



FINANCIAL REPORT ON INSURANCE COMPANIES

United International University

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FINANCIAL REPORT ON INSURANCE COMPANIES



Major: Accounting Information System

Supervised By

MD ABDULLAH BABU

Assistant Professor,

School of Business & Economics (SOBE)

Submitted By

AFROZA BEGUM PIAL

ID: 114141005

BBA Program

School of Business and Economics (SOBE)

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Letter of Transmittal

To
Md Abdullah Babu
Assistant Professor,
School of Business & Economics (SOBE)
United International University

Subject: Submission of Project Report.

Dear Sir,

It is my pleasure to submit my project on "Financial Report of Insurance Companies," which is an essential part of my BBA program, with the utmost respect. Although the insurance business has a strong economic future, for certain reasons it failed to achieve its goal. In a developing country like Bangladesh, the insurance business must play an important role in the economy. However, I have gained a thorough understanding of the financial situation of the insurance sector from this study and I think that the information will benefit me in my future career.

In writing the report, all the information and support you gave me was very valuable. The structure you provided me includes the basic principles for producing a project report. This helped me significantly in providing my document with crucial information about insurance companies in Bangladesh.

I want to add that I have followed all the steps that I have included in the report that you instructed us to follow. All the information in the report are relevant and come from both my project experiences and credible sources.

Therefore, I would be very thankful, if you accept and act on my project report.

Sincerely yours,
Afroza Begum Pial
ID: 114141005
BBA Program
United International University

Acknowledgement

In the name of Allah, the most merciful and compassionate.

I would like to thank my esteemed course lecturer and project supervisor, Md Abdullah Babu, Assistant Professor, School of Business & Economics (SOBE), United International University, for all his advice and direction during the last three months of my project. It was extremely difficult for me without the structure of the report and the tips for writing my report correctly. Thank you, sir, for taking some of your precious time from your hectic schedule. Your entire effort was greatly appreciated.

I also want to express my appreciation to Sadia Afrin, Human Resources Manager at Green Delta Insurance Co Ltd, for helping me better understand the insurance industry. At first, I had a lot of trouble understanding some factors in the insurance industry, where I found her as a helping hand and she guided and supported me to achieve my work goals. You also contributed a wealth of knowledge, which proved to be a valuable resource in preparing my report.

Last but not least, I would like to thank all my friends, families, and other members for contributing time and information to the completion of my report.

Letter of Declaration

I, Afroza Begum Pial, declare that this project entitled 'Financial report on insurance companies', a unique, legitimate piece of work that I have done. I further assure that my project is prepared exclusively for my academic needs and not for any other purposes. It's my personal research, supervised by Mr. Md. Abdullah Babu, Assistant Professor of United International University. The report is developed primarily for the ultimate requirement of BBA in AIS.

Date: 17th July 2021

Afroza Begum Pial

ID: 114141005

BBA Program

United International University

Abstract

Investors need financial statements that can provide important information about income, expenses, profitability, debt burden, and ability to meet their short- and long-term financial obligations to the company. Financial ratio analysis checks certain financial elements in the company's financial statements to determine the company's operating conditions. The ratio determines the profitability, the company's debt, management performance and operational efficiency. This study analyses the insurance companies of Bangladesh and compares the financial performance of eight popular insurance companies in Bangladesh. The qualitative research approach is followed to interpret the findings. Moreover, the study selected eight private non-life insurance companies to analyse their annual reports of the year 2020. The study also detected several noteworthy findings based on the information gathered from the annual report. Finally several recommendations are given for the betterment of the insurance industry of Bangladesh.

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CHAPTER 1

INTRODUCTION



Introduction

1.1 Introduction

Financial Statement Analysis is an analytical process for decision-making purposes either for a company or for the overall industry. External teams use it to determine financial performance and the value of the organization or industry and determine the firm or industry's overall health. Examining financial statements leads us to a productive conclusion, which is expected to increase interaction between investors and other stakeholders, and will be used by a variety of experts and analysts for an autopsy of financial statements. Moreover, financial statements are important as they provide information on a company's income, expenses, profitability, and debt. The examination of the financial report includes an evaluation of the balance sheet items in order to compare the results with previous periods and with competitors.

However, the study evaluated 8 Bangladeshi private non-life insurance companies based on their annual reports of the year 2020. Furthermore, the analysis of this sector was important because insurance transforms investment capital into productive investments. Insurance promotes losses, financial stability and promotes trade and business activities as a result of economic growth and development. Therefore, insurance plays an important role in the sustainable growth of the economy.

1.2 Objective of the Study

The objectives of a report describes the goal(s), a researcher may want to achieve via the report. This objective may one broad objective, or it can be prepared for more than one objectives. Therefore, the objectives of these report are segmented into two parts for the ease of future understandings.

I. General Objectives: The report contains information produced in connection with the investigation and analysis of data and issues relating to financial statements analyses of Bangladeshi insurance companies. A wide range of financial ratio issues have been covered and information is presented to only for academic purposes (not for use in real-life scenarios). The primary purpose of the study, however, is to submit this project to my supervisor for the final prerequisite for a BBA degree in AIS from United International University.

II. Specific Objectives: The specific objectives listed below have been offered to develop a relationship between the various variables of the study topic and to provide a few specific purposes for creating this report.

- ❖ To analyse the insurance industry of Bangladesh.
- ❖ To discuss the Covid-19 impact on insurance companies of Bangladesh during year 2020.
- ❖ To analyse the financial statement of insurance companies of Bangladesh
- ❖ To compare and interpret the financial ratios of insurance companies.
- ❖ To suggest future recommendations for the insurance companies.

1.3 Rationale of the Study

The financial statement, which is included in the annual report, is critical since it informs investors, students, marketers, students, and any other interested parties about the insurance company's income, expenses, profitability, and debt. Financial report analysis entails reviewing financial statement elements in order to compare performance with past periods and with rivals. The analysis of financial statements helps the financial manager to evaluate the operational efficiency and management effectiveness of the company. It also helps in analysing financial strengths and weaknesses and creditworthiness to determine the current position of Bangladeshi insurance companies. Additionally, analysing financial ratios can help investors with information about the cash position the company holds and how much debt the company has in relation to equity.

1.4 Limitations of the Study

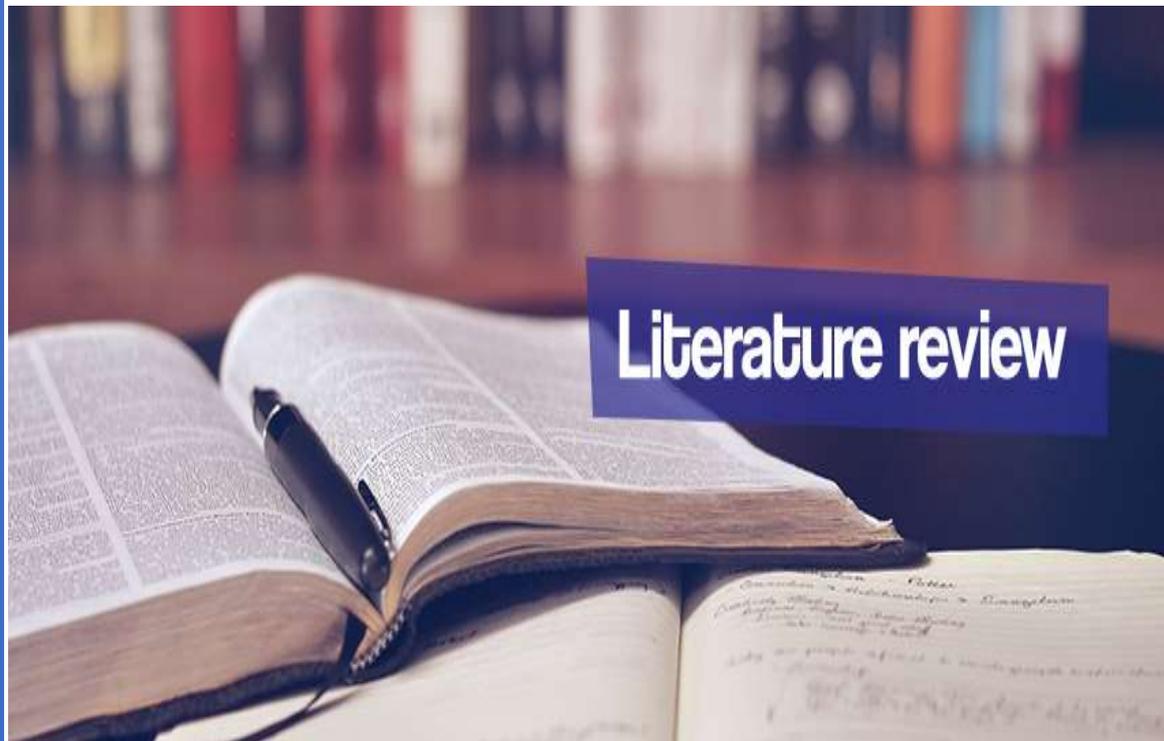
Study limitations are factors that affect or influence the interpretation of our research findings in the design or technique. The limits and problems I have faced in producing this report are:

- I. **Limited Duration:** The project report was written for such a large scale investigation in a short span of three months due to the academic restrictions. As a result, it is urged to kindly consider the errors in the next stage of the study.
- II. **Lack of resources:** Collecting financial information from insurance companies has been very difficult as I have searched at least 45 private non-life insurance companies to get their 2020 annual report as 2021 has not yet been released. Unfortunately, it was found that out of all 45 insurance companies researched, only 8 published their annual report for the year 2020. Due to the lack of annual reports, it was not possible to add other companies to the study.

III. **Strict Policies:** Insurance companies compile strict policies and rules for external sharing of internal business information. For my report, few facts were really significant, but I am not allowed to divulge this information.

CHAPTER 2

LITERATURE REVIEW



2.1 Insurance Company in Bangladesh

Banks, Stock Markets, and Insurance are the three major players in Bangladesh's financial market. Among these three, insurance seems to be far behind in terms of institutional market growth. Its regulatory agency, the Insurance Development and Regulatory Authority (IDRA) was established in 2011 by abolishing the former insurance sector. Regrettably, the government is still not fully operational even after ten years. The results are very disappointing, and it is obvious that some media have recently highlighted the stagnation and corruption that is widespread in the country's insurance industry.

In addition to the state-owned Jiban Bima Corporation, there are 32 private sector life insurance companies in Bangladesh, including MetLife (formerly ALICO) in the United States and Life Insurance Company (LIC) in India. However, it is estimated that out of a total of 170 million people in the country, only about 20 million are covered by the insurance plan. However, the national insurance policy formulated by the Department of Financial Institutions states that only 6 million people are insured. If you look at the financial statements of the insurance company for the first five years, it is found that on average half of the insurance policies have expired after the payment of the first instalment.

