Project Report On Activities And Performance Evaluation Of Federal Insurance Company Limited (FICL)

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FICL

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Dear Sir:

It is my great pleasure to submit this project report on performance evolution of Federal Insurance Company Limited. As a student of business administration, I have to submit a project report for the fulfillment of my graduation. I've tried my best to fulfill the requirement.

My project work in FICL , was a worthwhile experience and the exposure of such a reputed organization would be a define value for me. I would like to mention here that I am extremely great full to you for your favorable guidance, tireless effort and attention as and when required in accomplishing the report. I followed your instruction schedule format and discipline obediently. It was an unique opportunity for me to do my project report in such a well organized insurance company. This project has provided me an opportunity to translate the theoretical conceptions in to practical business field of insurance company.

I have contributed my sincere efforts towards the successful completion of the project report. I will be always available for further clarification of this report matter.

Sincerely

Mohammad Arifujjaman
Id-1999-2-10-017

Ajaman
09/10/03

Preface:

The BBA Project program is a compulsory course for the students who are graduating from East West University. It is a three credit hour course, duration of three months. Students who have completed all the required courses are eligible for this course.

In the project program, I went to the Federal Insurance Company and knew how they were doing their business. I also acquired practical knowledge about the organizations insurance activities. This work also helps a student to compare the theoretical knowledge with the practical field and also helps the student to get more experience in the service life in a insurance sector.

I have evaluated the performance of the Federal Insurance Company. In this report, you can understand the performance of the company when you go through the report. I have tried my best to make the report as informative as possible.

Acknowledgement:

This report could never been completed without the help of some helpful and cooperative persons and accommodating authorities. I would like to state the name of some of these supportive bodies,

First, I express my heartiest gratitude and deepest respect to my project advisor Dr. Golam Ahmed Faruqui, Associate Professor, Business Department, East West University who showed specific guidance to prepare the report and without whose help it was quite impossible for me to accomplish my goal to prepare this report. Because I have put and used to the materials covered to this report, learned and gathered from his vigorous instructions.

Secondly, I hurtfully thank Mr. Simul Kanti Barua, Senior Vice President of Federal Insurance Company Limited. He also helped me to prepare this report by giving financial information.

And finally, I have taken help from Mahmuda Akhter, Manager, Adamjee Court Branch, Dhaka Who helped me through providing organizational information and I also express my gratitude to her.

Contents

CHAPTER -ONE

Introductlon

1.01 Purpose of the project:

Project is a process that orients a student about the real situation of a company. Through a project a student can directly observe the complexities and fid out the various way to solve different problem applying the theories thought in the department. Theoretical becomes perfect if it is accomplished by practice.

A project works on a topic for 3 months and reflects a student's experience after completion of the project.

A project work also provides a student about the over all competitive situation relating to the given company.

1.02 Background of the project:

Insurance is not a new idea to the people of Bangladesh. Insurance is a facilitating service in promoting trade, commerce, industry, and mobilizing people's saving. Today insurance has developed so much that insurance organizations are now viewed as an important part of economic infrastructure like banking and warehousing. In the process of promoting agricultural production, development of agro-based industries, expansion of the export trade and distribution of goods within the country, the government of Bangladesh has decided to use insurance as an instrument of economic growth. Historically general insurance business has been one of the constructive weapons for identifying, measuring and treating the various shift able risks to which industrial enterprise, commercial houses, government offices, autonomous bodies, public corporations, local bodies and individual households are exposed. These risks have been designated as "pure risk" in contrast with business risk.

General insurance is a contract of indemnity in contrast to life insurance, which is a contract of guarantee. In both the forms of insurance, the insurers sell policies for a specific sum of money against premiums. In the case of life insurance the insured is guaranteed the sum insured if death takes place before the period or the contract expires where as in general insurance, the insured is compensated duly for the amount of the loss sustained by him subject to the ceiling fixed by the sum assured. For the sake of administrative convenience, the insurance company has categorized pure risks of business into several classes. The followings are the classes of general insurance policies.

