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FINANCIAL PERFORMANCE EVALUATION OF SELECTED INSURANCE COMPANIES IN BANGLADESH

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Abstract : The financial performance evaluation has become more comprehensive overtime because of increasing awareness of the stakeholders. The present study evaluates financial performance of the selected insurance companies in Bangladesh covering a period of five years based on published annual audited reports. The overall financial health and vitality of the sample insurance companies is quiet good. If the sample insurance companies maintain the current, quick, and capital structure ratios at its current levels, gradually increase its long term solvency and safety, and finally increased efficiency by reducing the management and other expenses there is likelihood of rapidly growing this sector by gaining the confidence of its stakeholders.

Introduction

The insurance sector is regulated by the insurance Act 1938, with regulatory oversight provided by the controller of insurance on authority under the ministry of commerce. A total of 62 insurance companies have been operating in Bangladesh,of which 15 provide life insurance and 44 are in the general insurance field. Insurance business in Bangladesh comprises two sectors viz. public sector and private sector. In public sector, we have Sadharan Bima and Jiban Bima Corporation. And the rest are in the private sector, which functioning since 1983(web site). Although insurance sector was not so popular to the Bangladeshi people, due to the globalization this sector is getting popularity. The increasing number of insurance companies within two decades is the evident of such statement which pushing the market more competitive than ever before. In this

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situation, if Bangladeshi insurance companies could receive an effective performance evaluation, it would be easier for them to understand their operating efficiency as well as helpful to them in sharpening their competitive edge and regulating their operating as well as strategic goal. Moreover, this study will be useful to the planners, economists, lenders, shareholders and academicians as a whole.

Objectives of the Study

The study covers the specific objectives as stated below:

1. to analyze the financial health of the insurance companies in Bangladesh.
2. to investigate the problem areas of financial performance of the sample units.
3. to recommend the ways and means to improve the financial performance of the insurance companies in Bangladesh.

Methodology of the Study

The study is based on the financial statements and operational information of the sample insurance companies, which has been collected by visiting the head office of the companies personally by the researchers. In order to accomplish a meaningful representation, the present study has examined the annual audited reports of 5 insurance companies out of the 31 enlisted in Dhaka Stock Exchange Ltd. covering the period of 2004 to 2008. The sample insurance companies were selected by using of judgmental sampling approach. The name of the sample insurance companies is as follows:

Sl.N.	Sample Insurance Company	Abbreviation
1	Bangladesh General Insurance Company	BGIC
2	Progressive life Insurance Company	PLIC
3	Prime Insurance Company	PIC
4	United Insurance Company	UIC
5	Central Life Insurance Company	CIC

The techniques of analysis have been used in the present study includes mean, standard deviation, co-efficient of variation, minimum and maximum. Correlation analysis has also been conducted to find out the association between different variables.

Theoretical Framework

The present study comprises four kinds of ratios including solvency ratio, profitability ratio, capital structure ratio and management efficiency ratio. Solvency ratio has further broken as short-term and long-term solvency. Current ratio and quick ratio have used to

measure the short term solvency while equity ratio for long term solvency. Profitability performance has measured through using the operating revenue ratio, net claim to net premium ratio and return on asset ratio. Capitals to equity ratio, fixed asset to equity ratio and premium to equity ratio have used to measure the capital structure performance. And management efficiency has measured through premium collection ratio, equity turnover ratio and management expenses ratio.

Current ratio, one of the most commonly cited financial ratios, measures the firm's ability to meet its short-term obligations. A current ratio of 2 is occasionally cited as acceptable (Harmenson: 1992). Samsul arefin (2006) used a current ratio of 2:3 as acceptable limit. Current ratio of 2:3 meaning the higher the current ratio, the larger the amount of taka available per taka of current liability; the more the firms ability to meet the current obligations and greater the safety of funds of short term creditors (Chandreasekaran: 1999)

The quick ratio is similar to the current ratio except that it excludes inventory. A quick ratio of 1 or greater is occasionally recommended (Harmenson: 1992).

