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Performance Evaluation of Public Sector General Insurance Company in Bangladesh- A Case Study on SBC

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Abstract

Effective performance evaluation increases the social benefits and enhances the accountability at the enterprise level. This paper evaluates the performance of Sadharan Bima Corporation (SBC), the public sector general insurance company in Bangladesh, during the period 2007 to 2011. Both primary and secondary data have been used here. The study indicates that the overall performance of the enterprise had been more or less satisfactory during the period. The operational performances profitability, & activity had been satisfactory but the financial performances long-term solvency, liquidity and also productivity were not satisfactory. Finally the paper suggests that for further continuous growth and development, SBC should take strategic steps like, adoption of modern techniques for asset management, follow-up of modern marketing strategies, launching more research & development programs, develop HRD programmes, relaxing pricing rules etc.

Key words: Liquidity, Activity, Solvency, Profitability, Productivity, Z score**.**

1.1Prelude: Insurance provides the insured with a means of offsetting the burden of financial losses. Insurers protect individuals and businesses from the adverse effects of unfavorable events such as chance of losses by peril, hazard, death, accident and many other unwanted happenings by selling insurance policies and cover notes (Mishra, 2004). The insurance can be classified in to three categories from firm's business point of view! I)) General insurance ii) Life insurance and iii) Social insurance. In general insurance, the insured is compensated duly the amount of loss sustained by him subject to the ceiling fixed by the sum-assured. It includes property insurance, liability insurance and other form of insurance. Fire and marine insurance are strictly called property insurance. Motor, theft, fidelity and machine insurances include the extent of liability insurance to a certain extent (Mishra, 2004).

Until 1985 the two state–owned insurance corporations: i) Sadharan Bima Corporation (SBC) for general insurance and ii) Jiban Bima Corporation (JBC) for life insurance existed in Bangladesh. Privatizations of insurance started in the decade of 1980's and the process of denationalization was initiated in Bangladesh during the same decade. As per the privatization policy, the Government of Bangladesh allowed the private sector to conduct business in all areas of insurance for the first time in 1984 (Azad,2001). As a result, 45 enterprises were established up to January 2001 to operate in the private sector general insurance business in the country. Of the 45 Private sector general insurance companies, 16 were established in 1985-86. 8 were in 1996 and the rest 21 in 1999-2001(Bhuiyan et.al, 2003).

A well-planned, well-organized, efficient and viable insurance industry is a necessary condition for the economic and financial infrastructural development of a country. This sector has shown rapid growth in terms of institutional set up over the last two and half decades(Azad,2001). But it is often said that the sector is over institutionalized and suffering from unethical business practices, un healthy and un-even spheres of competition and lack of prudential regulations (Bhuiyan, 2001). The insurance products are also very few in number and the industry did not take innovative efforts for product development (Azad, 2001). A mentionable number of private sector companies are suffering from unreasonable liquidity crisis due to which large amount of claims remained unpaid by them. The annual growth rate of SBC is on an average 5 percent. On the other wand, the private sector general insurance companies' annual growth rate is better, but it is not more than 10 percent on an average (Azad, 2001).he general insurance industry plays a strong role in financial markets as providers of long-term capital side by side with other participating institutions. The solvency and continuous growth of insurance companies depend on their performance. The performance of SBC can be analyzed through different ratios, viz, Liquidity, Activity, Solvency, Profitability and Productivity ratios.