The insurance industry has identified several reasons for the policy failure. These include the negligence of the insurance agents, who have shown laxity in following up with customers after the start of the policy. Customers also lack awareness. In addition, the companies concerned are often accused of breach of faith and there are even cases of insurance agents embezzling client funds. It has also been observed that agents who participate at the field level often lack adequate education and tend to attract people rather than inspire them. Many people have become victims of deception. Therefore, IDRA should have a mechanism to act against these manipulators.

However, several explanations for policy errors have been found in the insurance sector. These include the negligence of insurance agents, who shown laxity when the policy was issued. There is no awareness among customers too. Furthermore, related organizations are regularly accused of failure to meet their commitments and of misappropriating customer funds by insurance agents. It was also noticed that agents working in the field are typically lacking in sufficient training and tend to seduce and not inspire individuals. Many people are

therefore subjected to disappointment. IDRA should, therefore, feature an anti-manipulator mechanism.

In addition, Sadharan Bima Corporation (SBC) is the only state institution in the general insurance and reinsurance industry that is plagued with internal corruption and mismanagement. In the private sector, on the other hand, there are 46 general insurance companies. The reason for such a large number is that these entities are mainly licensed for political reasons. Even more surprising is that half of SBC's profits from insuring government assets are unreasonably distributed to private insurance companies, a practice that has been going on for more than 30 years. In fact, this absurd system was introduced experimentally in 1990 by amending the Insurance Companies Act of 1973. According to the agreement signed between SBC and private insurance company, payment is made every quarter. Some of these companies have even paid their employees with freebies provided by Shadharon Bima Corporation.

2.2 Financial Statement Analysis

Financial analysis (Financial Analysis) is to study and analyze the behaviour of the company's financial accounts in order to make better economic decisions, thereby generating more benefits in the future. These statements include the income statement, balance sheet, cash flow statement, account notes and equity statement (if applicable). Financial statement analysis is a strategy or process that uses specialized methods to evaluate the organization's risk, performance, financial status, and future prospects (White, 1998). In Bangladesh, the company's financial statements are usually published in its annual report, and the report is updated on its website for interested visitors.

Various stakeholders, including loan and equity investors, governments, the public, and organizational decision-makers, use financial statements to determine the company's success or meet its requirements. These players have different interests and use various techniques to meet their requirements. For example, shareholders are concerned about the long-term profitability, sustainability, and increase in dividend payments of the business. Creditors aim to ensure that debt securities (such as bonds) are paid on time based on the company's interest and principal. Basic financial analysis, horizontal and vertical analysis, and the application of financial ratios to help investors measure the performance of any company are common analytical methods.

2.2.1 Vertical analysis

Vertical analysis is a type of financial analysis that involves checking the various components of the income statement and dividing them into percentages. In order to obtain the most effective results, the performance of other companies in the same industry should be benchmarked. However, it is sometimes referred to as a universal income statement because it allows analysts to compare companies of different sizes by examining profits rather than dollars.

2.2.2 Horizontal analysis

The horizontal analysis involves collecting and comparing financial data over several years to calculate growth rates. This helps analysts assess whether the business is growing or declining, and identify key trends. Generally speaking, when constructing a financial model, at least three years of historical financial information and five years of forecast information can be obtained. This provides more than 8 years of information to conduct valuable trend research comparable to other companies in the industry.

2.2.3 Ratio analysis

Ratio analysis is to compare items in the company's financial statements. Ratio analysis is used to evaluate a series of company issues, including liquidity, operational efficiency and profitability. This type of research is particularly valuable for non-corporate analysts because their financial statements are the main source of information about the company. Ratio analysis is not very useful for insiders who have better access to broader organizational information. When used in a trend line, it is especially useful to compare companies in the industry or companies in the industry; as a trend line, calculate each ratio in a large number of reporting periods to check whether the calculated information has a trend. This trend may indicate financial difficulties, and these difficulties will not be obvious if you only examine the ratio for one period. Trend lines can also be used to estimate the direction of future ratio performance.

Chapter 3

Methodology



RESEARCH
METHODOLOGY

3.1 Research Type

Generally, research can adopt any of three research forms, such as qualitative research, quantitative research and mixed research. We understand that ratio analysis is the basic pillar of financial statement analysis. Since ratio analysis is a quantitative method by checking financial documents such as balance sheets and income statements, this research will follow the qualitative types of research strategies to obtain information about the efficiency and profitability of liquid operations.

3.2 Data Type

Data can be divided into four basic groups based on observation, experiment, simulation, and derived collection methods. The ratios of the eight insurance companies are derived from financial information analysed in their 2020 annual reports.

In addition, I discuss information in many places in the knowledge base, but in this regard I only want to distinguish between two main types: qualitative and quantitative. I can call data "quantitative" because we usually define them if it is a number, and "qualitative" if it is not. Because of the use of digital and non-digital data in the survey, the study includes various forms of data.

3.3 Sources of Data

Different sources are used to acquire information for the preparation of this report. These sources are two pieces that can be grouped. The following is described:

I. Primary/internal data sources:

Compared with secondary data collection, primary data collection was easier and takes less time, effort, and money. They may also be more relevant to the environment because they belong to the organization. The primary sources are:

- a. The 2020 annual reports of eight insurance companies.
- b. Financial information of the Wanda Card Stock Exchange.

II. Secondary/external data source

Secondary or external sources are sources in the larger environment outside of the company's internal information. Given the wide variety of data and a wide range of sources, it is found more difficult to obtain external data. However, the secondary/external data for eight insurance companies are gathered from the following sources:

- a. Daily newspapers (i.e. The Daily Star, Dhaka Tribune)
- b. Websites from past literary sources are secondary sources of information.
- c. Many books and articles have been published.
- d. Many online professional blogs and market insight sites.

3.4 Sample description

To analyse the key financial information of the year 2020, a total of 45 private non-life insurance companies were primarily chosen. These companies are listed below:

Table 1: Primarily selected 45 insurance companies

45 Private Non-Life Insurance Companies of Bangladesh

1. Agrani Insurance Company Ltd.	2. Global Insurance Ltd.	3. Prime Insurance Company Ltd.
4. Asia Insurance Ltd.	5. Green Delta Insurance Co. Ltd.	6. Provati Insurance Company Ltd.
7. Asia Pacific Gen. Insurance Co. Ltd.	8. Islami Commercial Insurance Co. Ltd.	9. Purabi Gen Insurance Company Ltd.
10. Bangladesh Co-operatives Ins. Ltd.	11. Islami Insurance Bangladesh Ltd.	12. Reliance Insurance Limited
13. Bangladesh General Insurance Co. Ltd.	14. Janata Insurance Company Ltd.	15. Republic Insurance Company Ltd.
16. Bangladesh National Insurance Co. Ltd.	17. Karnaphuli Insurance Company Ltd.	18. Rupali Insurance Company Ltd.
19. Central Insurance Company Ltd.	20. Meghna Insurance Company Ltd.	21. Sonar Bangla Insurance Company Ltd.
22. City General Insurance Company Ltd.	23. Mercantile Insurance Company Ltd.	24. South Asia Insurance Company Ltd.

25. Continental Insurance Ltd.	26. Nitol Insurance Company Ltd.	27. Standard Insurance Ltd.
28. Crystal Insurance Company Ltd.	29. Northern Gen. Insurance Company Ltd.	30. Takaful Islami Insurance Ltd.
31. Desh Gen. Insurance Company Ltd.	32. Peoples Insurance Company Ltd.	33. Dhaka Insurance Ltd.
34. Eastern Insurance Company Ltd.	35. Phonix Insurance Company Ltd.	36. Union Insurance Company Ltd.
37. 13) Eastland Insurance Company Ltd.	38. Pioneer Insurance Company Ltd.	39. United Insurance Company Ltd.
40. 14) Express Insurance Ltd.	41. Pragati Insurance Ltd.	42. Sena Kalyan Insurance Company Ltd
43. Federal Insurance Company Ltd.	44. Paramount Insurance Company Ltd.	45. Sikder Insurance Company Ltd

Unfortunately, out of the mentioned 45 insurance companies, only 8 companies were published their annual report of 2020 on their websites. Therefore, the study has been focused on that 8 private non-life insurance companies and analysed their key financial of the year 2020. The selected 8 companies are listed below:

Table 2: Finally selected 8 insurance companies out of 45 companies

8 Selected private non-life insurance Companies of the study

- | | |
|----------------------------------|--|
| 1) Nitol Insurance Co. Ltd. | 2) Mercantile Insurance Co. Ltd. |
| 3) Agrani Insurance Company Ltd. | 4) Asia Pacific General Insurance Co. Ltd. |
| 5) Continental Insurance Limited | 6) Reliance Insurance Limited |
| 7) Crystal Insurance Co. Ltd. | 8) Green Delta Insurance Company Limited |

3.5 Data Analysis Tools

For the first time in Microsoft Excel, the financial information of the eight insurance firms is collected and the survey results are published under each ratio in the Excel Table. The results were afterwards included into the SPSS program on the basis of Excel analysis. It is crucial to emphasize in this context that SPSS is statistical software which offers multiple functions simultaneously. For instance, with a user-friendly interface SPSS analyses and understands our data and answer complicated commercial and research challenges. In order to efficiently grasp huge and complicated data sets, SPSS also uses advanced statistical methods to ensure the precision and quality of its decision-making. Finally, SPSS produces a comparative chart with each of eight insurance company ratios based on the ratio analysis of MS Excel, so that readers of the survey can clearly comprehend the difference between differences in financial performance.

3.6 Data Presentation Process

The findings and analysis chapter holds the presentation of data. The data are presented comparison of ratio among the eight insurance companies and interpreted as required. The ratios are separated into five section depending on their types. The sections are a) Profitability ratio; b) Liquidity Ratio; c) efficiency Ratio; d) solvency Ratio; and e) market Prospect Ratio.

Chapter 4

Findings and Analysis



4.1 Introduction of the Chapter

The chapter analyses the eight insurance companies by analysing and comparing their ratios (listed in Appendix). The ratios are collected in two ways. In the first way, it is searched that whether the ratios are directly given by the companies in their annual report' 2020. Then, for the rest of the ratios that are not directly found from the company's annual reports' 2020, are calculated by the designated formula of those ratios.

4.2 Ratio Analysis

Ratio analysis is a mathematical tool used to obtain information about a company's liquidity, operating efficiency, and profitability by checking financial statements such as balance sheets and income statements. There are several types of financial ratios, classified according to their importance to the various parts of the company's operations and their appeal to different audiences.



However, this study uses five different types of ratios to measure and compare the financial performance of eight insurance companies in 2020. These five ratios are profit ratio, liquidity ratio, solvency ratio, efficiency ratio and market outlook ratio.

4.3 Profitability Ratio

Profitability ratios are among the financial indicators used to assess a business's performance while creating profit in connection to its income, balance sheets, operating costs and investor's equity within a particular business accounting period. It demonstrates to investors how efficient the company is in using its assets to generate revenues.

