The sales of general takaful are poised to increase due to rising demand for risk mitigation solutions, expanding market penetration, and a growing awareness of the benefits of Islamic insurance options (The Business Research Company, 2024).

The insurance sector in Palestine is regulated by the Capital Market Authority, with ten companies offering a diverse range of insurance products. Two of these companies specialize in providing Takaful insurance in accordance with Islamic principles. The insurance sector experienced a further recovery in 2022, with its total assets increasing by approximately 5.6% compared to the previous year, reaching a value of around USD 783.7 million. This growth was primarily attributed to an 11.5% increase in fixed assets, driven mainly by a 35% rise in real estate investments. Current assets also saw an increase of about 2.0%, attributed to higher receivables and the value of trading real estate investments (Palestine Monetary Authority, 2024).

Shareholders' equity in the insurance sector experienced significant growth, with an average increase of 18.5%, reaching a total of USD 252.5 million. This increase can be attributed to the rise in paid-up capital, mandatory reserves, and accumulated profits. The sector

also achieved a net profit (after tax) of USD 21.7 million in 2022, compared to USD 12.5 million in the previous year. This increase was mainly driven by higher investment revenues and increased revenues from insurance operations (Palestine Monetary Authority, 2024).

Al-Takaful Palestinian Insurance Company was established in 2006 as the inaugural public shareholding entity specializing in Takaful insurance within Palestine, engaging comprehensively in various insurance activities, with an authorized capital amounting to $8.50 million, segmented into 8.25 million shares, each bearing a par value of $1.00. The organization actively participates in Takaful, which represents an Islamic insurance paradigm predicated upon the principles and regulations of Islamic jurisprudence, characterized by a distinct separation between financial insurance credit balances—Takaful—and the transactions of shareholders, thereby conferring ownership of these credits and their associated operations to the policyholders.

Tamkeen Insurance Company was founded in 2017 as the second Takaful insurance company to operate in Palestine, Tamkeen responds to the needs of a large section of the Palestinian population which, for religious considerations, refrain from conventional insurance services. In 2021, an additional milestone in the company's record of great successes; listing the company's shares in the Palestinian exchange under the symbol of (TPIC) after completing all the necessary requirements. This step demonstrates its credibility and strong position in the insurance sector in Palestine (Tamkeen, 2023). Recently in 2023, an authorized and paid capital reached to f USD 12,480,000 and market share reached to 10% of the total Palestinian insurance market through more than 33 points of sale in west bank and Gaza (Tamkeen, 2023).

The Takaful insurance sector is anticipated to experience growth in tandem with the advancement of all other targeted industries;

however, the primary challenge for the Takaful sector lies in elevating its performance metrics to align with those of the conventional insurance sector. Furthermore, in order to sustain its expansion, the profitability of Takaful operators must be regarded as a crucial determinant, as enhanced profitability will subsequently bolster the overall growth of the sector.

The research problem emerged from the necessity to ascertain the contribution of the Takaful insurance sector in fulfilling the developmental objectives of Palestine through an evaluation of this sector's performance. Profitability stands as one of the most critical performance assessment indicators employed by financial management to achieve its fundamental aim of maximizing enterprise wealth and ensuring its sustainability (Hifza, 2011). In the context of the competitive landscape prevailing in the Palestinian insurance market, insurance firms endeavor to amplify their market share to attain a competitive advantage and a pronounced concentration within both local and regional markets. Consequently, it becomes imperative to discern the salient factors influencing the profitability of Takaful Insurance Companies.

Research Problem

Profitability is one of the most important objectives of financial management because one goal of financial management is to maximize the owner's wealth and profitability, Insurance industry is expected to be financially solvent and strong through being profitable in operation. Empirical investigations have delineated a spectrum of factors that impact the profitability of insurance enterprises across both developed and developing nations. Nevertheless, there exists a paucity of studies regarding the profitability of insurance firms in Palestine, with an absence of empirical analyses pertaining to the determinants of Takaful's profitability and efficiency. Thus, there is an exigent need for further research that contributes value to the

insurance sector in Palestine. Therefore, this study incorporates external variables (economic growth and inflation) that affect the profitability of insurance companies and Return on Equity (ROE) as indicators of profitability to address the inconsistencies found in previous research results.

Research Objectives

General Objective

The overarching objective of the study was to elucidate the determinants of profitability for Takaful insurance companies within Palestine.

Specific Objectives

To identify the firm-specific factors that influence the profitability of Takaful insurance companies in Palestine. To ascertain the macroeconomic factors that impact the profitability of Takaful insurance companies in Palestine. To explore the relationship between profitability and firm-specific determinants. To investigate the relationship between profitability and macroeconomic determinants. To prioritize the determinants based on their degree of influence on the profitability of Takaful insurance companies.