1.2Literature Review:

Islam (1992) wrote an article on "Capital and investment of insurance fund". He states that while in the developing country both the Government and the financial institutions endeavour to dig deep in to the insurance fund for gainful utilization in various nation building activities like industrial financing, social and infrastructure development projects such a phenomenon is absent in Bangladesh. Murshid (1993) conducted a study on "A review of Bangladesh General Insurance Industries." He discusses the various aspects of general insurance business of Bangladesh, such as background, business scenario, contribution and drawbacks. But it gives a partial picture. Uddin and Kabir (1990) conducted a study on "Asset structure of private general insurance companies in Bangladesh." They examined the trend of growth of the asset to find out asset structure, identify the statutory regulations governing quantum of different types of assets and evaluated the impact of asset structure on profit performance. Azam (2004) wrote a report on "Problems and prospects of service marketing through State Owned Enterprise (SOE)- A case study on Sadaharan Bima Corporation." It mainly focused on the problems and prospects of service marketing of SBC. It also looked in to the customers' attitude towards the services of SBC as well as private general insurance companies. Thus the existing literatures indicate that a few partial studies have been conducted on state-owned enterprise, but the present performance of Sadharan Bima Corporation is not studied comprehensively as a whole. This study is therefore a humble attempt to make a comprehensive evaluation of performance of Sadharan Bima Corporation.

1.3 Objectives of the study.

The present study is designed to achieve the following objectives:

1. To examine the organization structure of SBC.
2. To analyze the liquidity performance of SBC.
3. To examine the long term performance of SBC.
4. To examine the activity performance of SBC.
5. To evaluate the profitability and productivity performance of SBC.
6. To suggest some measures to improve overall performance of SBC.

1.4 Methodology of the study:

For the purpose of the study, both primary and secondary data have been used in the study. Primary data were collected through direct but informal personal interview from 10 purposively selected respondents. Secondary data were collected from relevant government publications, including Acts, ordinances, rules regulations and official documents, published books, Journals, magazines, newspapers, thesis's periodicals, internet and especially annual reports and accounts of the SBC. The data and information have been processed manually and some statistical techniques viz, average, standard deviation, co-efficient of variation (CV), different kinds of ratios have been used. Besides, Multivariate Discriminant Analysis Model has been used for judging the financial soundness of the company.

1.5 Scope and limitations:

The scope of the study is limited to only one public general insurance company i.e., Sadharan Bima Corporation (SBC). The private general insurance companies and life insurance companies would remain outside the scope of the study. The main reasons for limiting the study to one sample unit are resource and time constraints. For empirical analysis the study covers a period from 2007 to 20011.

Activity Ratios are concerned with measuring the efficiency in management .The greater the rate of turnover or conversion, the more efficient is the management. An activity ratio may be defined as a test of relationship between sales and various assets of the firm.

2. Findings and Their Analysis:

2.1 Examination of short term solvency position of SBC.

Liquidity ratios measure the firm's ability to fulfill short-term commitments out of its liquid assets. The most commonly used measures of liquidity are the current ratio, quick ratio. Current ratio is a measure of the firm's ability to raise funds to meet short-run obligations. If the current ration is too low, the firm may have difficulty in meeting short-term commitments as they mature. If the ratio is too high, the firm may have an excessive investment in current assets or be under utilizing short term credit. An ideal current ration is 2:1. Quick ratio measures the firm's ability to meet short-term obligations from its most liquid assets without any difficulty. An ideal quick ratio or acid test ratio is 1:1.

Against this back drop, the following table shows the position of short-term solvency of SBC of the selected years.

Table-1

Position of Current Ratio & Quick Ratio of SBC during the period 2007 to 2011

Ratios	Year					Average	S.D	C.V
	2007	2008	2009	2010	2011			
Current ratios	1.97:1	1.93:1	1.98:1	1.83:1	1.87:1	1.91:1	0.25	03.35
Quick ratios	.90:1	.86:1	.82:1	.78:1	.76:1	.86:1	0.26	14.28

Source: Annual Report of SBC for the years from 2007 to 2011 and computations have been made by the researcher.

It is revealed from the above table-1 that the current ratios of SBC were 1.97, 1.93, 1.98, 1.83, 1.87 during the study period from 2007 to 2011 and on an average it was 1.91 which is below the standard norm of 2:1(Bhattacharyya and Roy, 1999). The current ratio shows the decreasing trend during the period under study and it implies that SBC was not able to pay its short-term obligation. It is also seen that the quick ratios of SBC were, .90, .86, .82, .78, and .86 during period from 2007 to 2011 respectively and on an average it was 1.86 which was below the standard norm of 1.1 (Moshin,1970). It indicates that SBC was not capable to meet short-term obligations and have shortage amount of working capital for the smooth running of the business activities. From the analyses it can be concluded that SBC is unable meet the short term obligation satisfactorily.