1. FIRE INSURANCE POLICY:

Fire insurance is a type of insurance, which eliminates the losses, occurred by fire. It covers only the materials loss directly caused by destruction or damage by fire. The perils of lighting, thunderbolt, and to a very limited extent explosion were included. However, today the scope of fire insurance extends far beyond its original bounds and the main sections of the business are as follows;

(a) **Reinstatement insurances** are issued in respect of buildings and contents, other than stock , whereby insurers agree that the measure of indemnity shall be the cost of replacing the property damaged in a new condition on the same or another site.
(b) **Declaration policies** are issued in respect of stock only for the maximum amount likely to be at risk during the year and a payment of 75 percent only the premium calculated on this amount at the appropriate rate is collected. The insured is require to declare at agreed intervals, generally monthly, either the estimated value at risk at a certain day or the maximum at risk since the last declaration and on the expiry of the term of the policy the provisional premium is adjusted on the basis of the average of the declaration during the period.
(c) **Building in course of creation** is insured on behalf of builders and contractors who are responsible for them until they are handed over.
(d) **Household's policies** to cover building only or the contents only or both buildings and contents are generally available. Wide protection against loss or damage by fire, special perils theft is afforded and cover in respect of various legal liabilities, which may rest upon the owner, is included.

2.MARINE INSURANCE POLICY:

Marine insurance is a contract between insurer and insured whereby the insurer under takes to indemnity the insured in a manner and to the interest there by agreed against marine losses incident to marine adventure. Marine insurance policies include;

(a) **Hull insurance-** This refers to insurance of the ship, especially hull and machinery by the ship owner against maritime perils which are perils of the sea, such as heavy water, stranding or collision, fire, and similar perils.
(b) **Cargo insurance-** This refers to goods or merchandise imported or exported from or to varies parts of the world. Insurable interest exists on behalf of both buyer and seller, at some time during transit from the one to the other, and in consequence the terms of the contract of sale may provide either for the buyer or for the seller to insure. Cargo is normally insured against all maritime and transit risks.
(c) **Freight insurance-** Freight is the sum paid for transporting goods. There are many types of freight and the most important, for the present purpose is bill of lading freight. When goods are lost by marine perils a proportion of freight will be lost.
(d) **Time policy-** Time policy is the policy that insures the subject matter for a certain period of time and it is the usual basis for hull insurance.

(e) **Voyage policy**- This is the policy in which insures the subject matter from one place to another irrespective of the length of time taken.

(f) **Mixed policy**- It is the policy in which insures the subject matter for both a voyage and a period of time.

(g) **Floating policy**- This is a long-term cargo insurance contract to save merchants the inconvenience of affecting individually the insurance of every shipment. It is an ordinary cargo policy, expressed in general terms and effected for a round sum sufficient to cover a number of shipment until the sum insured is exhausted.

3.MOTOR INSURANCE POLICY:

There is large number of motor insurance policy in our country because it is mandatory for the motor owner to insure the motor by the law. The types of vehicles covered by the motor insurance like, private cars, commercial vehicles, vehicles of special types, agriculture and frosty vehicles and motor cycle This insurance includes;

(a) Act liability only policy- This policy provides for compulsory insurance in regard to liabilities arising out of the use of motor vehicles in a public place.

(b) Third party policy- This policy covers the liabilities of the third parties who suffered loss in connection with the damage of property, personal injury and even death.

(c) Comprehensive policy- It covers several losses like, damage to car parts and body, removal charges for repairs, medical expenses etc.

5. EXPORT CREDIT INSURANCE:

Traders can sustains heavy losses by reason of insolvency or protracted default on the part of buyers of their goods, and credit insurance can afford the requisite protection. In overseas trade it may be impossible for customers to pay for goods because of the outbreak of the war or government restrictions on remittances, and so called political risk can be covered with the ordinary insolvency risk with the export credits guarantee department. So credit insurance protects certain business from excessive credit losses due to several causes including debtor's insolvency.