Research Questions

The research questions are as follows:

1. Does Firm size have positive impact on profitability of Takaful insurance companies in Palestine?
2. Does Leverage have positive impact on profitability of Takaful insurance companies in Palestine?
3. Does Tangibility of asset have positive impact on profitability of Takaful insurance companies in Palestine.?
4. Does Liquidity have positive impact on profitability of Takaful insurance companies in Palestine?

5. Does Inflation have positive impact on profitability of Takaful insurance companies in Palestine in Palestine?
6. Does Growth rate of GDP have positive impact on profitability of Takaful insurance companies in Palestine?

LITERATURE REVIEW

The term takaful emanates from the Arabic lexeme kafala, which conveys the concepts of "mutual assurance," "collective benefit," or "shared accountability." In adherence to Shariah principles, it is imperative that takaful insurance is primarily oriented towards the policyholders rather than the shareholders. Furthermore, the duration of the policy must be finite, and both the premium exchange and benefits should be predetermined in nature. Additionally, the contract must incorporate a dual facet: one of mutual cooperation among participants in the context of loss mitigation and another concerning the sharing of investment returns between the insurer and the policyholders, in accordance with a previously established ratio (Al-Amri & Hossain, 2017).

A multitude of scholarly investigations has been conducted regarding the factors influencing the profitability of the insurance sector. It has been discerned that variables such as company size, liquidity, reliance on takaful, GDP per capita, equity returns, and interest rates serve as statistically significant determinants of financial performance (Kantakji et al., 2020). Saleh & Abida (2024) sought to ascertain the profitability of both commercial and Islamic insurance entities within Iraq. The researchers employed a descriptive survey methodology, surveying a sample of 150 individuals employed in national and Iraqi insurance companies, categorized by specific demographic variables. To facilitate the collection of requisite data, a questionnaire was meticulously designed to evaluate the profitability of insurance firms in Iraq. The findings of the research indicate that

inflation is deemed one of the paramount macroeconomic variables impacting all sectors of the economy.

Rofika & Meylianingrum (2024) studied the factors influencing takaful profitability in Indonesia and Malaysia from 2017 to 2022, using data from 11 companies. The results showed that premiums, return on investment, risk-based capital, and claims expenditures have a positive impact on profitability, while liquidity has a negative effect. Prasaja et al. (2023) examined the factors influencing the performance of Islamic insurance firms in Indonesia. A quantitative method was employed, utilizing secondary data derived from the financial statements of sharia insurance firms registered with Otoritas Jasa Keuangan (OJK) for the years 2016-2020. The panel data indicated that the capital volume, premium income, and operational efficiency variables affected the financial performance of Islamic insurance firms in Indonesia.

In the study, Iskandar & Hadiprajitno (2023) analyzed the evidence of the factors that had a great influence on general insurance companies in Indonesia, such as foreign insurance affiliation, market share, retention ratio, claims ratio, and expense ratio. This study evaluated the companies' performance based on the return on equity (ROE) as the primary indicator. The findings showed that foreign affiliation and retention ratio affect ROE in a positive way while having market share, claims ratio and expense ratio in negative way. Therefore, to answer the research question of the study, the findings show that foreign affiliation, market share, retention ratio, claims ratio and expense ratio affect ROE.

The study by Rosli et al. (2023) looked at the performance profile regarding the specified period of operation of life insurance and takaful players in Malaysia. Consistent with this trend, the study clearly defines key factors affecting the financial performance of both, life insurance and takaful players and this will be useful in guiding

operations in case of future shocks. This study used panel data collected from the audited financial statements of nine life insurance operators and five takaful operators in Malaysia over the period, 2016 to 2020. The regression model is based on random effects specifications which include profitability, leveraging, solvency, firm size and gross domestic product (GDP). The research made it clear that solvency is the only key driver of financial performance of both life insurance and takaful firms before and amidst the COVID-19 health challenge.

Hamel & Yousfi (2022) also looked at the impact of written contributions size and contribution averted to ReTakaful profitability of Takaful firms. Through the estimates from the panel data models, they examined the Takaful profitability in the context of the return on policyholders' assets. The analysis of the regression results showed that size of written contribution had negative coefficient while contribution ceded to ReTakaful had positive coefficient. Arshad et al. (2020) looked at the relationships between internal factors that affect performance in the takaful companies, including liquidity, equity return, leverage, firm size and underwriting risk, alongside the external factors including gross domestic product and inflation while focusing on return on assets. The data for this inquiry were collected from eleven domestic takaful organisations and four global takaful organisations. In light of this study, the following conclusions were as follows; First, a statistically significant evidence exist to affirm that, Liquidity, equity return underwriting risk and GDP all affect performance of takaful companies in Malaysia.

Research Hypotheses

Hypothesis 1: Liquidity has positive impact on profitability of Takaful insurance companies in Palestine.