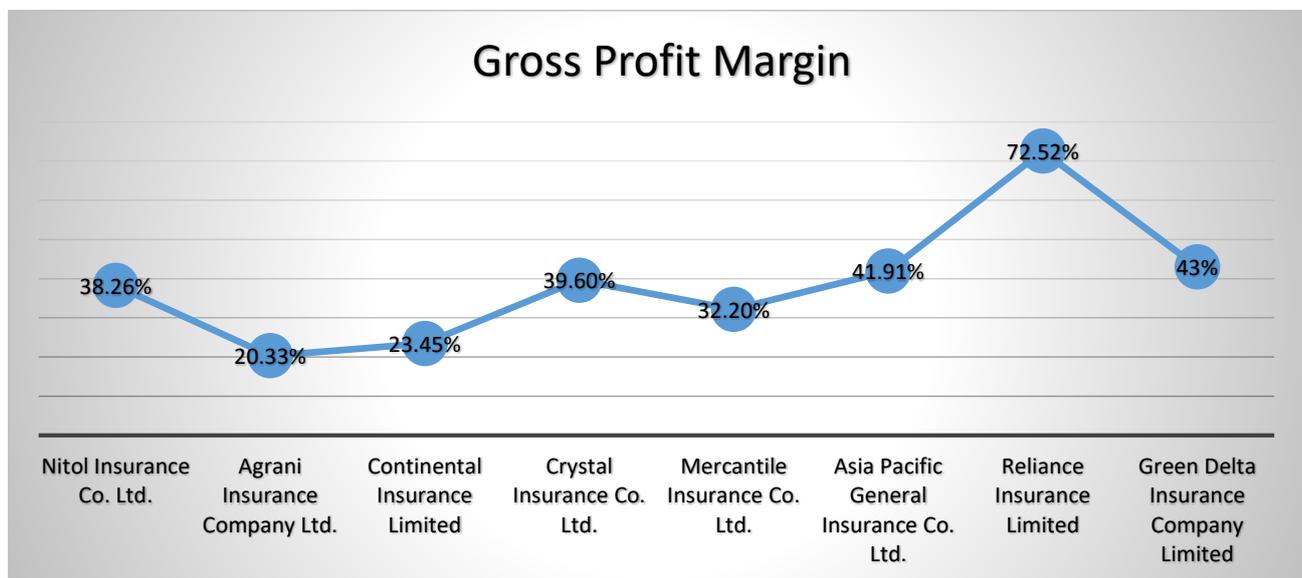
4.3.1 Gross Profit Margin

The gross profit margin represents the share of the company's gross profit in every dollar of revenue. The insurance business uses gross profit margin to measure manufacturing expenses related to revenue. To be clearer, gross margin refers to the proportion of every dollar of sales that remains after the business purchases goods. The basic formula is as follows:

$$\text{Gross Profit Margin} = \frac{(\text{Sales} - \text{Cost of Sales})}{\text{Sales}}$$

The higher the gross profit margin of an insurance company, the greater the flexibility of price and cost management in all business activities.

Figure 1: Comparison of the Gross Profit Margin Ratios of Eight Insurance Companies



Interpretation:

Figure 1 shows that Reliance Insurance, Green Delta Insurance, Asia Pacific General insurance, and Crystal Insurance have higher gross profit margin that indicates that these two companies are producing their product more efficiently than the other six insurance companies.

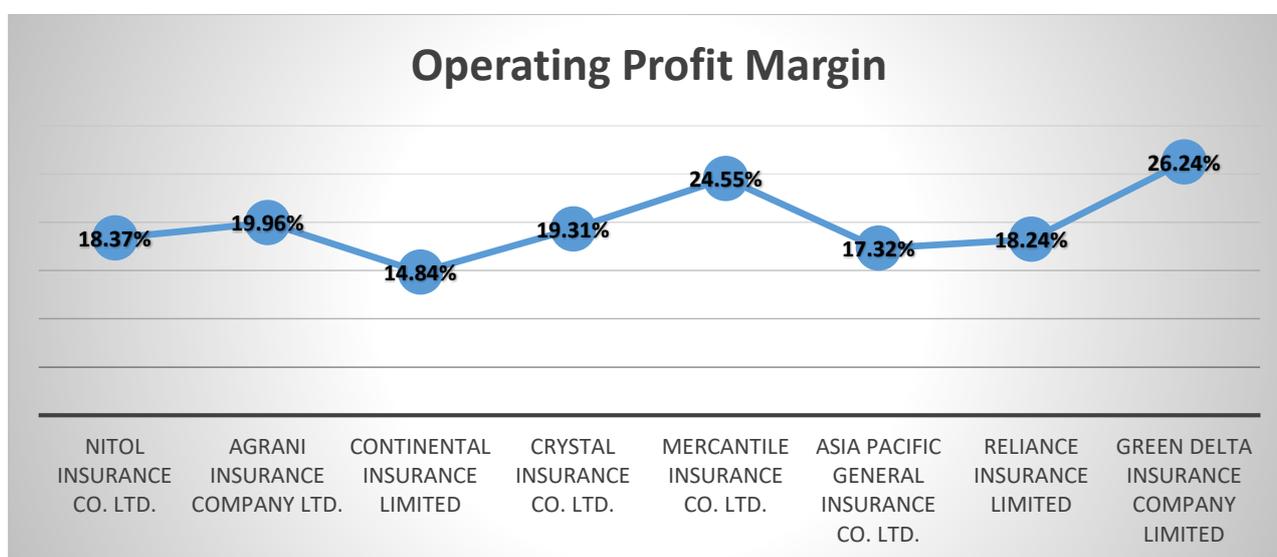
4.3.2 Operating Profit Margin

Operating profit margin is an important profit ratio for insurance companies because it helps measure the company's revenue after paying operating and non-operating expenses. Operating income is also called the sales rate of return, which reflects sales generated after all operating expenses are reimbursed.

However, after considering the actual costs of generating this revenue, the operating profit margin measures the company's profit per dollar of sales and shows the company's profit before interest and taxes are deducted. The higher the operating profit margin, the more flexible the company's prices will be. However, the level of cost control management that the organization has can also indicate this. The figure is calculated as follows:

$$\text{Operating Profit Margin} = \frac{\text{Operating Profit}}{\text{Sales}}$$

Figure 2: Comparison of the Operating Profit Margin Ratios of Eight Insurance Companies



Interpretation:

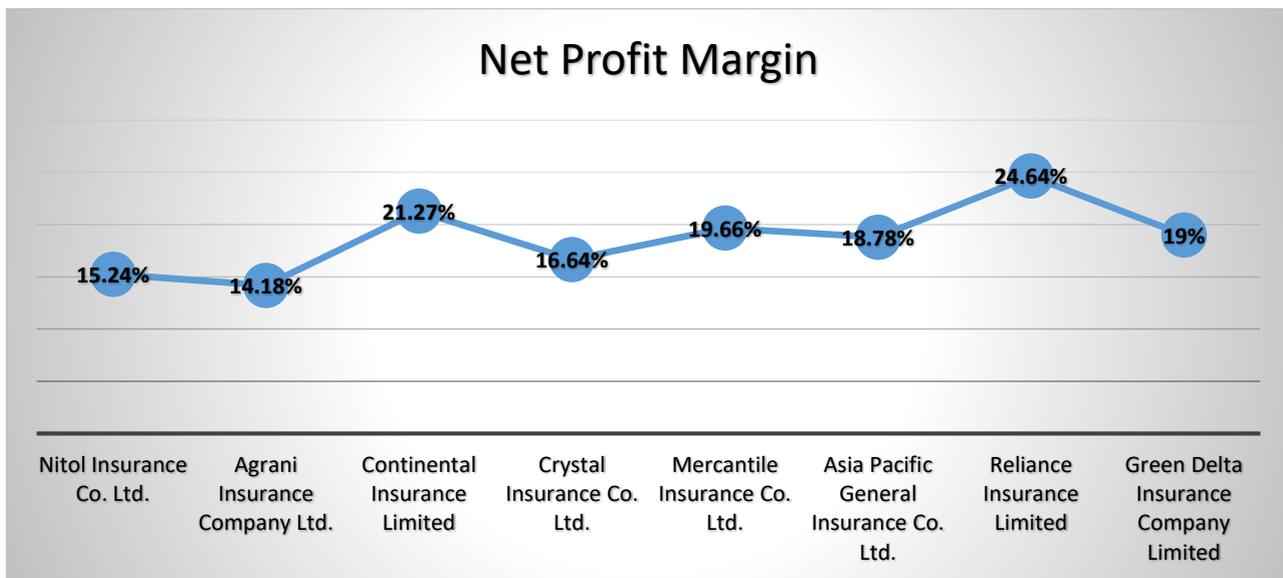
The operational profit margin in Crystal insurance, Mercantile, Agrani Insurance, and Green Delta insurances in Figure 2 showed that they are well managed and perhaps less risky than a company with a smaller operations margin, with a greater operating profit margin.

4.3.3 Net Profit Margin

Net profit margin or net profit margin measures net profit and profit as a percentage of profit. It is the relationship between the net profit and the income of a business or business sector. Generally, the net profit margin is expressed as a percentage, but it is also expressed as a decimal. The net profit margin shows the profit of the company per dollar of revenue. The higher the profit margin, the more flexibility the company will have in terms of pricing or operating cost management. The number of proportions is determined by the following formula:

$$\text{Net Profit Margin} = \frac{\text{Net profit}}{\text{Sales}}$$

Figure 3: Comparison of the Net Profit Margin Ratios of Eight Insurance Companies



Interpretation:

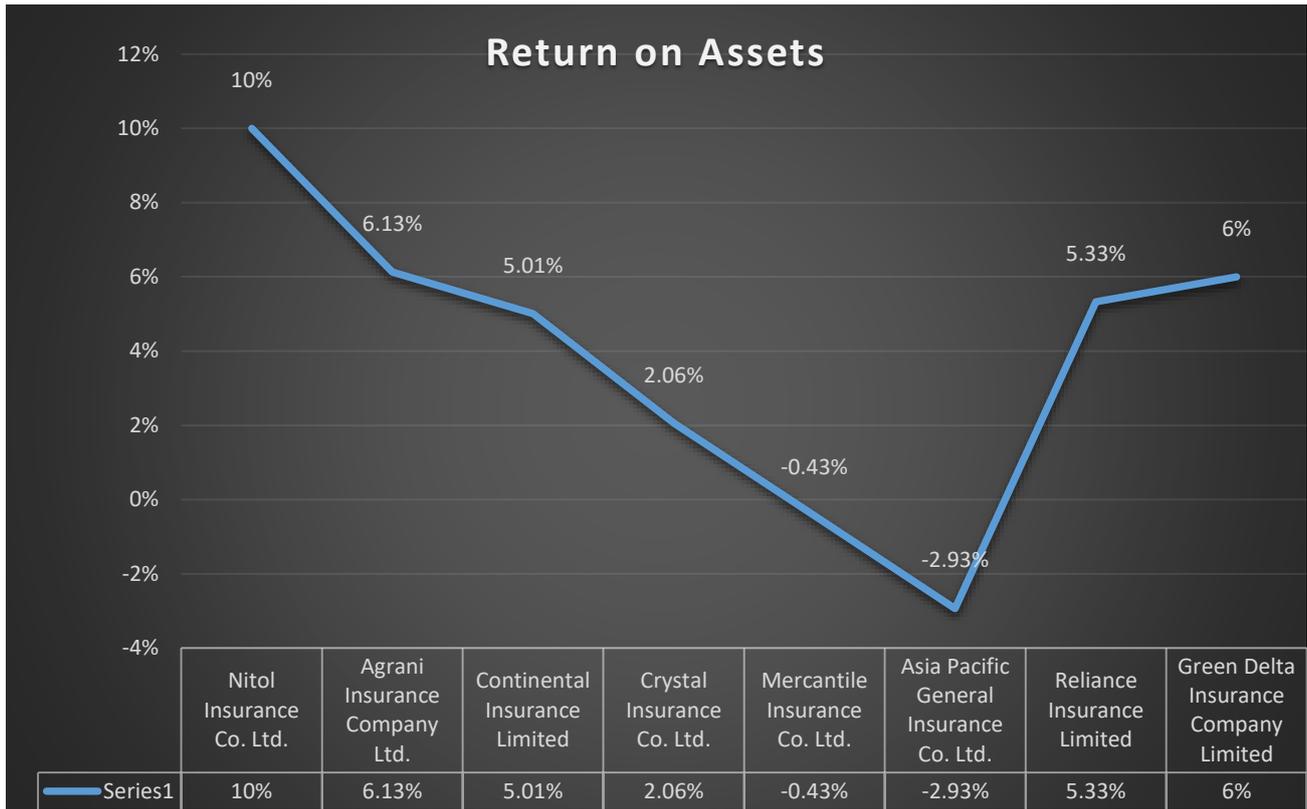
The net profit margin of each insurance company is good as it is considered to be excellent if it is more than 15% although it relies on the industry and the company structure. These high net profit margin shows that these companies effectively prices their products and have good cost control.

4.3.4 Return on Assets

Return on Assets (ROA) is a profitability ratio that analyses the net revenue generated by total assets during a period by comparing net revenues to the average total assets. This is sometimes referred to as the return on the total assets. In other words, the ROA assesses the efficiency of a company's assets to generate profits for a time. Because the main objective of firm assets is to revenue and profit, the ratio enables both managers and investors to understand how well their investment in assets can be transformed into profits. ROA is also viewed as the company's return on investment because capital assets for most businesses are frequently the biggest investment. In this situation, the corporation invests money in capital assets, with profits as the return. The formula for calculating ROA is:

$$\text{Return on Asset} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

Figure 4: Comparison of the ROA Ratios of Eight Insurance Companies



Interpretation:

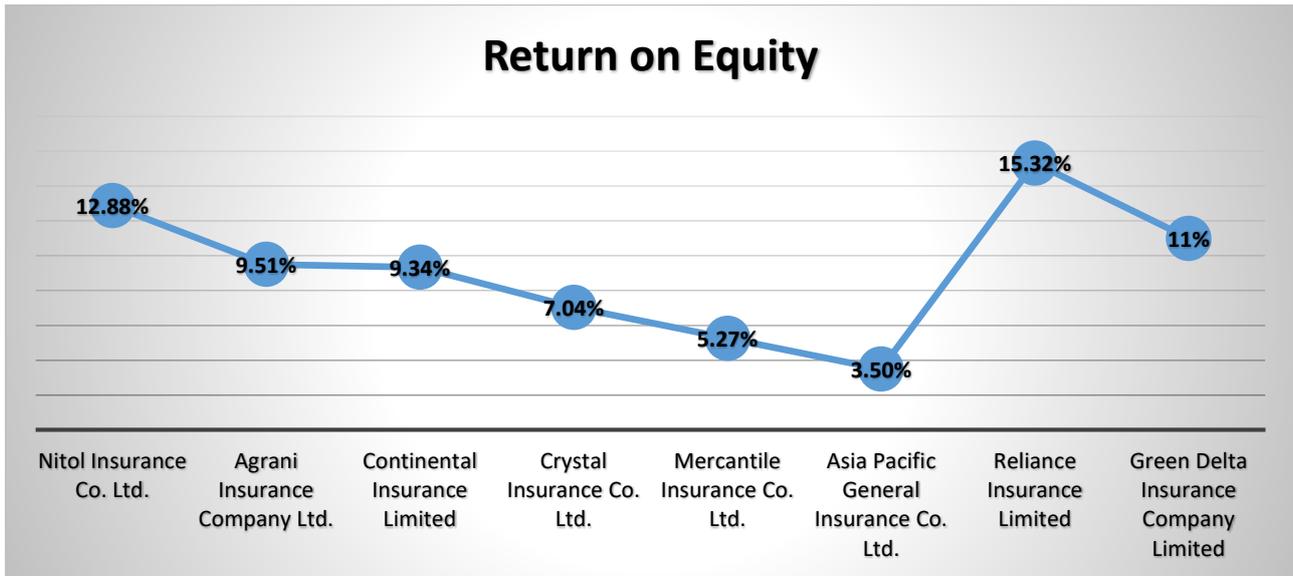
Figure 4 demonstrates that Nitol Insurance, Agrani Insurance, Reliance Insurance and Green Delta Insurance have higher Return on Assets (ROA). On the other hand, the Asia Pacific General Insurance and Mercantile Insurance have poor ROA that indicates the inefficiency of these companies' assets to generate profits for a time

4.3.5 Return on Equity

Return on Equity (ROE) is a financial performance indicator. Here, the ROE is derived by dividing the net income by the total shareholder's shareholding equity. As the equity of shareholders is equal to the assets of the company, less debt, the return of net assets is considered to be ROE. But the ROE assesses how many dollars each equity dollar creates profit. ROE is a measure of how an enterprise makes profitable use of its capital. The formula used to derive ROE is:

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Total shareholders' equity}}$$

Figure 5: Comparison of the ROE Ratios of Eight Insurance Companies



Interpretation:

We know that a ROE of over 12-15% is deemed optimal for a stable economy. However, numerous aspects including industry and the economic environment are very dependent on the link (macroeconomic risks, inflation, etc.). Figure 5 illustrates that the Reliance and Green Delta insurance company's position is good compared to the other insurance providers.

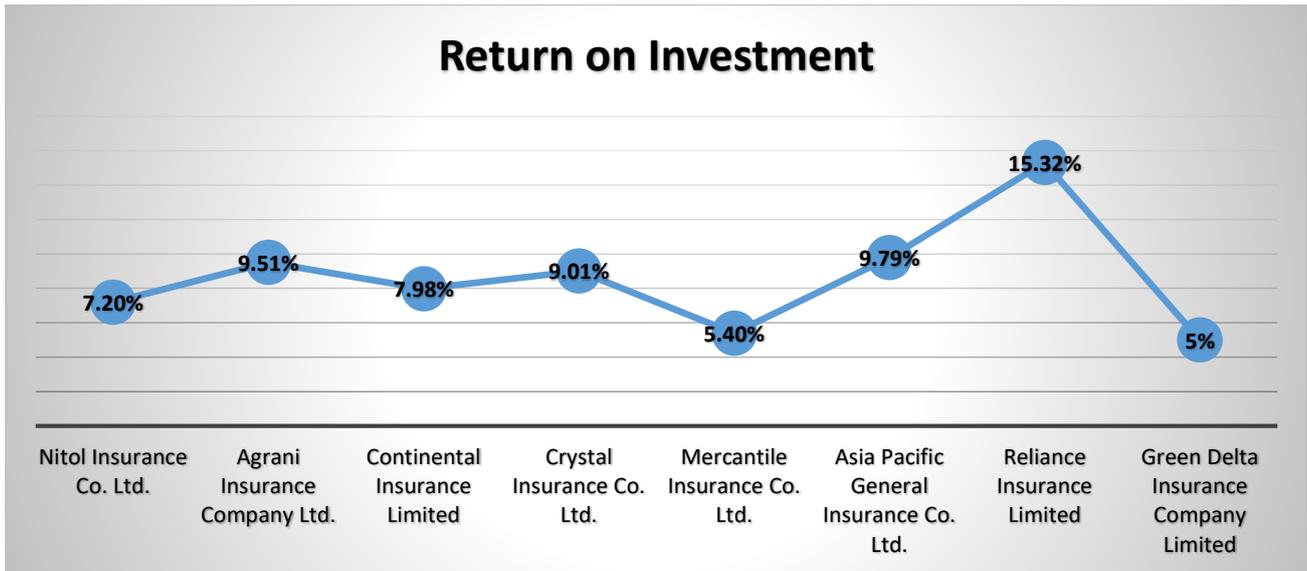
4.3.6 Return of Investment

Return on investment (ROI) is a measure of return on investment that is used to evaluate or compare the effectiveness of multiple investment activities. Return on Investment (ROI) The DuPont formula is widely used to determine return on investment. Investment income is calculated based on the net interest rate that increases the turnover rate of total assets. This indicator is crucial because it shows how the company can benefit from its assets. The basic formula is:

$$\text{Return on Investment} = \text{Total Asset Turnover} \times \text{Net Profit Rate}$$

DuPont allows companies to divide the return on their investments into sales and asset efficiency. Generally speaking, a company with a low net profit margin has a higher total asset turnover rate. The link between net profit margin and total asset sales is highly dependent on the company's industry.

Figure 6: Comparison of the ROI Ratios of Eight Insurance Companies



Interpretation:

Among the eight insurance companies, Reliance insurance companies will provide the highest return on investors' investments, while Green Delta Insurance is among the least who will generate less ROI.

4.4 Liquidity Ratio

The liquidity ratio assesses the company's ability to repay loans and the margin of safety by analysing indicators such as the current ratio, the quick ratio, and the cash flow ratio. To define more specifically, liquidity ratio is essentially a financial indicator that investors can use to assess the company's ability to pay off debt when it matures. In other words, it shows us whether a company's existing assets are sufficient to pay its liabilities.

In other words, it shows us whether a company's existing assets are sufficient to pay its liabilities. Both the current ratio and the quick ratio are considered liquidity ratios, which measure the ability of a company to meet its current financial obligations. The current ratio includes all current assets, while the fast ratio only includes fast assets or current assets.