Profitability ratios measure the operating efficiency of the company. Lenders want to get interest regularly and payment of principal in time. Owners want to get a reasonable return on their investment. All of these are possible if the company earn adequate profits. The higher the profitability ratio will be the greater for the companies to satisfy their stakeholders.

The formulas used in this study are as follows:

1. Solvency ratio:
   a. Current ratio = Current assets/ Current liabilities
   b. Quick ratio = Cash + Short term investment + receivables/current liabilities
   c. Equity ratio = stockholder equity / total assets (total equity)
2. Profitability:
   a. Return on asset ratio = net income/average asset
   b. Operating revenue ratio = Net Revenue/ Net Premium
   c. Net Claim-Net premium ratio = Net Claim / Net Premium
3. Capital Structure:
   a. Capital-equity ratio = Capital (SE)/Total equity (Total Asset)
   b. Fixed asset-equity ratio = Fixed assets/ Equity
   c. Premium equity ratio = net premium / equity
4. Management's Efficiency:

   a. Premium collection ratio = Gross Premium / Outstanding Premium
   b. Equity turnover ratio = gross premium / total equity
   c. Management expenses ratio = Management expenses / gross premium

Analysis and Findings

Table-I (Appendix) shows the solvency ratios of the sample insurance companies, which have been measured in terms both short-term and long-term solvency. Short-term solvency has measured hinges on the current and quick ratios. On the other hand long-term solvency has measured on the basis of equity ratio. Both the current ratios and the quick ratios for all the sample companies over the years are not disappointing. The averages of these ratios are more than 1. Average current ratios vary from1.21 to 5.35 and quick ratios vary from 1.20 to 5.16. Minimum current ratio among the sample companies was in case of BGIC, i.e., 0.99 in the year 2004 and the maximum current ratio was in case of PLIC, i.e., 7 in the year 2008. On the other hand, minimum quick ratio among the sample companies was in case of BGIC, i.e., 0.99 in the year 2004 and the maximum quick ratio was in case of PLIC, i.e., 6.32 in the year 2007. The current ratio indicates that the sample insurance companies are capable of paying their short term obligations. The quick ratio also gives us similar impression as we have in case of current ratios.

From the creditor's point of view, a high proportion of stockholders' equity is desirable. A high equity ratio indicates the existence of a large protective buffer for creditors in the event a company suffers a loss. However, from an owner's point of vies, a high proportion of stockholders' equity may or may not be desirable. If borrowed funds can be used by the business to generate income in excess of the net after-tax cost of the interest on such borrowed funds, a lower percentage of stockholder's equity may be desirable. Equity ratios of the sample insurance companies are below 1 but increasing slightly during the study periods. Average equity ratios vary from 0.33 to 0.62. Minimum equity ratio among the sample companies was in case of PIC, i.e. 0.31 in the year 2004 and the maximum of this ratio was in case of UIC, i.e. 0.61 in the year 2006. The current level of equity ratios signifies the insurance companies are quiet solvent and safe in the long run.

Table-II (appendix) shows profitability ratios of the sample insurance companies from the year 2004 to 2008. The minimum and maximum

operating revenue ratio was in case of PIC, i.e. -0.154 and 0.25 in the year 2004 and 2005 respectively. The average operating revenue ratio varies among the sample units from 0.05 to 0.194. The net claim to net premium ratio shows negative figure (i.e. -0.042) in the year 2006 for CIC. The average of this ratio varies from 0.11 to 0.716 which is encouraging figure. Return on asset ratio scored infinitives during the study period for PLIC. The average of this ratio varies from 0.046 to 0.27. In the year 2004 PIC was shown this ratio as negative but later on increased in a slower rate. The overall profitability of this sector is not disappointing but should grow faster.

Capital Structure performance of the insurance sector has been measured through capital-equity ratio, fixed asset-equity ratio and premium equity ratio. Table-III (appendix) reveals the average Capital-equity ratio varies from 0.16 to 0.62. Maximum of this ratio was 0.72 for UIC in the year 2008 and minimum 0.075 for PLIC in the same year. Fixed asset-equity ratio varies from 0.02 to 0.458. The maximum of this ratio was 0.66 in case of BGIC and PLIC in the year 2004 and decreasing gradually during the study periods. The minimum if this ratio was in case of UIC, i.e. 0.012 in the year 2008. Average Premium equity ratio varies from 0.326 to 0.648. The maximum of this ratio was in case of CIC, i.e. 0.909 in the year 2005 and minimum of this ratio earned by UIC in the year 2008 (i.e. 0.171).