Hypothesis 2: Leverage has positive impact on profitability of Takaful insurance companies in Palestine.

Hypothesis 3: Company size has positive impact on profitability of Takaful insurance companies in Palestine.

Hypothesis 4: Tangibility of asset has positive impact on profitability of Takaful insurance companies in Palestine.

Hypothesis 5: Growth rate of GDP has positive impact on profitability of Takaful insurance companies in Palestine

Hypothesis 6: Inflation has positive impact on profitability of Takaful insurance companies in Palestine in Palestine.

METHOD

Population and Sample

The study population consisted of insurance Companies' listed at Palestine stock Exchange during the period (2018-2022) which count (2) insurance company. The researcher took them as a study sample. The financial reports of these insurance companies are available on internet. All the relevant reports of 2018-2022 were accessed from the official websites of the companies.

Variables Selection and Measurements

Dependent Variable

Profitability (ROA) (ROE): Profitability is usually measured using Return on Assets and return on equity. Return on Assets (ROA) is a major ratio that indicates the financial performance of a firm. It is an indicator of how profitable a company is relative to its total asset. It measures the ability of the firm's management to generate income by utilizing company assets at their disposal (Oshiole et al., 2020). A higher ROA shows that the company is more efficient in using its resources, (ROE) ratio is calculated as net profit after tax divided by the total shareholders' equity.

Independent Variables

- Liquidity (LIQ) - Another determinant of financial performance is the level of liquidity. Liquidity for insurance companies shows the ability of insurers to pay current liabilities, which have the nature of operating expenses or payment of compensation in case of damage. For the insurer primary sources of liquidity are cash flow from net premiums, investment returns and liquidation of assets (Chen & Wong, 2004).
- Leverage (LEV): Leverage serves as an indicator reflecting the extent to which a business is employing borrowed capital. The broader definition of leverage pertains to the ratio of total liabilities to total assets. The leverage ratio signifies the degree to which firms utilize debt financing to augment profitability, and it is quantified by the ratio of total liabilities to equity.
- Size of the company (SIZE): The size of a company may be represented through various metrics, including the number of employees, number of branches, or total assets. Predominantly, studies utilize total assets as a measure of company size. Sisay (2017) posited that size is instrumental in capturing the notion that larger firms possess a superior capacity compared to smaller firms in leveraging economies of scale in transactions, thereby achieving elevated profit levels.
- Tangible Assets (TAN): Tangible assets refer to the physical assets that possess a relatively prolonged utility period within the operational framework of a business, such as land, buildings, machinery, and construction in progress, which can be utilized as collateral for creditors in the event of bankruptcy. In numerous studies, the tangibility of assets in insurance companies is assessed through the ratio of fixed assets to total

assets (Alkhatib, 2012). Consequently, tangibility is regarded as an indicator of the availability of borrowing capacity, which will subsequently influence the profitability of financial institutions.

- Growth rate of GDP (GDP): The growth rate of Gross Domestic Product constitutes a macroeconomic variable, wherein economic expansion can bolster the profitability of insurance enterprises by amplifying the demand for financial services, thereby enhancing cash flows and profit margins (Berhe & Kaur, 2017).
- Inflation (INF): Inflation denotes a general escalation in the price level of goods and services. It manifests when the prices of goods and services experience an upward trajectory over time, specifically resulting in a depreciation of the value of money. Inflation undoubtedly plays a role in the insurance sector, exerting adverse effects on various dimensions of insurance operations, including claims, expenses, and technical provisions (Berhe & Kaur, 2017).

Measurement of Variables

Study Model

For this research, the researcher was used regression analysis and the diagnostic tests for purposes of analyzing the collected data. The informations gathered would be analyzed by means of E-views 10 during the all period of study 2018 to 2022 This study is show that how the variables are influenced each other. This had the effect of presenting an overview of the nature of the correlation, its direction and its significance where the variables considered under this study are concerned.

Model Specifications

The output of regression analysis is an equation which was stands for the best estimate of an outcome variable from a number of predictor variables. The following regression equation is estimated as follows:

$$ROA = \alpha + \beta 1LQ + \beta 2\ LEV + \beta 3\ CS + \beta 4\ AT + \beta 5\ GDP + \beta 6\ INF + \varepsilon \ldots\ldots\ldots\ldots..(1)$$

$$ROE = \alpha + \beta 1LQ + \beta 2\ LEV + \beta 3\ CS + \beta 4\ AT + \beta 5\ GDP + \beta 6\ INF + \varepsilon \ldots\ldots\ldots\ldots..(2)$$

Where:

ROA: the profitability in insurance company (i), at time (t), dependent variable return on assets (ROA) is used to measure profitability.

ROE: the profitability in insurance company (i), at time (t), dependent variable return on equity (ROE) is used to measure profitability.