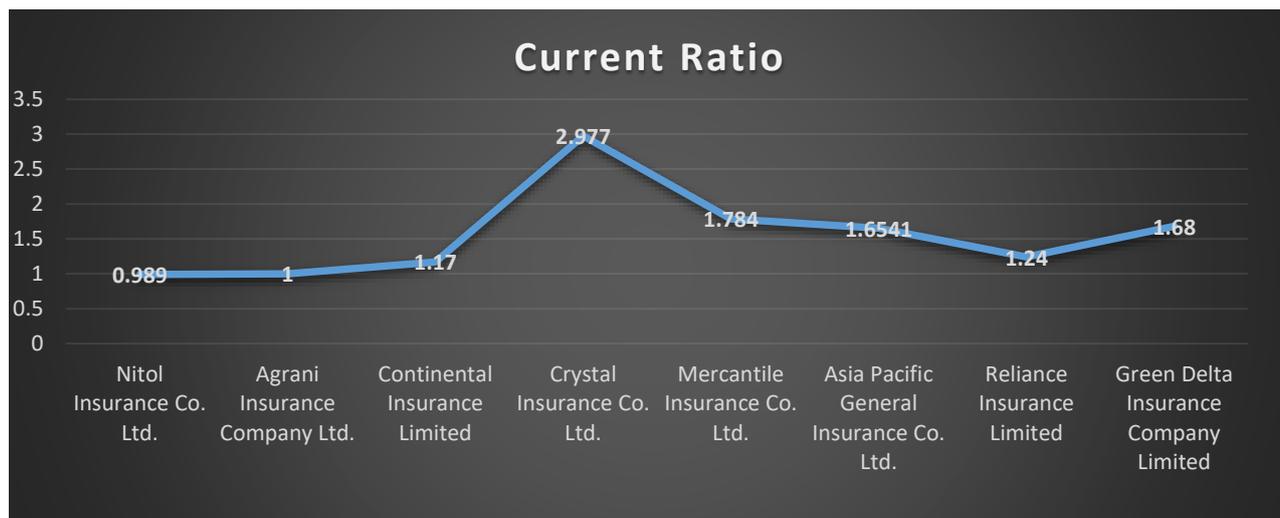
4.4.1 Current Ratio

The current ratio is a liquidity ratio used to measure whether a company has sufficient resources to fulfil its obligations in the short term. It compares the company's existing assets with its current obligations. It shows the liquidity of the company. Currently acceptable ratios vary by industry and industry. In many cases, the lender will think that a high current ratio is better than a low current ratio because the company is more likely to repay the lender with a

higher current ratio. For investors, a large current ratio is not always a good sign. If the company's current ratio is too high, it may indicate that its existing assets or short-term financing arrangements have not been effectively utilized. However, the formula for the current ratio is expressed as follows:-

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Figure 7: Comparison of the Current Ratios of Eight Insurance Companies



Interpretation:

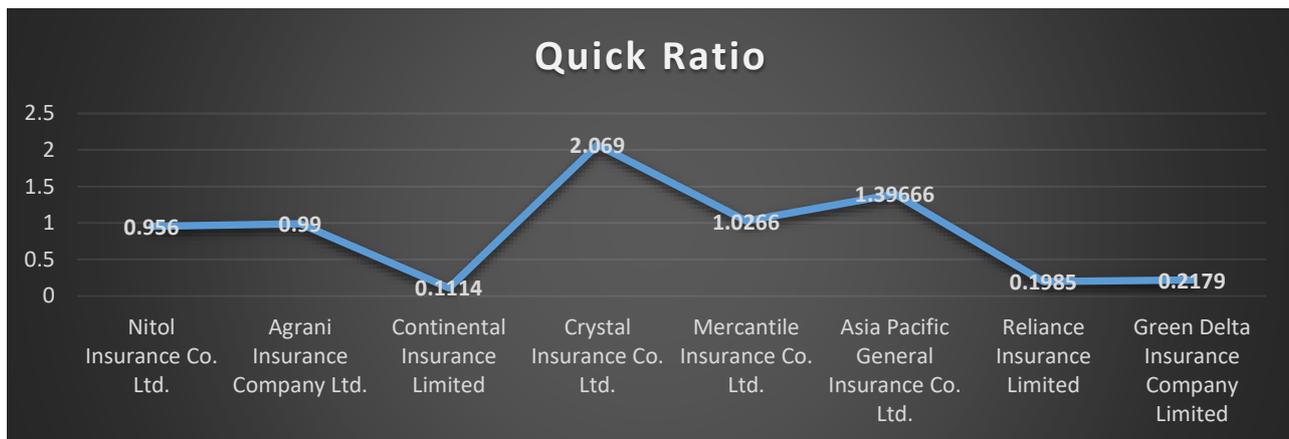
The current ratio of Crystal, Mercantile and Asia Pacific General Insurance, and Green Delta Insurance are shown in a good position in Figure 7. Agrani Insurance is accepted, as are Continental Insurance and Reliance Insurance. But Nitol Insurance's current ratio is below 1 or below the industry norm, thus the danger of distress or default may be increased.

4.4.2 Quick Ratio

Within finance and accounting, the quick ratio, also called the acid test ratio, is a kind of liquidity ratio that gauges a company's capacity to employ its near cash or fast assets such that its current liabilities are eliminated or withdrawn rapidly. It is defined as a ratio of fast-paced or cash assets to current liabilities. Quick assets are current assets which can be exchanged in cash near to book values presumably rapidly. The quick ratio is comparable to the current ratio, but gives a more conservative evaluation of the liquidity of companies, because it eliminates inventory and stock, as they do not seem to be adequately liquid. However, the formula for the Quick ratio is expressed as follows:-

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory} - \text{Prepaid Expenses}}{\text{Current Liabilities}}$$

Figure 8: Comparison of the Quick Ratios of Eight Insurance Companies



Interpretation:

Figure 8 shows that the quick ratio of all enterprises is below one. These low quick ratios are alarming. These insurance companies have less liquid assets than liabilities. A low ratio could suggest that these insurance companies are slowly selling, receivables numerous and badly collected.

4.5 Efficiency Ratio

To measure short-term performance or current performance, analysts use efficiency ratios, also known as activity ratios. The company's activities are quantified using information on the company's current assets or liabilities through all these ratios.

In addition, the efficiency ratio assesses the company's ability to generate revenue through the use of its assets. For example, the efficiency index often checks many areas of the business, such as the time it takes to collect cash from customers or the time it takes to convert inventory into cash. This places great emphasis on efficiency ratio, because better efficiency usually means higher profitability. However, these ratios can be compared with peers in the same industry and can identify companies that perform better than other companies. Some common efficiency ratios are Inventory turnover ratio; fixed asset turnover rate; accounts receivable turnover rate; sales to net working capital; and accounts payable to sales ratio.

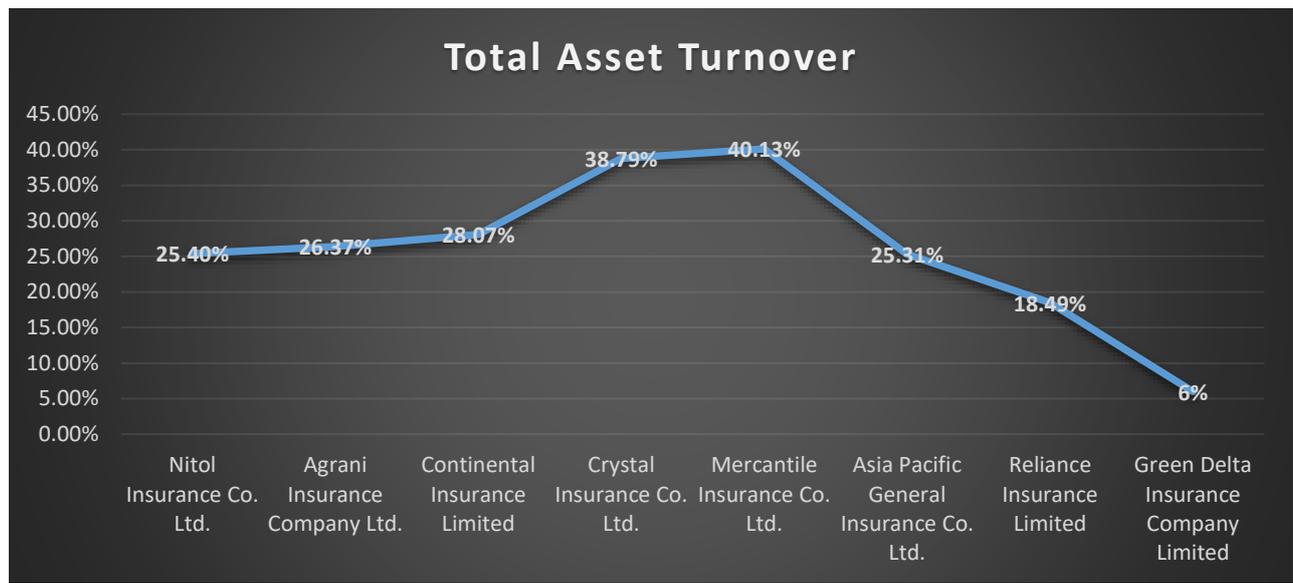
4.5.1 Total Asset Turnover

Total asset turnover (ATO), also known as asset sales or asset turnover, is a financial ratio that measures the effectiveness of a company using its assets to create sales or sales revenue

for the company. Asset turnover rate is the activity ratio that measures the efficiency of the use of assets by an enterprise, and is a set of financial ratios. An additional part of asset turnover can be divided into fixed asset turnover, which measures the company's use of its fixed assets to generate income, and working capital turnover, which measures the company's use of its current assets minus its income-generating liabilities. The following formula is:

$$\text{Total Assets Turnover (ATO)} = \frac{\text{Net Sales (Net Premium)}}{\text{Total Assets}}$$

Figure 9: Comparison of the Total Asset Turnover Ratios of Eight Insurance Companies



Interpretation:

Figure 9 illustrates that Mercantile Insurance and Crystal Insurance have a greater ATO ratio, which is a positive sign because it suggests a more efficient use of assets. The other six, on the other hand, have a lower ratio, indicating that the corporations are not employing their assets as efficiently. This could be due to excess production capacity, ineffective collecting procedures, or ineffective inventory management.

4.5.2 Fixed Asset Turnover (FAT)

The Fixed Asset Turnover (FAT) ratio shows the company's efficiency in generating fixed asset sales. A higher ratio means that management uses its fixed assets more efficiently. A strong FAT ratio has nothing to do with the company's ability to generate substantial profits or cash flow. However, not all sectors' optimal ratios are considered benchmarks. Instead, investors should compare the company's fixed asset turnover with that of other companies in the same industry. When a company's fixed asset sales ratio is higher than that of its competitors, it

indicates that the company uses its fixed assets to generate better sales than its competitors. The formula for fixed asset turnover rate (FAT) is:

$$\text{Fixed Asset Turnover Ratio} = \frac{\text{Net Revenue}}{\text{Net Fixed Assets}}$$

Figure 10: Comparison of the Fixed Asset Turnover of Eight Insurance Companies



Interpretation:

According to figure 10, Asia Pacific General Insurance, Reliance Insurance, and Crystal Insurance have higher FAT ratios, indicating that these organizations make good use of their current assets. The rest of the five companies, on the other hand, have a low ratio, which indicates either low sales or that the companies have over-invested in property or equipment that isn't boosting the bottom line.