Management efficiency of the insurance sector has been measured through using premium collection ratio, equity turnover ratio and management expense ratio. Table-IV (appendix) demonstrates the average premium collection ratio varies from 2.40 to 9.03. Maximum of this ratio was 15.26 for CIC in the year 2006 and minimum 1.71 for PIC in the same year. Premium collection ratio scored infinitives for BGIC during the study periods which mean there was no outstanding premium. Infinitives also occurred in the case of CIC in the years 2007 and 2008. This is a good sign for these companies. Average equity turnover ratio varies from 0.319 to 1.096. The maximum of this ratio was 1.45 in case of PLIC in the year 2004 and decreasing gradually over the years. The minimum if this ratio was in case of UIC, i.e. 0.26 in the year 2008. Average Management expense ratio varies from 0.32 to 0.60. The maximum of this ratio was in case of PLIC, i.e. 0.691 in the year 2004 and minimum of this ratio earned by UIC in the year 2008 (i.e. 0.156). It is evident from the table that management expense ratio decreasing gradually over the study periods which is a good sign for this sector.

Table-V shows the correlation matrix among the financial ratios of the sample insurance companies during the study periods. It is evident from the table that capital equity ratio is negatively correlated with Fixed asset-equity ratio, Premium equity ratio, Premium Collection ratio, Equity turnover ratio and Expenses ratio. Net claim to Net premium ratio is negatively correlated with all other ratios of the respective row of the matrix except Capital-equity ratio and Premium equity ratio. Most of the cases the current ratio and the quick ratio are negatively correlated with other financial ratios. Except these, all other financial ratios are positively correlated with each other. Thus, it can be concluded that financial ratios are almost positively correlated.

Conclusion and Policy Recommendations

Analysis of various ratio shows that sample insurance companies have adequate current assets to meet the short term obligations. Although the sample company's equity ratio is not so high but still have long term safety and solvency. The analysis also demonstrates that the premium collection rate of the sample insurance companies is very good thus efficient. The management expense ratio of the sample units shows slightly higher in some companies. The average of this ratio is not so disappointing. The capital structure ratio shows good combination of capital, equity, fixed assets and premium. The entire sample insurance companies were shown profitable. The following suggestions can be implemented:

1. The companies should maintain the current and quick ratios at its current levels.
2. The companies should gradually improve its equity ratio to achieve the long term solvency and safety.
3. The companies should reduce its management expense ratio at an acceptable limit.

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Appendix

Table-I

Solvency Ratios of the Sample Insurance Companies

Year	Current Ratio					Quick Ratio					Equity Ratio				
	BGIC	PLIC	PIC	UIC	CIC	BGIC	PLIC	PIC	UIC	CIC	BGIC	PLIC	PIC	UIC	CIC
2004	0.99	4.1	2	1.81	1.22	0.99	4.034	2.837	1.809	1.225	0.393	0.393	0.316	0.6.9	0.325
2005	1.31	2.91	1.86	1.74	1.2	1.301	3.012	1.854	1.73	1.201	0.549	0.549	0.335	0.603	0.319
2006	1.18	6.32	1.86	2.02	1.5	1.168	6.271	1.852	2.011	1.498	0.556	0.556	0.329	0.614	0.375
2007	1.24	6.45	1.8	1.92	1.58	1.232	6.326	1.791	1.919	1.584	0.588	0.588	0.325	0.582	0.413
2008	1.36	7	2.05	4.24	1.52	1.358	6.169	1.766	4.231	1.514	0.59	0.59	0.377	0.72	0.43
Avr.	1.216	5.356	1.914	2.346	1.404	1.2098	5.1624	2.02	2.34	1.4044	0.5352	0.5352	0.3364	0.6256	0.3724
SD	0.143	1.759	0.105	1.064	0.179	0.142	1.540	0.458	1.062	0.177	0.081	0.081	0.023	0.0541	0.050
CV	11.81	32.858	5.524	45.359	12.796	11.750	29.842	22.689	45.404	12.666	15.246	15.246	7.052	8.657	13.474
Min	0.99	2.91	1.8	1.74	1.2	0.99	3.012	1.766	1.73	1.201	0.393	0.393	0.316	0.582	0.319
Max	1.36	7	2.05	4.24	1.58	1.358	6.326	2.837	4.231	1.584	0.59	0.59	0.377	0.72	0.43