(LQ) : Liquidity

(Lev) : Leverage

(CS) : Size of companies

(TA) : Tangibility of assets

(GDP) :Growth rate of GDP

(INF) :Growth of Inflation rate

$\beta 1 \ldots \beta 6$: coefficient of independent variables

ε : represents error term or disturbance term.

In this model, all independent variables enter the regression equation at once to examine the relationship between the whole set of predictor (explanatory variables) and dependent variable.

Variable Description and Measurements

The variables described with their measurements presented in Table 1.

Table 1

The Measurements of Variables

Variables	Measured by
Profitability	
ROA	Net profit before tax to total assets
ROE	Net profit before tax to Total shareholder's equity
Liquidity ratio (LQ)	Current asset to current liabilities
Leverage ratio (LEV)	Total debt to Total shareholder's equity
Company size (CS)	Natural log of total assets
Tangibility (AT)	Fixed asset to total asset
Growth rate of GDP (GDP)	GDP(t)-GDP(t-1))/GDP(t-1)
Inflation rate (INF)	INF(t)-INF(t-1))/INF(t-1)

Source: Author's analysis.

RESULTS AND DISCUSSION

Descriptive Analysis

The results from Table 2 suggest that most variables exhibit a normal distribution, except for the profitability indicators, Return on Assets (ROA) and Return on Equity (ROE). This deviation from normality is attributed to the presence of an outlier, likely associated with companies in their founding stage. It's important to note that steps were taken to address these outlier values before commencing the model-building process, ensuring that the data is more representative and suitable for analysis.

Table 2

Independent Variables Descriptive Statistics

	ROE	ROA	LQ	LEV	Inflation growth	GDP growth	CS	AT
Mean	0.122784	0.032839	1.057050	2.328490	0.011240	0.004434	7.627750	0.272071
Median	0.137550	0.036700	1.039500	2.475800	0.012400	0.013627	7.759000	0.263000
Maximum	0.236000	0.067500	1.862100	2.985400	0.037400	0.070120	7.970000	0.380200
Minimum	-0.110500	-0.060600	0.196300	0.822800	-0.007400	-0.113180	7.008000	0.177100

	ROE	ROA	LQ	LEV	Inflation growth	GDP growth	CS	AT
Std. Dev.	0.090514	0.034869	0.400476	0.680740	0.016528	0.065847	0.351265	0.068413
Skewness	-1.739978	-2.085012	-0.198380	-1.032418	0.477409	-1.066402	-0.806415	0.371571
Kurtosis	5.768839	6.519783	4.658316	3.280067	2.052313	2.777318	2.177168	2.208677
Jarque-Bera	8.240235	12.40749	1.211430	1.809159	0.754079	1.916018	1.365949	0.491022
Probability	0.016243	0.002022	0.545684	0.404712	0.685889	0.383656	0.505112	0.782305
Sum	1.227840	0.328390	10.57050	23.28490	0.112400	0.044336	76.27750	2.720710
Sum Sq. Dev.	0.073735	0.010943	1.443433	4.170665	0.002458	0.039023	1.110483	0.042123
Observations	10	10	10	10	10	10	10	10

Source: Author's estimation.

Correlation Coefficients

Table 3 reveals a positive, statistically significant relationship between financial leverage and profitability, represented by Return on Equity and Return on Assets. Meanwhile, there is a negative, statistically significant relationship between liquidity and Return on Equity as well as Return on Assets. The results also indicate the absence of multicollinearity, which was confirmed through a Variance Inflation Factor (VIF) test, the results of which are presented in Table 4.

Table 3

Pearson's Correlation Coefficient Matrix

Correlation	AT	CS	GDP Growth	Inflation Growth	LEV	LQ	ROA	ROE
AT	1.0000							

CS	-0.0745	1.0000						
	0.8379	-----						
GDP	0.4592	-0.1707	1.0000					
Growth	0.1818	0.6373	-----					
Inflation	0.4477	0.2303	0.6370	1.0000				
Growth	0.1945	0.5221	0.0476	-----				
LEV	0.1192	0.7770	-0.0159	0.1422	1.0000			
	0.7429	0.0082	0.9653	0.6952	-----			
LQ	-0.43806	-0.4416	-0.1153	-0.0547	-0.6469	1.0000		
	0.2054	0.2014	0.7511	0.8808	0.0432	-----		
ROA	0.4949	0.5045	0.0007	0.2723	0.6853	-0.8414	1.0000	
	0.1459	0.1370	0.9985	0.4466	0.0287	0.0023	-----	

Correlation	AT	CS	GDP Growth	Inflation Growth	LEV	LQ	ROA	ROE
ROE	0.4428	0.5771	0.0061	0.2125	0.7632	-0.8908	0.9809	1.0000
	0.2000	0.0807	0.9866	0.5555	0.0102	0.0005	0.0000	-----

Source: Author's estimation.