2.2. Examination of long-term financial position of SBC:

To judge the long term financial position of the firm, financial leverage ratios are calculated. These ratios indicate mix of funds provided by owners and lenders (Pandey, 1994). The long term financial solvency of a firm can be measured by using the ratios; viz i) Debt to total asset ration ii) Debt-to equity ratio and iii) Capital employed to net worth ratio. Debt to total asset ratio equals total debt divided by total assets. Generally, creditors prefer a low debt ratio since it implies a greater protection of their position. A higher debt ratio means that the firm must pay a higher interest rate on its borrowing, beyond some point , the firm will not be able to borrow at all (Bhattacharyya and Roy, 1999). Debt to equity ratio is used to ascertain the soundness of the long term financial policies of the company. This ratio is to indicate the extent of operating profits that cover the fixed interest charges. The fixed interest charge will signify the long term solvency of the firm. Capital employed to net worth ratio implies that how much funds are being contributed together by lenders and owners for each rupee of owner's contribution (Pandey, 1994). This can be found out by calculating the ratio of capital employed or net assets (NA) to net worth (NW). The following table shows the long term solvency position of the selected firm:

Table- 2

Position of Debt to Equity Ratio, Debt to total Asset Ratio, Capital Employed to Net worth ratio for the year 2007 to 2011.

Year / Ratios	2007	2008	2009	2010	2011	Average	S.D	C.V
Debt-Equity Ratio	1.21	1.28	1.29	1.31	1.48	1.314	.5143	39.1
Debt-total Asset ratio	0.55	0.56	0.55	0.57	0.59	0.564	0.0627	11.1
Capital employed to Net worth ratio	2.21	2.27	2.28	2.32	2.76	2.37	0.514	21.7

Source: Annual Report of SBC for the year 2007-2011 and computations have been made by the researcher.

Table-2 shows that the average Debt-Equity ratio was 1.314 against the standard norm of (a) 65:35 prescribed by Bangladesh Shilpa Rin Sangstha for its project appraisal (Houque, 1987). (b) 50:50 prescribed by the Controller of Capital Issues, Bangladesh (c) 58:42, observed in selected electricity generation and supply companies in India. This proves that SBC is a highly geared Corporation. The average debt to total asset ratio was 0.564 which was much higher than the standard norm of 0.35 (Benerjee, 1984). It explains that the SBC carried higher debt and had been incurring a heavy burden of interest and risk during 2007 to 2011. The capital employed to net worth ratio shows an increasing trend and on an average it was 2.37. The ratio is higher which means that claims of creditors are greater than those of owners and it introduces inflexibility in the firm's operations due to the increasing interference and pressure from creditors. The above analysis implies that SBC was more depended on outsiders' fund to finance for expanding their insurance business.

2.3. Analysis of Activity/Efficiency position of SBC:

Activity ratios are also called Turnover ratios, efficiency ratios or asset utilization ratios. Because they indicate the speed with which assets are being converted or turn over to sales. The activity ratios viz (1) Total Assets turnover ratio (ii) Fixed Assets turnover ratio (FA). (iii) Current Assets turnover ratio (CA) have used as tools to judge the effectiveness of assets.