4.6 Solvency Ratio

The solvency ratio is an index determined from the perspective of long-term solvency and used to assess the financial situation of the company. These ratios assess the company's ability to repay long-term bonds, and investors carefully monitor them to understand the company's ability to pay long-term liabilities and to help them decide on long-term investments in the company.

The solvency ratio assesses the company's ability to pay off long-term debt. It is important to note that the relationship between shareholder funds (owners' equity) and total liabilities determines the solvency of the organization. Compared to the other liabilities of the

organization, the more the funds from the shareholders, the greater the solvency of the company, and vice versa.

4.6.1 Debt Ratio

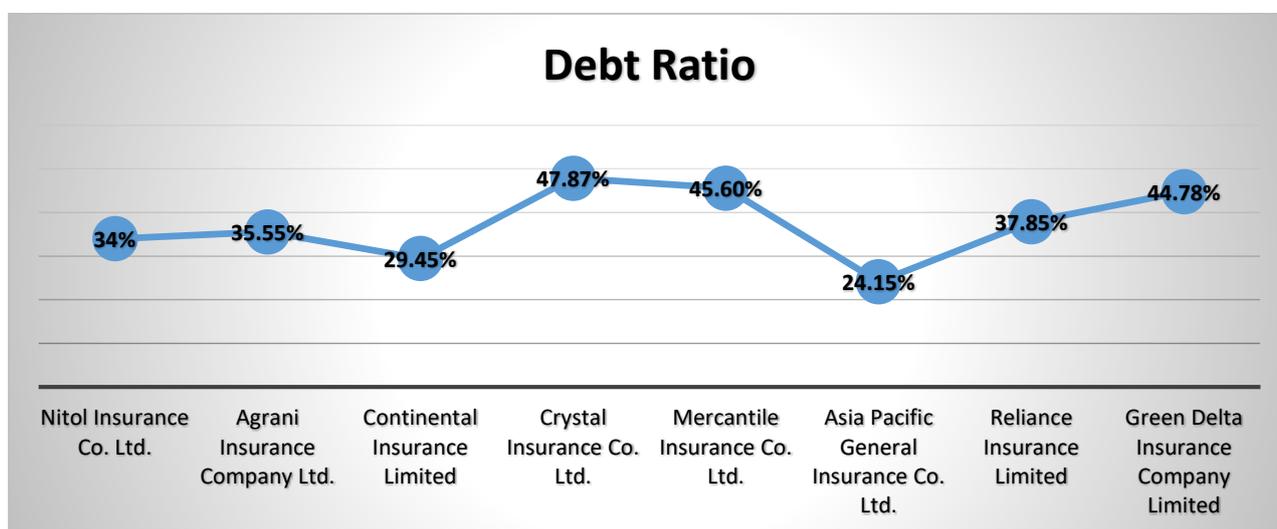
The debt ratio measures the total debt and the proportion of the debt portion of the company's balance sheet. These indicators are generally used to compare the performance of a company over a period of time.

The insurance company evaluates the share of the total assets provided by the company's creditors. The debt ratio is calculated by dividing total liabilities by total assets. The higher the ratio, the higher the level of financing from foreign creditors. This shows that creditors have higher leverage (debt) and higher risks. The basic formula is:

$$\text{Debt Ratio} = \text{Total Liabilities} / \text{Total Assets.}$$

When calculating debt ratios based on financial performance for the previous four quarters, companies generally ignore short-term debt (such as current liabilities).

Figure 11: Comparison of the Debt Ratios of Eight Insurance Companies



Interpretation:

Debt ratios of 40% or below are generally considered preferable, whereas debt ratios of 60% or higher make borrowing money more difficult. Figure 11 shows that Crystal Insurance, Mercantile Insurance and Reliance insurance have the higher debt ratio among the eight companies that refers that borrowing money will be difficult for these three companies in future.

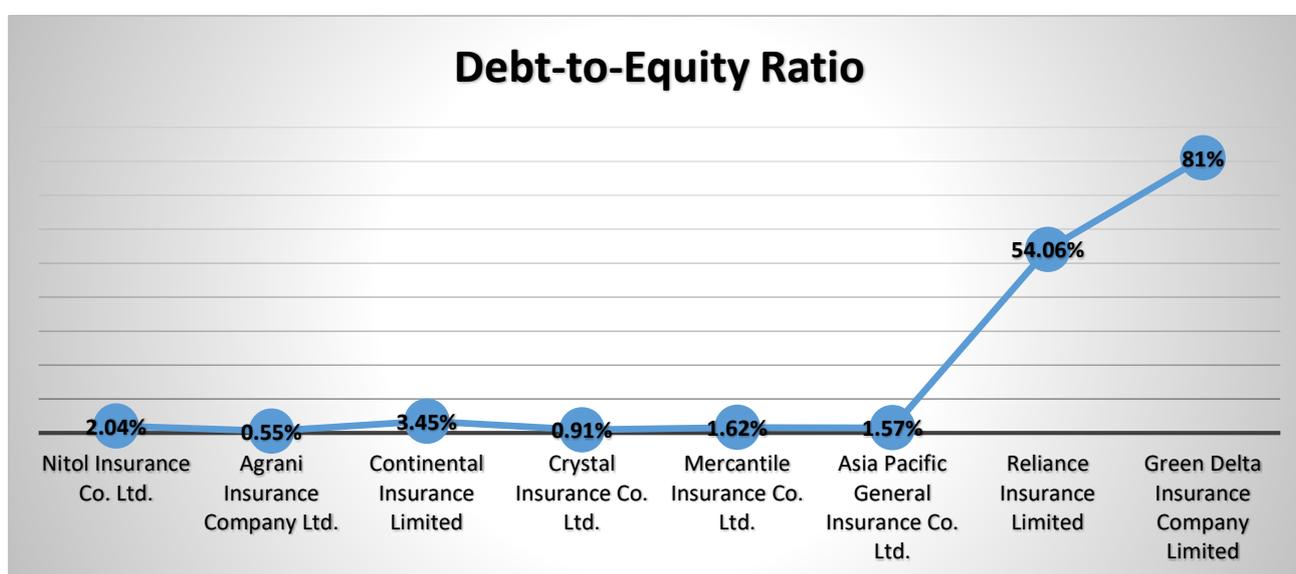
4.6.2 Debt to Equity

This ratio is the ratio of the debt on the company's balance sheet to the amount of funds provided by the owner. Insurance companies in Bangladesh only use long-term debt to measure performance by total equity. The basic formula is as follows:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholders' Equity}}$$

Low debt-to-equity ratio refers to the reduction in lender debt financing compared to equity financing. A higher ratio indicates that the company obtains more financing through indebtedness, and if the level of indebtedness is too high, this will put the company at risk.

Figure 12: Comparison of the Debt to Equity Ratios of Eight Insurance Companies



Interpretation:

Green Delta Insurance and Reliance Insurance have excessive debt to equity ratios, which indicates that these two companies may be in financial difficulties and unable to pay their lenders. On the other hand, because the Debt to Equity ratio of the remaining companies is comparatively too low, which is less than 5%, these companies may be costly and inefficient.

4.6.3 Equity Ratio

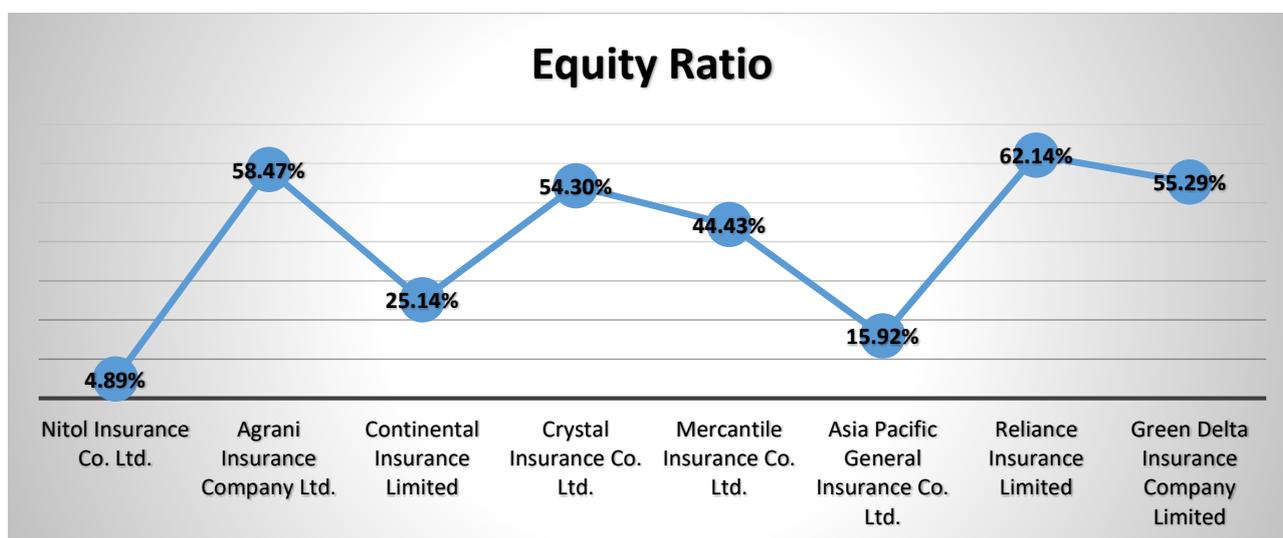
The equity ratio measures the level of leverage a company uses. The company uses asset investment and equity levels to assess how well the company manages its debt and provides funding for its asset needs. In addition, the share of shareholder's equity is expressed in terms

of total shareholder's equity and calculated as a percentage of the company's total assets. The result is the sum of assets in which shareholders have residual rights.

In addition, the equity ratio emphasizes two key components of a solvent and sustainable corporate financing concepts. The first component shows how many investors control all the company's assets. In other words, once all debts are repaid, investors will eventually own the remaining assets. The second part explains how the company uses debt. The capital ratio measures the number of assets in an investment. In other words, this is the investor's share of the company. The formula is:

$$\text{Equity Ratio} = \frac{\text{Total Equity}}{\text{Total Assets}}$$

Figure 13: Comparison of the Equity Ratios of Eight Insurance Companies



Interpretation:

We know that the higher the equity ratio, the more likely it is that money is being managed correctly and that the company will be able to pay off its debts on time. Figure 13 demonstrates that Nitol Insurance, Continental Insurance, and Asia Pacific Insurance are not managing their capital well, and these companies are comparatively less capable of repaying their loans on time.