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The VIF test results in Table 4 affirm the absence of multicollinearity concerns among the independent variables employed in the study's regression models. The values obtained from the regression models all fall below 10, signifying a lack of multicollinearity among the independent variables.

Table 4

Variance Inflation Factors for Independent Variables

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
AT	0.015672	25.83408	1.390961
CS	0.001162	1426.903	2.718224
LEV	0.000404	49.71599	3.551141
LQ	0.000732	19.45103	2.225275
GDP_GROWTH	0.420958	1.691287	1.682810
INFLATION_GROWTH	6.681781	2.547586	1.682810
C	0.061224	1290.015	NA

Source: Author's estimation.

Regression Results

Hypothesis 1: Liquidity has a positive impact on the profitability of Islamic insurance companies in Palestine

Table 5

Impact of Liquidity on Profitability (Dependent Variable: ROA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LQ	-0.073256	0.016638	-4.403005	0.0023
C	0.110275	0.018688	5.900679	0.0004
R-squared	0.707885	Mean dependent var		0.032839
Adjusted R-squared	0.671370	S.D. dependent var		0.034869
S.E. of regression	0.019989	Akaike info criterion		-4.810400

Sum squared resid	0.003197	Schwarz criterion	-4.749883
Log likelihood	26.05200	Hannan-Quinn criter.	-4.876787
F-statistic	19.38645	Durbin-Watson stat	1.885072
Prob(F-statistic)	0.002278		

Source: Author's estimation.

Table 6

Impact of Liquidity on Profitability (Dependent Variable: ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LQ	-0.201327	0.036315	-5.543886	0.0005
C	0.335597	0.040791	8.227204	0.0000
R-squared	0.793467	Mean dependent var		0.122784
Adjusted R-squared	0.767650	S.D. dependent var		0.090514
S.E. of regression	0.043630	Akaike info criterion		-3.249284
Sum squared resid	0.015229	Schwarz criterion		-3.188767
Log likelihood	18.24642	Hannan-Quinn criter.		-3.315671
F-statistic	30.73467	Durbin-Watson stat		2.355264
Prob(F-statistic)	0.000545			

Source: Author's estimation.

The findings in Tables 5 and 6 show that, for Islamic insurance companies in Palestine, liquidity (LQ) significantly affects both Return on Equity (ROE) and Return on Assets (ROA). hypothesis 1 is rejected by the negative coefficients for liquidity, which imply an inverse association with both profitability measures. For ROA and ROE, respectively, the liquidity explains 70.7% and 79.3% of the variation.

Hypothesis 2: Leverage has a positive impact on the profitability of Islamic insurance companies in Palestine

Table 7

Impact of Leverage of Profitability (Dependent Variable: ROA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LEV	0.035105	0.013188	2.661943	0.0287
C	-0.048903	0.031867	-1.534607	0.1634
R-squared	0.469705	Mean dependent var		0.032839
Adjusted R-squared	0.403418	S.D. dependent var		0.034869
S.E. of regression	0.026932	Akaike info criterion		-4.214115
Sum squared resid	0.005803	Schwarz criterion		-4.153598

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Log likelihood	23.07058	Hannan-Quinn criter.		-4.280502
F-statistic	7.085943	Durbin-Watson stat		1.092867
Prob(F-statistic)	0.028719			

Source: Author's estimation.

Table 8

Impact of Leverage of Profitability (Dependent Variable: ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LEV	0.101484	0.030373	3.341251	0.0102
C	-0.113522	0.073393	-1.546754	0.1605
R-squared	0.582550	Mean dependent var		0.122784
Adjusted R-squared	0.530368	S.D. dependent var		0.090514
S.E. of regression	0.062029	Akaike info criterion		-2.545580
Sum squared resid	0.030781	Schwarz criterion		-2.485063
Log likelihood	14.72790	Hannan-Quinn criter.		-2.611967
F-statistic	11.16396	Durbin-Watson stat		1.177362
Prob(F-statistic)	0.010212			

Source: Author's estimation.

The results presented in Tables 7 and 8 support the acceptance of hypothesis 2, since there is a statistically significant positive association between leverage and profitability, as measured by Return on Equity and Return on Assets, and the significance level is less than 0.05 in Palestine's Islamic insurance firms. 46.9% and 58.2%, respectively, of the variation in Return on Equity and Return on Assets may be explained by leverage.

Hypothesis 3: Company size has a positive impact on the profitability of Islamic insurance companies in Palestine

Table 9

Impact of Company Size on Profitability (Dependent Variable: ROA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CS__LOG_OF_ASSETS_	0.050083	0.030302	1.652813	0.1370
C	-0.349184	0.231356	-1.509296	0.1697
R-squared	0.254551	Mean dependent var		0.032839
Adjusted R-squared	0.161370	S.D. dependent var		0.034869
S.E. of regression	0.031932	Akaike info criterion		-3.873562

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Sum squared resid	0.008157	Schwarz criterion		-3.813045
Log likelihood	21.36781	Hannan-Quinn criter.		-3.939949
F-statistic	2.731790	Durbin-Watson stat		1.655035
Prob(F-statistic)	0.136970			

Source: Author's estimation.