6. CROP INSURANCE:

This insurance provides cover against damage to growing crops caused by hail, fire or lighting effective from planting to harvest etc.

7. LIVE STOCK INSURANCE:

Insurance relates mainly to cattle and horses, and provides protection against loss of animals by death occasioned by accident or disease. This insurance policy provides cover against death of animals like, bulls, buffaloes, cows, and heifers arising as a result of accidents, epidemics and flood.

8. BURGLARY INSURANCE:

This insurance policy is issued to cover losses caused by theft in godowns and business houses.

The insurance business in this part of the sub-continent went through several changes during the last 40 years. The change of ownership of business was the most important.

The Government of Bangladesh, in order to make available the fruit of liberation to the general mass, nationalized the insurance industries in 1972 by presidential order, 1972 & two organizations were formed to handle insurance business. Later on, one corporation named "The Sadharan Bima Corporation" was formed to undertake business in general insurance & another Corporation named "The Jiban Bima Corporation" for undertaking life business.

In 1984 the Government of Bangladesh allowed operation of insurance companies in the private section of Bangladesh. Ordinance no.2 of 1984 [Insurance corporation ordinance 1984] offered this opportunity with the primary object of improving the service of insurance and the spirit of competition for the benefit of insurance community.

1.03 OBJECTIVES OF THE PROJECT:

The major objectives of the project are to measure the overall performance of federal Insurance Company Ltd. (FICL) in the insurance business. In brief the objectives of the study can be summarized as follows;

a) To review the status of FICL.

b) To measure the sound underwriting principle & risk management.

c) To review well balanced re-insurance arrangement.

d) To measure sound investment policy.

e) To measure the proper claims administration & control with speedy disposal of such claims.

f) To review a reasonable profit out of its operation to insure satisfactory dividend for shareholders & to enhance the financial strength & soundness of the company.

g) To focus on the role played by the FICL in building economic development of the country.

1.04 Business Environment:

The overall performance of the economic sector of the country was generally positive with tangible improvement in certain sectors in recent years. But the second half of the year saw new economic challenges due to Afgan war, Iraq war and various terror activities in the world. In addition to these grave challenges, the political transition has also had some adverse effect on the economy. The GDP growth has declined 4.8% compared to last year's 5.3%. The industrial sector achieved 6.1% growth compared to 7.4% in the year 2001. The remittances from non-residence Bangladeshi's working abroad, especially in Middle East, has been declined due to Iraq war. These residences have played an important role in economic growth, employment and balance of payment. Both export and import of the year has also suffered. As a result, overall economic growth, which has steadily increasing during first half, witnessed a set back during second half. It is however hoped that the business retarding factors will soon go, and an encouraging environment will return soon.

1.05 Insurance Industry Scenario:

With the high number of entrants in the industry, the limited insurance business has become extremely competitive. It has become tougher to maintain sustain growth. Worldwide depression has soured business all over the world and Bangladesh is no exception. In Bangladesh, export sector, particularly Readymade Garments Manufacturers have been affected severely. Besides, large volume of our imports comes through informal channels without LC and without insurance from the neighboring country. Thus overall drop in performance of national economy has had its adverse effect on the business activities in the insurance sector. During the year , as business increased, management expenses also went up due to additions to marketing staff in order to face the tough competition and also due to higher charges for utilities. There have also been rises in cost of transport, printing and stationary and office equipment. In spite of a competitive situation, insurance company has able to hold on to sustained growth and remain among the top private insurance companies of the country through inter area, its skilled and professional service and corporate management. The company expects to maintain its growth through these concerted efforts in the coming years also.

1.06 characteristics Of The Contract Of Insurance:

Insurance is that in which a sum of money as a premium is paid in consideration of the insurers incurring the risk of paying a large sum upon a given contingency. The main characteristics of insurance are given bellow;

> Valid contract.
> Written contract.
> Premium.