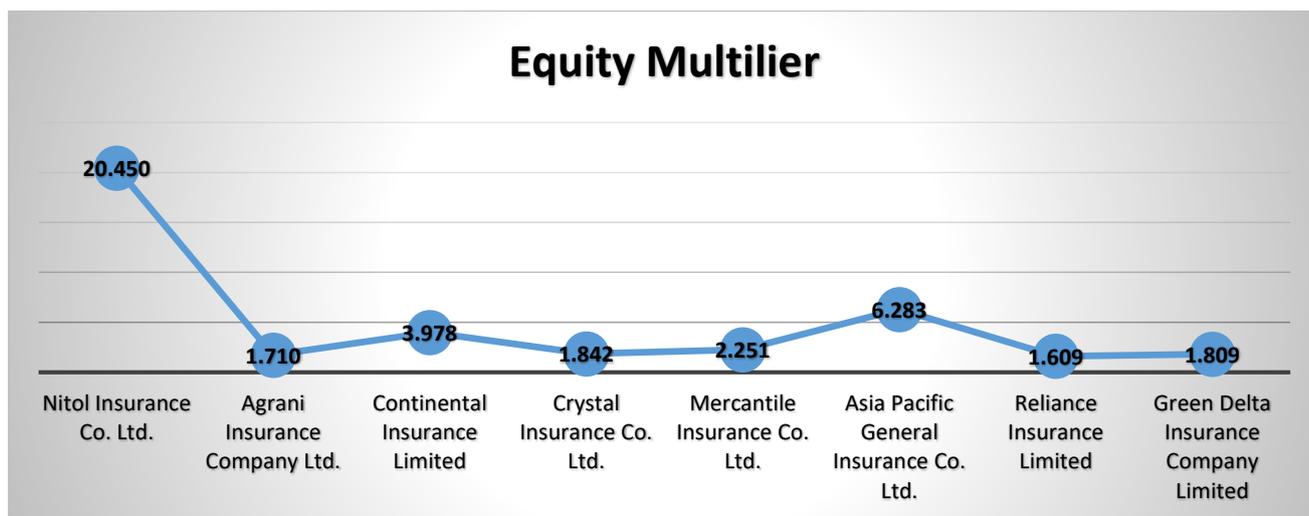
4.6.4 Equity Multiplier

The equity multiplier is a risk indicator used to evaluate the proportion of company assets that are financed not through debt but through equity. The entire asset value should be estimated by dividing by the total shareholder value of the company. Generally speaking, a high equity

multiplier indicates that a company uses a large proportion of debt to finance its assets. The company's dependence on debt decreases with a lower stock multiplier. The formula for calculating the equity multiplier is:

$$\text{Equity Multiplier} = \frac{\text{Total Assets}}{\text{Total Shareholders' Equity}}$$

Figure 14: Comparison of the Equity Multiplier Ratios of Eight Insurance Companies



Interpretation: In terms of equity multiplier, Nitol Insurance Company Limited is the most hazardous of the eight insurance businesses. Asia Pacific Insurance Company Limited is the second dangerous company. These two corporations are considered hazardous since their equity multiplier is higher, and we know that a higher equity multiplier indicates that more assets are funded by debt rather than equity.

4.7 Market Prospect Ratio

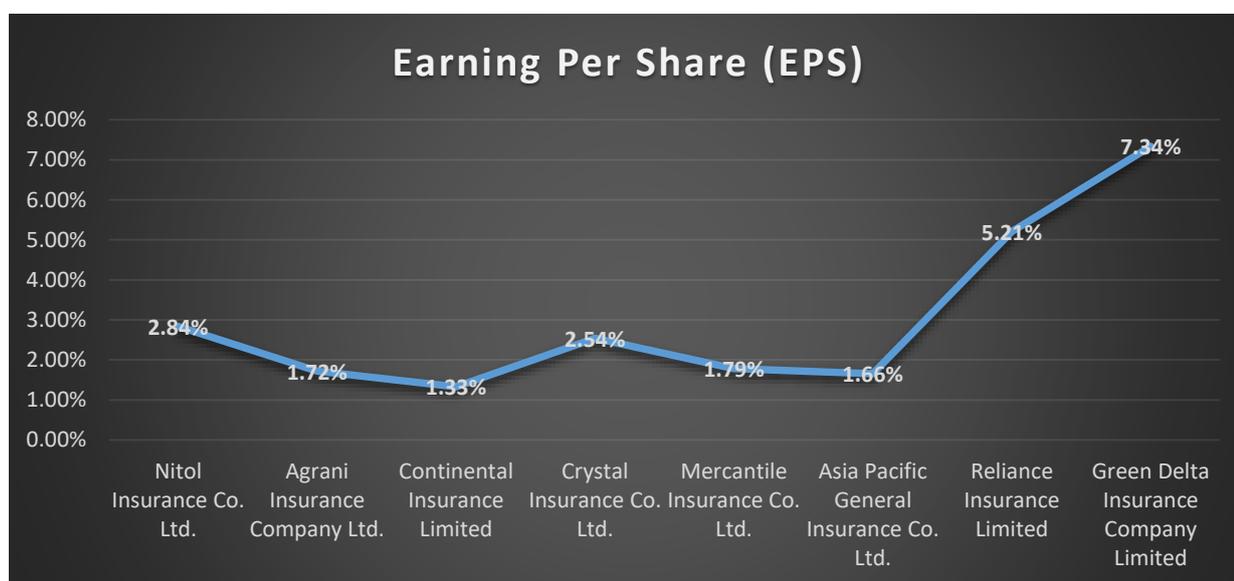
The Market prospect ratios are used to compare with other financial measures, such as the profit and dividend rate of publicly traded companies. To study changes in company prices and help reduce current and future stock values, investors use market prospect ratio analysis. In other words, the Market Outlook Index shows investors what their investment expects to receive. You can receive future dividends, income, or just the value of the shares that are being valued. These ratios help investors predict how high the company will be priced based on current earnings and future dividend assessments. For example, the downward trend in earnings per share and dividend yield indicates that there is a problem with profitability and may even cause ongoing operational problems. All of these problems point to lower inventory evaluations.

4.7.1 Earnings per share

As far as the income of insurance companies is concerned, earnings per share (EPS) is an indispensable indicator. It will be based on the number of shares the company trades on the stock exchange divided by the amount of profit during the period. EPS determines the value associated with each outstanding share of the company. The profitability of a company and the number of shares listed on the market may be different, making earnings per share a per capita valuation of each company. Analysts can also compare companies and find out which numbers are the most profitable. Earnings per share are measured by the company's currency earnings per share. The basic formula is calculated as follows:

$$\text{Earnings per share: } \frac{\text{Net Income after Tax}}{\text{Total Number of Outstanding Shares}}$$

Figure 15: Comparison of the Earnings Per Share of Eight Insurance Companies



Interpretation:

The EPS Share is highest for Green Delta Insurance Company which is 7.34%. Reliance Insurance' EPS is 5.21% which is in second position. The last among the eight insurance companies in terms of earning lower per share is Continental Insurance Limited.

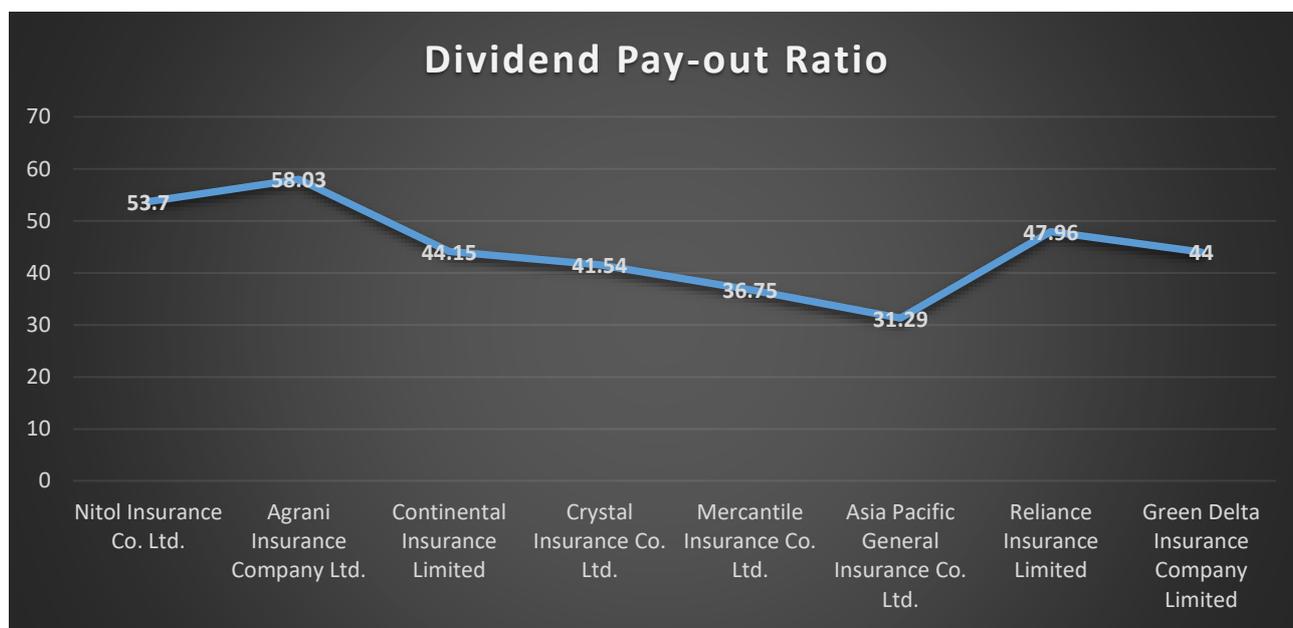
4.7.2 Dividend Pay-out Ratio

The dividend pay-out ratio, which can often be simply referred to as the pay-out ratio, is a financial measure that helps investors understand the total dividends delivered to shareholders as it relates to the company's net income. In other words, shareholder receipts in the form of dividends represent the percentage of the company's profits. Generally, money that is not paid

in dividends returns to the corporation for debt repayment or reinvestment in core businesses. The formula for calculating the dividend pay-out ratio is:

$$\text{Dividend Pay-out Ratio} = \text{Dividends} / \text{Net Income}$$

Figure 16: Comparison of the Dividend Pay-out Ratios of Eight Insurance Companies



Interpretation:

Shareholders of Agrani Insurance Limited and Reliance Insurance Limited receives most of the pay-out by 58.03% and 47.96% respectively in the form of dividends represent the percentage of the company's profits compared with the other six insurance companies.

4.7.3 Price Earning (P/E) Ratio

The price-to-earnings ratio, commonly referred to as the price-to-earnings ratio or price-to-earnings ratio, is a forward-looking statistical data that is calculated by comparing the value of each stock market with the company's profit and its earnings. In other words, the price-to-income ratio indicates that the market is willing to pay for an investment based on its current income.

Investors usually use this ratio to estimate the fair value of a company by predicting future earnings per share. Companies with higher future earnings generally expect to generate more dividends or stocks in the future. This price-to-earnings ratio helps investors check how much stocks should be paid based on their current income. This is why the ratio of profit to return is often referred to as multiple price or profit. Investors use this ratio to evaluate the value of

multiple returns. That is, how often they are prepared to pay income. The formula used to calculate the P/E ratio is:

$$\text{Price-to-Earnings Ratio} = \text{Market Value per Share} / \text{Earnings Per Share (EPS)}$$

Figure 17: Comparison of the Price Earnings Ratios of Eight Insurance Companies



Interpretation:

Among the eight insurance companies, Agrani Insurance Company’ P/E ratio is the highest. The second most earning company is Reliance Insurance Limited, following Green Delta Insurance Company Limited.