Table 10

Impact of Company Size on Profitability (Dependent Variable: ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CS__LOG_OF_ASSETS_	0.148697	0.074404	1.998498	0.0807
C	-1.011438	0.568079	-1.780454	0.1129
R-squared	0.333000	Mean dependent var		0.122784
Adjusted R-squared	0.249624	S.D. dependent var		0.090514
S.E. of regression	0.078407	Akaike info criterion		-2.076955
Sum squared resid	0.049181	Schwarz criterion		-2.016438
Log likelihood	12.38477	Hannan-Quinn criter.		-2.143342
F-statistic	3.993994	Durbin-Watson stat		1.863230
Prob(F-statistic)	0.080704			

Source: Author's estimation.

The findings indicate that there is no statistically significant correlation between the size of the company and the profitability of Islamic insurance providers in Palestine. There is insufficient evidence to support Hypothesis 3, which posits that firm size increases profitability in Palestinian Islamic insurance companies, as evidenced by p-values greater than 0.05 for both return on equity (ROE) and return on assets (ROA).

Hypothesis 4: Tangibility of assets has a positive impact on the profitability of Islamic insurance companies in Palestine

Table 11

Impact of Tangibility of Asset on Profitability (Dependent Variable: ROA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AT	0.252234	0.156587	1.610828	0.1459
C	-0.035787	0.043798	-0.817081	0.4375
R-squared	0.244910	Mean dependent var		0.032839
Adjusted R-squared	0.150524	S.D. dependent var		0.034869

Variable	Coefficient	Std. Error	t-Statistic	Prob.
S.E. of regression	0.032138	Akaike info criterion		-3.860712
Sum squared resid	0.008263	Schwarz criterion		-3.800195
Log likelihood	21.30356	Hannan-Quinn criter.		-3.927099
F-statistic	2.594767	Durbin-Watson stat		1.739104
Prob(F-statistic)	0.145883			

Source: Author's estimation.

Table 12

Impact of Tangibility of Asset on Profitability (Dependent Variable: ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AT	0.585894	0.419401	1.396979	0.2000
C	-0.036621	0.117309	-0.312174	0.7629
R-squared	0.196105	Mean dependent var		0.122784
Adjusted R-squared	0.095618	S.D. dependent var		0.090514
S.E. of regression	0.086078	Akaike info criterion		-1.890277
Sum squared resid	0.059275	Schwarz criterion		-1.829760
Log likelihood	11.45138	Hannan-Quinn criter.		-1.956664
F-statistic	1.951550	Durbin-Watson stat		1.487136
Prob(F-statistic)	0.199953			

Source: Author's estimation.

The results from Tables 11 and 12 indicate that the p-values associated with the tangibility of assets for both Return on Equity (ROE) and Return on Assets (ROA) are greater than 0.05. Consequently, there is insufficient evidence to support Hypothesis 4, which posits that asset tangibility has a positive impact on the profitability of Islamic insurance firms in Palestine.

Hypothesis 5: The Growth rate of GDP has a positive impact on the profitability of Islamic insurance companies in Palestine

Table 13

Impact of GDP Growth on Profitability (Dependent Variable: ROA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP_GROWTH	0.000370	0.187222	0.001978	0.9985
C	0.032837	0.011725	2.800661	0.0232
R-squared	0.000000	Mean dependent var		0.032839
Adjusted R-squared	-0.124999	S.D. dependent var		0.034869

Variable	Coefficient	Std. Error	t-Statistic	Prob.
S.E. of regression	0.036984	Akaike info criterion		-3.579794
Sum squared resid	0.010943	Schwarz criterion		-3.519277
Log likelihood	19.89897	Hannan-Quinn criter.		-3.646181
F-statistic	3.91E-06	Durbin-Watson stat		1.397372
Prob(F-statistic)	0.998470			

Source: Author's estimation.

Table 14

Impact of GDP Growth on Profitability (Dependent Variable: ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP_GROWTH	0.008436	0.485986	0.017359	0.9866
C	0.122747	0.030435	4.033069	0.0038
R-squared	0.000038	Mean dependent var		0.122784
Adjusted R-squared	-0.124958	S.D. dependent var		0.090514
S.E. of regression	0.096003	Akaike info criterion		-1.672028
Sum squared resid	0.073732	Schwarz criterion		-1.611511
Log likelihood	10.36014	Hannan-Quinn criter.		-1.738415
F-statistic	0.000301	Durbin-Watson stat		1.326039
Prob(F-statistic)	0.986576			

Source: Author's estimation.