> Financial safety device.
> Nature of payment of consideration.
> Insurable interest.
> Fiduciary relationship.
> Importance of certainty.
> Distribution of risk.
> Human Welfare.

1.07 Essential Elements Of The Contract Of Insurance:

There are two elements of the contract of insurance and they are;

1) Legal Elements:

>Plurality of members.
> Offer and acceptance.
> Legal relationship.
> Lawful consideration and object.
> Capacity to contract of the parties.
> Free consent.
> Certainty.

2) Elements Related With Insurance Business:

> Insurable interest.
> Fiduciary relationship.
> Payment of premium.
> Financial indemnity or payment.
> Causa Proxima.
> Proportionate contribution.
> Subrogation

1.08 Problems Of Insurance In Bangladesh:

There are some problems for insurance business in Bangladesh and they are;

- Weak economy.
- Lack of capital.
- Lower rate of saving.
- Weakness in industrial sector.
- Inefficiency in management.
- Weakness in navigation sector.
- Backwardness of mentality.
- Lack of publicity and education.
- Lack of training.

- Lack of effective principles.
- Unequal competition.

1.09 Objectives Of Insurance:

Both the policyholder and the insurer have some objectives in insurance. They are;

1) Objectives of policy holder:

- Financial security.
- Mental peace.
- Increasing saving facilities.
- Investment facilities.
- Security of old age.
- Helps in bringing up children.
- Showing respect due to government rules.
- Increasing social dignity.

2) Objectives of the insurer:

- Livelihood.
- Formation of capital.
- Brings social security.
- Assistance in industry and commerce.
- Reduction of the hindrances risk.
- Plays the role of savior of the helpless.

1.10 METHODOLOGY OF THE PROJECT:

This study is a survey type study. There are various methods of conducting studies such as library methods, interview methods, observing methods, case study method etc. In order to obtain information needed to evaluating the performance of FICL, THE following methods were employed:

a) Survey of existing literature on insurance business obtained in Bangladesh.
b) Collection of official papers & annual reports from the head office of FICL.

c) Personal interview with the company stuffs & officials.

1.11 RATIONAL OF THE PROJECT:

In a developing country like Bangladesh, the businessman and others persons who are related to some shorts of risky operation yet to give concentration about the importance of insurance. But risk is always in of part of business and its operation. So in order to operate under a smooth and risk less circumstances everybody has insured his activity. For insure some ones activity the existence of insurance company's come into the account. Federal Insurance Company Ltd is playing a major role in the insurance business. In this study I tried to analyze the various activities & overall performance of FICL in business world.

1.12 LIMITATION OF THE PROJECT:

During preparation of report I have faced some problems, which are also the limitation of the study. The limitations of this study are as follows:

a) It is not possible to collect various data, books & journals of company as they are scattered.

b) Many unto data and documents were not available, which have made the study informative.

c) I had to complete this study with in a short period of time, which was not sufficient for investigation.

d) The amount sanctioned for the study was quite insufficient for an extensive study.

CHAPTER - TWO

Profile of the company

2.01 BACKGROUND OF THE COMPANY- (FICL)

The company was incorporated on 11th November, 1987 under the Companies Act ,1913 with the objective of carrying on in and outside Bangladesh all kind of insurance business other than life insurance. The obtained registration from the Controller of Insurance, Government of the Peoples Republic of Bangladesh, on 17th November of, 1987 and started underwriting general insurance business from the date. Since the establishment in 1987 as one of the leading general insurance companies in the private sector, the company has within a short span of time established itself as one of the most and trustworthy insurance companies in the country. The company has thirty five branches through the country. In 1995 the company issued public proportion of shares and was listed with Dhaka Stock Exchange from 26 June, 1995. The company was also listed with Chittagong Stock Exchange from 20 November 1995.

2.02 OBJECTIVES OF THE COMPANY:

The main objectives for which the Company is established are:

1) To carry on in Bangladesh or in part of the world all kinds of general insurance business including fire, marine, accident, aviation, burglary, workmen's compensation, fidelity guarantee, personal accident and all other kinds of general assurance business that may be devised here-after and as may be acceptable to law and particular without prejudice to the generality of the words.