Source: Audited Annual Reports of Selected Insurance Companies

Table-II

Profitability Ratios of the Sample Insurance Companies

Year	Operating revenue ratio					Net Claim-Net premium ratio					Return on asset ratio				
	BGIC	PLIC	PIC	UIC	CIC	BGIC	PLIC	PIC	UIC	CIC	BGIC	PLIC	PIC	UIC	CIC
2004	0.124	0.124	0.154	0.207	0.178	0.178	0.094	0.314	0.207	0.16	0.06	∝	-0.079	0.147	0.06
2005	0.138	0.138	0.251	0.18	0.212	0.144	0.094	0.716	0.165	0.123	0.058	∝	0.082	0.14	0.068
2006	0.14	0.14	0.11	0.047	0.24	0.12	0.141	0.631	0.29	-0.04	0.08	∝	0.054	0.131	0.092
2007	0.157	0.157	0.035	0.026	0.139	0.245	0.147	0.379	0.233	0.252	0.142	∝	0.088	0.123	0.104
2008	0.163	0.163	0.019	0.057	0.205	0.27	0.108	0.453	0.255	0.271	0.14	∝	0.085	0.813	0.115
Avr.	0.144	0.144	0.052	0.103	0.194	0.191	0.110	0.498	0.23	0.152	0.096	0	0.046	0.27	0.087
SD	0.0156	0.015	0.147	0.083	0.038	0.064	0.034	0.169	0.047	0.125	0.041	0	0.071	0.303	0.023
CV	10.84	10.84	282.16	80.80	19.61	33.63	30.94	34.044	20.60	81.93	43.72	0	154.75	111.97	26.61
Min	0.124	0.124	0.154	0.026	0.139	0.12	0.064	0.314	0.165	-0.04	0.058	0	-0.079	0.123	0.06
Max	0.163	0.163	0.251	0.207	0.24	0.27	0.147	0.716	0.29	0.271	0.142	0	0.088	0.813	0.115

Source: Audited Annual Reports of Selected Insurance Companies

Table-III

Capital Structure Ratios of the Sample Insurance Companies

Year	Capital-equity ratio					Fixed asset-equity ratio					Premium equity ratio				
	BGIC	PLIC	PIC	UIC	CIC	BGIC	PLIC	PIC	UIC	CIC	BGIC	PLIC	PIC	UIC	CIC
2004	0.393	0.208	0.316	0.609	0.325	0.661	0.661	0.08	0.035	0.123	0.69	0.69	0.759	0.343	0.675
2005	0.549	0.232	0.335	0.603	0.319	0.462	0.462	0.057	0.03	0.105	0.483	0.483	0.516	0.381	0.909
2006	0.556	0.187	0.329	0.614	0.375	0.477	0.477	0.031	0.034	0.08	0.492	0.492	0.478	0.36	0.595
2007	0.588	0.121	0.325	0.582	0.413	0.383	0.383	0.031	0.027	0.072	0.408	0.408	0.558	0.377	0.547
2008	0.59	0.075	0.377	0.72	0.43	0.31	0.31	0.025	0.012	0.07	0.353	0.353	0.502	0.171	0.515
Avr.	0.53	0.1646	0.3364	0.625	0.37	0.458	0.458	0.044	0.027	0.09	0.485	0.485	0.562	0.326	0.648
SD	0.08	0.064	0.023	0.054	0.05	0.13	0.131	0.023	0.009	0.023	0.127	0.127	0.11	0.088	0.157
CV	15.24	39.43	7.05	8.657	13.47	28.66	28.66	51.87	33.65	25.68	26.35	26.359	20.187	27.01	24.33
Min	0.393	0.075	0.316	0.582	0.319	0.31	0.31	0.025	0.012	0.07	0.353	0.353	0.478	0.171	0.515
Max	0.59	0.232	0.377	0.72	0.43	0.661	0.661	0.08	0.035	0.123	0.69	0.69	0.759	0.381	0.909