The results from the previous tables indicate that the significance level for the Growth Rate of GDP is greater than 0.05 for both Return on Assets and Return on Equity. This implies the rejection of Hypothesis 5, which posits a positive impact of GDP growth on the profitability of Islamic insurance companies in Palestine.

Hypothesis 6: Inflation has a positive impact on the profitability of Islamic insurance companies in Palestine

Table 15

Impact of Inflation on Profitability (Dependent Variable: ROA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INFLATION_GROUTH	0.574485	0.717721	0.800429	0.4466
C	0.026382	0.013846	1.905328	0.0932
R-squared	0.074148	Mean dependent var		0.032839
Adjusted R-squared	-0.041584	S.D. dependent var		0.034869
S.E. of regression	0.035587	Akaike info criterion		-3.656834

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Sum squared resid	0.010131	Schwarz criterion		-3.596317
Log likelihood	20.28417	Hannan-Quinn criter.		-3.723221
F-statistic	0.640687	Durbin-Watson stat		1.320811
Prob(F-statistic)	0.446579			

Source: Author's estimation.

Table 16

Impact of Inflation on Profitability (Dependent Variable: ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INFLATION_GROUTH	1.163959	1.892002	0.615200	0.5555
C	0.109701	0.036501	3.005457	0.0169
R-squared	0.045172	Mean dependent var		0.122784
Adjusted R-squared	-0.074182	S.D. dependent var		0.090514
S.E. of regression	0.093811	Akaike info criterion		-1.718214
Sum squared resid	0.070404	Schwarz criterion		-1.657697
Log likelihood	10.59107	Hannan-Quinn criter.		-1.784601
F-statistic	0.378470	Durbin-Watson stat		1.226161
Prob(F-statistic)	0.555515			

Source: Author's estimation.

The previous tables' results show that, for both return on equity and return on assets, the inflation variable's significance level is higher than 0.05. This suggests that Hypothesis 6, which suggests that inflation has a positive impact on the financial success of Islamic insurance companies in Palestine, is rejected.

Cross-Sectional Fixed Effects

Internal Variables

Table 17

Redundant Fixed Effects Tests (Dependent Variable: ROA)

Effects Test	Statistic	d.f.	Prob.
Cross-section F	55.259004	(1,4)	0.0017
Cross-section Chi-square	26.956234	1	0.0000

Source: Author's estimation.

Within a fixed cross-section, we do the redundant fixed effects test to ascertain whether cross-sectional fixed effects are influencing our study outcomes. The p-value is less than 0.05 based on Table 17. We find that cross-sectional fixed factors are influencing the results of this model, rejecting the null hypothesis and concluding that the features of Islamic insurance businesses do affect our study's findings.

Table 18

Multiple Regression Analysis Results (Dependent Variable: ROA)

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
AT	0.066500	0.037096	1.792623	0.1475
CS__LOG_OF_ASSETS_	0.040183	0.010634	3.778658	0.0195
LEV	0.036093	0.006750	5.347193	0.0059
LQ	-0.051472	0.007873	-6.538071	0.0028
C	-0.321398	0.079932	-4.020888	0.0159
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.985362	Mean dependent var		0.032839
Adjusted R-squared	0.967065	S.D. dependent var		0.034869
S.E. of regression	0.006328	Akaike info criterion		-7.003935
Sum squared resid	0.000160	Schwarz criterion		-6.822384
Log likelihood	41.01968	Hannan-Quinn criter.		-7.203097
F-statistic	53.85269	Durbin-Watson stat		2.024326
Prob(F-statistic)	0.000924			

Source: Author's estimation.

The results indicate a statistically significant effect of company size and leverage on Return on Assets (ROA), with company size and leverage showing a positive impact, while liquidity has a negative impact. Additionally, the results suggest no significant effect of tangibility on ROA.

Table 19

Redundant Fixed Effects Tests Results (Dependent Variable: ROE)

Effects Test	**Statistic**	**d.f.**	**Prob.**
Cross-section F	11.622820	(1,4)	0.0270
Cross-section Chi-square	13.624383	1	0.0002

Source: Author's estimation.

Additionally, Table 19 indicates that the p-value is less than 0.05. We discovered that cross-sectional fixed factors are influencing the results of this model.

Table 20

Multiple Regression Analysis Results (Dependent Variable: ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AT	0.113072	0.143315	0.788975	0.4743
CS__LOG_OF_ASSETS_	0.081648	0.041084	1.987360	0.1178
LEV	0.080002	0.026077	3.067870	0.0374
LQ	-0.141387	0.030415	-4.648650	0.0097
C	-0.567605	0.308804	-1.838075	0.1399
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.967577	Mean dependent var		0.122784
Adjusted R-squared	0.927048	S.D. dependent var		0.090514
S.E. of regression	0.024447	Akaike info criterion		-4.300878
Sum squared resid	0.002391	Schwarz criterion		-4.119327
Log likelihood	27.50439	Hannan-Quinn criter.		-4.500039
F-statistic	23.87386	Durbin-Watson stat		1.754504
Prob(F-statistic)	0.004451			

Source: Author's estimation.