Total assets turnover equals sales or net premium income divided by total assets. It reflects how well the company's assets are being used to generate sales or underwrite net premium. Fixed assets turnover is computed by dividing sales i.e. net premium income by net fixed assets. This ratio indicates how intensively the fixed assets of the firm are being used. Current assets turnover equals sales or net premium income divided by current assets. The following table shows the position in the regard:

Table-3

Position of Total Asset turnover, Fixed Asset turnover and Current Asset turnover during the years 2007 to 2011

Year / Ratios	2007	2008	2009	2010	2011	Average	S.D	C.V
Total Asset turnover	0.22	0.24	0.28	0.32	0.33	0.28	.397	128.89
Fixed Asset turnover	1.46	1.53	1.57	1.36	1.89	1.562	0.56	36.30
Current Asset turnover	1.24	1.25	1.28	1.32	1.35	0.29	.877	69.05

Source: Annual Report of SBC during the years 2007 to 2011 and computations have been made by the researcher.

The above table-3 reveals that the total asset turnover was 0.22, 0.24, 0.28,0.32 and 0.33 during the study period 2007 to 2011 respectively and on an average it was 0.28. The total asset turnover ratio was very low in SBC during the study period but it shows on improving trend. The low turnover ratio indicates to the under utilization of resources. The average total asset turnover of 0.28 times denotes that SBC generated a sale of general insurance policy or underwrote a net premium of Tk 0.28 for one taka investment in fixed and current asset together. It can be said that SBC has more capacity in generating sales or underwriting net premium from all financial resources committed to total assets.

The fixed assets turnover ratios were 1.46, 1.53, 1.57, 1.36 and 1.89 during the period 2007-2011 and on an average it was 1.562 which is below the standard norm of 5 times (Moshin, 1970). The low fixed asset turnover ratio of SBC resulted from poor sales performances.

And the current asset turnover ratio is used to measure whether the firm is in liquid position to support its activities. The current Asset turnover ratios were 1.24, 1.25, 1.28, 1.32 and 1.35 times respectively during the study period and on an average it was 1.29 which was much higher than the standard norm of 20% to 45% (Moshin,1970). This current asset turnover ratio is too much high in SBC which indicates to the excessive blockage of funds.

2.4. Profitability as a yardstick for Evaluation:

Profitability ratio measures the success of the firm in earning a net return on sates or on investment. Since, profit is the ultimate objective of the firm, poor performance here indicates a basic failure. The gross profit margin ratio, net profit margin ratio, return on investment and return on equity ratios are the four most acceptable profitability ratios in assessing financial performance of an enterprise. The following table shows the profitability position of the selected enterprise.

Table-4

Profitability position of SBC from the period 2007 to 2011.

Year / Ratios	2007	2008	2009	2010	2011	Average	S.D	C.V
Gross profit Margin (%)	45.68	48.03	48.98	40.45	38.62	42.75	0.2185	51.11
Net profit Margin (%)	12.04	10.93	10.88	12.64	15.25	12.35	.3458	2.8
ROCE (%)	3.16	3.15	4.18	5.18	5.92	4.318	0.0993	2.39
ROE (%)	15.15	12.03	12.82	13.13	12.93	13.21	.0998	75.55

Source: Annual Report of SBC for 2007 to 2011 and computations have been made by the researcher.

Table-4 depicts that the average Gross profit margin was 42.75% which was above the standard norm of 20% to 30% (Abhijit et.al., 2000) The average net profit margin was 12.35% which was consistent with standard norm of 5 to 10% (Mandal,1998). The average ROCE ratio was 4.318% which was below the standard norm of 11% to 12%. And the average ROE ratio was 13.21% which conformed to the standard norm of 10 to 15% therefore it seems from the ratios that SBC was marginally profitable (Mandal,1998).

2.5 Analysis of productivity of SBC:

Productivity is the ratio of output to input. The analysis of productivity provides better insight in to the efficiency and effectiveness of scare and valuable resource utilization of an entity. The higher is the productivity; the lower is the cost because of increase in the volume of output. Lower cost increases revenue and profit. Two approaches were used in the study for measuring productivity viz i) Ratio of working fund (v) to total expenses ii)Ratio of total income (I) to total Expenses (E). The following table shows the position in this regard.

Table : 5
Productivity ratios of SBC during the year 2007 to 2011.