Source: Audited Annual Reports of Selected Insurance Companies

Table-IV

Management Efficiency of the Sample Insurance Companies

Year	Capital-equity ratio					Fixed asset-equity ratio					Premium equity ratio				
	BGIC	PLIC	PIC	UIC	CIC	BGIC	PLIC	PIC	UIC	CIC	BGIC	PLIC	PIC	UIC	CIC
2004	∝	9.653	3.029	3.517	3.825	0.474	1.45	0.396	0.408	0.291	0.529	0.691	0.667	0.476	0.573
2005	∝	8.818	2.037	4.577	8.012	0.533	1.052	0.313	0.444	0.403	0.481	0.68	0.198	0.446	0.42
2006	∝	5.702	2.715	4.849	15.263	0.52	1.187	0.274	0.439	0.339	0.375	0.622	0.223	0.5	0.528
2007	∝	5.406	2.31	6.455	∝	0.558	0.953	0.293	0.434	0.377	0.269	0.502	0.281	0.233	0.252
2008	∝	6.419	2.937	5.128	∝	0.55	0.838	0.321	0.269	0.374	0.27	0.506	0.273	0.156	0.179
Avr.	0	7.19	2.406	4.905	9.033	0.527	1.096	0.319	0.398	0.356	0.384	0.60	0.328	0.36	0.39
SD	0	1.91	0.568	1.059	5.786	0.033	0.235	0.046	0.073	0.043	0.119	0.09	0.192	0.156	0.17
CV	0	26.63	23.626	21.597	64.062	6.281	21.52	14.57	18.52	12.123	30.94	15.27	58.58	43.26	43.80
Min	0	5.406	2.715	3.517	3.825	0.474	0.838	0.274	0.269	0.291	0.269	0.502	0.198	0.156	0.179
Max	0	9.653	3.029	6.455	15.263	0.558	1.45	0.396	0.444	0.403	0.529	0.691	0.667	0.5	0.573

Source: Audited Annual Reports of Selected Insurance Companies

Table-V

Correlation Matrix of Ratio Analysis

Variable	X_1	X_2	X_3	X_4	X_5	X_6	X_7	X_8	X_9	X_{10}	X_{11}	X_{12}
X_1	1.00	0.99	0.32	0.002	-0.35	0.67	-0.66	0.43	-0.24	0.16	0.90	0.90
X_2		1.00	0.074	-0.52	0.86	0.45	0.34	-0.89	-0.24	0.12	0.89	0.88
X_3			1.00	-0.86	-0.03	-0.04	0.27	0.30	-0.89	0.07	0.38	0.29
X_4				1.00	-0.36	0.034	-0.52	0.069	0.30	0.99	0.24	0.38
X_5					1.00	0.88	-0.02	-0.74	0.069	-0.89	-0.56	-0.64
X_6						1.00	-0.33	-0.54	-0.74	0.03	0.15	0.08
X_7							1.00	-0.03	-0.54	-0.24	-0.63	-0.69
X_8								1.00	-0.03	0.40	0.76	0.68
X_9									1.00	0.34	-0.15	-0.03
X_{10}										1.00	0.33	0.49
X_{11}											1.00	0.97
X_{12}												1.00

Source: Audited Annual Reports of Selected Insurance Companies

[X_1 = Current ratio, X_2 = Quick Ratio, X_3 = Equity Ratio, X_4 = Operating revenue ratio, X_5 = Net Claim- Net premium ratio, X_6 = Return on asset ratio, X_7 = Capital-equity ratio, X_8 = Fixed asset-equity ratio, X_9 = Premium equity ratio, X_{10} = Premium Collection ratio, X_{11} = Equity turnover ratio, X_{12} = Expenses ratio]