The results from Table 20 indicate a statistically significant effect of both leverage and liquidity on Return on Equity (ROE), as the significance level is less than 0.05. It is evident that the relationship between liquidity and ROE is negative, while the relationship between leverage and ROE is positive. There is no statistically significant relationship for tangibility and company size on ROE.

External Variables

Furthermore, the p-value is greater than 0.05, as shown by Tables 20 and 22. We find that this model's output is not affected by cross-sectional fixed factors. Tables 21–23 display the results of the ordinary least square.

Table 21

Redundant Fixed Effects Tests (Dependent Variable: ROA)

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.671576	(1,6)	0.4438
Cross-section Chi-square	1.060967	1	0.3030

Source: Author's estimation.

Table 22

Multiple Regression Analysis Results (Dependent Variable: ROA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP_GROWTH	-0.153945	0.242958	-0.633625	0.5465
INFLATION_GROWTH	0.965167	0.967963	0.997111	0.3519
C	0.022673	0.015540	1.459035	0.1879
R-squared	0.124369	Mean dependent var		0.032839
Adjusted R-squared	-0.125811	S.D. dependent var		0.034869
S.E. of regression	0.036998	Akaike info criterion		-3.512604
Sum squared resid	0.009582	Schwarz criterion		-3.421828
Log likelihood	20.56302	Hannan-Quinn criter.		-3.612184
F-statistic	0.497117	Durbin-Watson stat		1.357044
Prob(F-statistic)	0.628238			

Source: Author's estimation.

Table 23

Redundant Fixed Effects Tests (Dependent Variable: ROE)

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.626657	(1,6)	0.2493
Cross-section Chi-square	2.398901	1	0.1214

Source: Author's estimation.

Table 24

Multiple Regression Analysis Results (Dependent Variable: ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP_GROUTH	-0.298972	0.648813	-0.460799	0.6589
INFLATION_GROUTH	1.922694	2.584914	0.743813	0.4812
C	0.102498	0.041498	2.469936	0.0428
R-squared	0.073283	Mean dependent var		0.122784
Adjusted R-squared	-0.191494	S.D. dependent var		0.090514
S.E. of regression	0.098801	Akaike info criterion		-1.548097
Sum squared resid	0.068331	Schwarz criterion		-1.457321
Log likelihood	10.74048	Hannan-Quinn criter.		-1.647677
F-statistic	0.276771	Durbin-Watson stat		1.251967
Prob(F-statistic)	0.766153			

Source: Author's estimation.

The findings indicate the GDP and the profitability inflation of return on ownership and return on assets in Islamic insurance firms in Palestine are unaffected by external influences, as the significance level is higher than 0.05.

CONCLUSION

Based on the outcomes derived from the regression analysis, the researcher is able to deduce that the profitability of Islamic insurance companies operating within Palestine is explicated by the explanatory variables incorporated into the model. Furthermore, it is concluded that profitability is significantly influenced by internal company factors, while external factors also exert an impact on the profitability of Islamic insurance companies in Palestine.

The results of the investigation indicate that liquidity and leverage are critical determinants that substantially influence the profitability of insurance companies in Palestine. While size, leverage, tangibility of assets, growth rate of GDP, and inflation rate exert a positive influence on profitability, liquidity presents a negative effect on profitability. Conversely, size, tangibility of assets, growth rate of

GDP, and inflation rate exhibit insignificant effects on return on equity (ROE) and return on assets (ROA). The primary implications of these findings suggest that Palestinian insurance companies ought to diversify their insurance portfolios away from motor insurance in order to enhance profitability. Additionally, it is recommended that insurance companies consider mergers to augment their size and achieve economies of scale. Ultimately, it is advised that insurance companies maintain high liquidity levels to enable competitive bidding and prompt claims payments, thereby enhancing the company's reputation and, consequently, profitability.

Authors Contribution

Conceptualization: A.Q.; Data curation: A.Q.; Formal analysis: A.Q.; Funding acquisition: A.Q.; Investigation: A.Q.; Methodology: A.Q.; Project administration: A.Q.; Resources: A.Q.; Software: A.Q.; Supervision: A.Q.; Validation: A.Q.; Visualization: A.Q.; Writing – original draft: A.Q.; Writing – review & editing: A.Q.; Author has read and agreed to the published version of the manuscript.

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Data Availability Statement

The data presented in this study are available upon request from the corresponding author.

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Conflicts of Interest

The author declares no conflict of interest.

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