Ratios	Year					Average	S.D	C.V
	2007	2008	2009	2010	2011			
Ratios of V to E	12.63	13.46	13.79	14.39	15.30	13.91	1.68	12.07
Ratios of I to E	1.38	1.10	1.14	1.15	1.15	1.184	.020	16.89

Source: Annual Report of SBC for the year 2007 to 2011 and computations have been made by the researcher.
Table-5: portrays that the ratios of working fund to total expenses were 12.63, 13.46, 13.79, 14.39 and 15.30 for the period 2007 to 2011 and on an average it was 13.91. The ratios o total income to total expenses were 1.38, 1.10, 1.14, 1.158 and 1.15 during the study period and on an average it was 1.184. The income was only times greater than total expenses. It implies that productivity position of SBC was not satisfactory during the study period.

3. Test of financial soundness of the SBC:

For judging the financial soundness of SBC, Multivariate Discriminate Analysis Model as developed by Prof. Altman has been used here. The model find out the Z score value and on that basis the enterprise will be classified as good, sick and mixed.

Table- 6
Z Score of SBC

	2007	2008	2009	2010	2011	Average
Z score	2.5199	2.4435	2.2476	2.240	2.1553	2.321

Source: Data are compiled by the researcher from the Annual Reports and Accounts of selected Enterprise.
Table-6 shows that the average Z score stood at 2.21 which is below the standard norm of 2.675. So there was a chance it would go bankrupt and in the near future and their financial position was unsound. But it should be noted that Z score was determined by Prof. Altman to predict the bankrupt and non bankrupt position of firms in the American context that can not be logically taken as standard in the context of Bangladesh yet it is taken as guide line.

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4. Policy implication for the Development of General Insurance Sector in Bangladesh:

The following policy recommendations are suggested for overcoming the existing problems in the SBC:

1. The Insurance Acts and Rules should be reformed, up-dated and reshuffled to meet the growing needs and challenges of the insurance market in the changing socio-economic environment of the country.
2. There should be Human Resource Development Division or Department (HRDD) in the SBC and the activities of HRDD needs to be geared up.
3. Insurance companies need to modify their recruitment strategies with increased focus on the marketing and sales training because insurance being a service marketing industry, it requires special attention.
4. The Government should reintroduce commission system in general insurance business to stop unhealthy competition among fellow companies.
5. The pricing rules should be relaxed and made less rigid so that the companies can exercise some autonomy. The Government should allow the insurance companies to quote different premium rates within a specialized span.
6. SBC should control their management expenses.
7. To ensure maximum profitability, appropriate cost accounting system should be set up in SBC.
8. To improve the productivity performance the SBC should raise their income generating avenues.
9. The corporate tax rate for publicly traded insurance companies should be made in equally like other listed companies to enable them to maintain a stable dividend policy to encourage small investors and wide investment participation.
10. In order to ensure healthy claim settlement procedures attributed by factors like simple and shortest procedure, transparency in the mode of accounts adjustment, well behavior of the insurances marketers and qualitative customer services in insurance, industry early legal reform is highly wanted.

5. Conclusion:

The general insurance industry in Bangladesh is growing and nascent one. It needs proper support and nursing for its further growth and progress. During the study period 2007 to 2011, the operational performance of SBC (profitability, productivity activity) are found satisfactory but the financial performances (long term solvency, liquidity) are not satisfactory. The overburden of debt in the capital structure has increased the high financial expenses which affected its net profitability. In the backdrop of overall discussion and analysis it can be concluded that the financial performances of SBC over the study period is not satisfactory.

Thus for further growth and development of the insurance companies, it is essential to strengthen the regulations for safe guarding the policy holders priviliges. The management should also take some strategic steps like adoption of modern techniques for asset management, follow up of modern marketing strategies, launching more research and development programmes, develop HRD programmes, relaxing pricing rules etc. This will certainly create an atmosphere for holding the financial solvency and the operational efficiency of general insurance companies in Bangladesh.

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