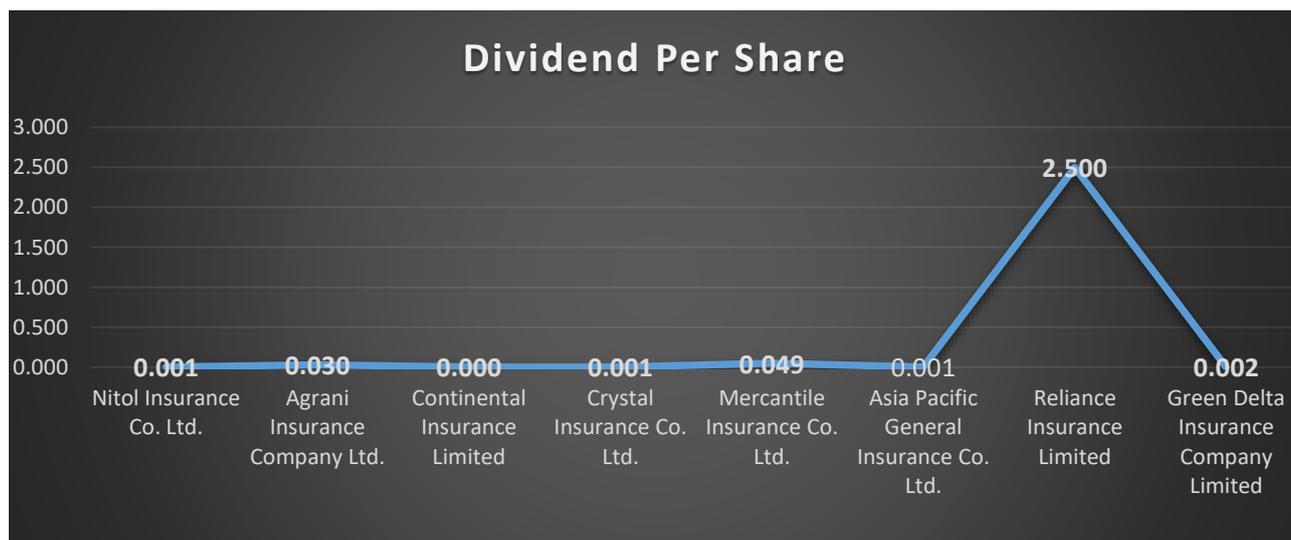
4.7.4 Dividend per Share (DPS)

The term dividend per share (DPS) refers to the total dividends paid by the company over a 12-month period divided by the total number of shares outstanding. Companies divide profits with their shareholders through this calculation. DPS can reflect the profitability of the company during the financial year and inform investors about the historical financial status of the company and current financial stability.

The amount of dividends paid by a company directly translates into shareholder income, with the DPS being the simplest number an investor can use to calculate the dividends paid by an investor for owning shares. At the same time, the DPS increase may also show that management believes it can sustain its earnings growth. The formula to calculate the DPS is:

$$\text{DPS} = (\text{Total Dividends Paid During A Period} - \text{Any Special Dividend}) \div (\text{Shares Outstanding})$$

Figure 18: Comparison of the DPS Ratios of Eight Insurance Companies



Interpretation:

Among the eight insurance companies, Reliance Insurance Limited provide the most dividend per share, following the Mercantile Insurance Co. Ltd. Rest of the companies share dividend to their investors from zero to .049%.

Chapter 5

Recommendations and Conclusion



5.1 Recommendations

For the betterment of the insurance industry of Bangladesh, the following recommendations are suggested:

5.1.1 Improving Liquid Assets:

As mentioned earlier, the liquidity ratio measures a company's ability to repay its existing liquidity with existing assets. Insurance companies can increase their liquidity ratios by using sweeping accounts, reducing management fees, and repaying liabilities in a variety of ways. Therefore, to rapidly increase insurance company's liquidity ratio, companies can use the sweep account to transfer funds to higher interest rate accounts when they are not needed and back to easily accessible accounts when needed. Paying down debts can also quickly increase the insurance companies' liquidity ratio and reduce short-term management expenses such as rent, labour, and marketing.

5.1.2 Controlling the Debts:

Insurance companies should keep their debt at a manageable level as it is one of the foundations of good financial health. Fortunately, there's a way to estimate if the companies have too much debt without waiting until they realize they can't afford their monthly payments or their credit score starts slipping. If the debt-to-equity ratio reaches 80%, it may indicate financial difficulties. At this time, the lender may not want to grant you a loan or increase the credit limit. Here are some tips for reducing your debt-to-equity ratio:

- a) **Pay off any loan:** When you pay off the loan, the ratio begins to balance out. Make sure you don't incur additional debt, as this will increase your debt-to-equity ratio.
- b) **Debt restructuring:** If you have a high-interest loan, consider refinancing your existing debt. Restructuring when current market interest rates are low can help reduce the overall debt-to-equity ratio.
- c) **Improve inventory management:** Effective business inventory management ensures that no money is wasted. Make sure your inventory level does not exceed the level required to complete the order.
- d) **Improve profitability:** To increase the profitability of the business, work hard to increase sales revenue and reduce costs.

5.1.3 Excessive Cost Reduction:

Management must take corrective action to reduce expenses to a more acceptable and controlled level. An insurer with a high expense ratio should not allow today's high administration costs and should make every effort to reduce them in the shortest period possible to about 20 to 30 percent of total premium income. Over the next few years, the increase in management spending should slow to a premium growth rate of at least 10 percent. Current levels of supervision can be guaranteed by lowering them.

5.2 Conclusion

The aim of this study is to analyse the insurance industry's financial performance. The study chosen eight non-life private insurance companies who published their annual report in the 2020. Based on the collected information from the annual reports, the study analysed and compared some interesting findings.

Reliance Insurance, Green Delta Insurance, Asia Pacific General Insurance, and Crystal Insurance have greater gross profit margins in terms of profitability ratio. Crystal Insurance, Mercantile Insurance, Agrani Insurance, and Green Delta Insurance have well-managed operating margins, and their risks may be lower than those of companies with lower operating margins but higher operating margins. Finally, all insurance businesses have a good net profit margin. Furthermore, Nitol Insurance, Agrani Insurance, Reliance Insurance, and Green Delta Insurance have greater Return on Assets (ROA); Reliance and Green Delta Insurance have higher Return on Equity (ROE); and Reliance insurance company will provide the highest return on investors' investments.

In terms of Liquidity Index, the current index of Crystal, Mercantile and Asia Pacific General Insurance and Green Delta Insurance are shown in a good position; while the quick ratio displays an alarming situation that all insurance companies have less liquid assets than liabilities.

In terms of efficiency ratings, Mercantile Insurance and Crystal Insurance have higher ATO ratings; Asia Pacific General Insurance, Reliance Insurance and Crystal Insurance have higher fixed asset turnover ratings.

In terms of solvency ratios, Crystal Insurance, Continental Insurance, and Reliance Insurance have higher debt ratios; Green Delta Insurance and Reliance Insurance have excessive debt-

to-equity ratios; and Nido Insurance, Continental Insurance and Asia Pacific Insurance have poor fund management. The ability to repay loans on time is relatively low. In addition, the stock multiplier ratio determined that Nitol Insurance Company Limited is the most dangerous of the eight insurance companies.

In terms of market prospect indices, Green Triangle Insurance has the largest share of earnings per share; the shareholders of Agrani Insurance Limited and Reliance Insurance Limited receive the majority of the dividends; Agrani Insurance has the highest P/E ratio.

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Appendix

Figure 19. Financial ratios of insurance companies

Company Name	Current Ratio	Quick Ratio	Gross	Operating	Net	ROI	ROA
			profit Margin	Profit Margin	profit Margin		
Nitol Insurance Co. Ltd.	0.989	0.956	38.26 %	18.37%	15.24 %	7.20%	10%
Agrani Insurance Company Ltd.	1	0.99	20.33 %	19.96%	14.18 %	9.51%	6.13%
Continental Insurance Ltd.	1.17	0.1114	23.45 %	14.84%	21.27 %	7.98%	5.01%
Crystal Insurance Co. Ltd.	2.977	2.069	39.60 %	19.31%	16.64 %	9.01%	2.06%
Mercantile Insurance Co. Ltd.	1.784	1.0266	32.20 %	24.55%	19.66 %	5.40%	-0.43%
Asia Pacific General Insurance Co. Ltd.	1.6541	1.3966	41.91 %	17.32%	18.78 %	9.79%	-2.93%
Reliance Insurance Limited	1.24	0.1985	72.52 %	18.24%	24.64 %	15.32 %	5.33%
Green Delta Insurance Company Limited	1.68	0.2179	43% %	26.24%	19% %	5% %	6%

Company Name	ROE	EPS	DPS	Debt-	Equity Ratio	Debt Ratio
				Equity Ratio		
Nitol Insurance Co. Ltd.	0.1288	0.0284	0.00052	9	0.0204	0.34
Agrani Insurance Company Ltd.	0.0951	0.0172	0.00030	0.02964	0.0055	0.3555
Continental Insurance Limited	0.0934	0.0133	0.00061	1	0.0345	0.2945
Crystal Insurance Co. Ltd.	0.07036	-0.0254	1	0.009109	0.543	0.4787
Mercantile Insurance Co. Ltd.	0.05266	0.0178	0.04857	1	0.4442	0.4559
	7	5	1	0.016159	5	5

Asia Pacific General Insurance Co. Ltd.	0.034967	0.01656	0.000529	0.0156717	0.15915	0.24146
Reliance Insurance Limited	0.1532	0.0521	2.5	0.5406	0.6214	0.3785
Green Delta Insurance Company Limited	0.11	0.0734	0.001668	0.81	0.5529	0.4478

Company Name	Equity Multiplier	Fixed asset turnover Ratio	Total asset turnover Ratio	Price Earning Ratio (PER)	Dividend Payout Ratio
Nitol Insurance Co. Ltd.	20.44989775	0.0189	0.254	2.477	53.7
Agrani Insurance Company Ltd.	1.710278775	0.0147	0.2637	20.66	58.03
Continental Insurance Limited	3.977724741	0.0066	0.2807	1.29	44.15
Crystal Insurance Co. Ltd.	1.841620626	-0.3879	0.3879	4.78	41.54
Mercantile Insurance Co. Ltd.	2.250984806	0.21175	0.40125	3.1865	36.75
Asia Pacific General Insurance Co. Ltd.	6.283380459	0.49164	0.25312	1.6404	31.29
Reliance Insurance Limited	1.609269392	0.40153	0.1849	11.89	47.96
Green Delta Insurance Company Limited	1.808645325	0.0702	0.06	8.4	44