2) To carry on the business of marine insurance in all its branches and in particular, without prejudice to the generally of the foregoing words to make or effect insurance of ships, vessels, boats and crafts of all kinds and on goods , merchandise, live or deal stock, luggage, effects, specie , bullion or other property, commissions, profits and freights. Insurance against theft, pilferage, non-delivery jettison, general or particular average or any kind of damage or loss to property carried by sea or air.

3) To carry on all kinds of transit insurance business and generally every kind of insurance and re- insurance business other than life insurance business.

4) To insure all houses, building, goods, merchandise of every kind and description whatever furniture and fixtures and other property movable and immovable, situate and being against loss or damage by the fire, storm, earthquake, cyclone, flood, explosion, lightning or other accident or by fire caused by or through or in consequence of riot and civil commotion and to carry on the business of fire insurance, reinsurance and underwriting in all its branches.

5) To insure against death, destruction, injury or damage to livestock & property of all kinds howsoever caused.

6) To insure against loss by housebreaking, burglary, theft or robbery.

7) To insure airship, airplanes, boilers, rolling stock, electrical plants, lifts, trains and machinery of all kinds againsed partial or total loss or damage however caused, and to indemnify the owners against any claim by third persons for loss or injury to person and property of whatever kind.

8) To carry on all kinds of insurance of motor vehicles in its various forms and branches including special risks to motor vehicles by accident on fire, theft, burglary, lightning, riots, civil commotion, disturbance or any other means.

9) To insure payment of compensation in cases of death or injury in health or limb to cars, their drivers, passengers, as the case be by accident.

10) To under take insurance against claims upon the assured for injuries to the persons and property of third parties caused by the assured or others for whom he is liable.

11) To under take the business of insurance of employers, liability and third party risks of every description.

12) To undertake the business of investment and mortgage insurance and to insure against loss of money lent upon security or investment or secured in or upon mortgages, debentures or other securities.

13) To undertake crop insurance in all of its branches including assurance against loss or damage to crops caused by draughts, insect, storm, flood or other such contingencies.

14) To undertake or effects agents for other insurance companies insurance of every kinds and against every contingency.

15) To re-insure or counter insure all or any of the risks of the risks of company and to undertake any authorized risk either direct or by way re-insurance or counter insurance.

16) To guarantee, provide, prepare and supply medicine and surgical aid and treatment or any others assistance in illness, confinement and all remedies and requisites in case of accident or illness to any person or the family or household of any person.

17) To carry on any other business, trade or industry, which may seem to the company capable of being conveniently, carried on.

18) To invest funds of the company at a reasonable rate of interest and on adequate security for initiating or supporting agriculture, horticulture, mining, firming, land

reclamation and other operation for the increase of production from land and for improvements of estates owned by individual or association.

19) To hold shares in any other company having objects altogether or in part similar to those of the company or carrying on any business capable of being so conducted as directly or indirectly benefit this company.

20) To invest and deal with moneys of the company not immediately required in such manner as may be determined from time to time.

21) To sell, improve, manage, develop, exchange, lease, mortgage, dispose of, turn, to account, or otherwise deal with all or any part of property and right of this company.

2.03 ACCOUNTING POLICY OF THE COMPANY:

1) Basic of accounts:
The accounts are prepared under generally accepted accounting principles on historical Cost convention.

2) *Depreciation fixed assets:*
Depreciation on fixed assets are charged on reducing balance method. The rates are varied from 10% to 20% depending on types of assets.

3) *Valuation of assets:*
The value of assets are shown in that value, which not exceeds their realizable or market value.

4) *Effects on re-insurance:*
Gross amount of premium earned and paid, commission paid and earned, claims paid and recovered are duly accounted for in the books of accounts of the company maintained for the various classes of business and the final statement of account are prepared the re-insurance accepted and ceded with regard to premium, commission, claim etc. are been reflected so as to arrive at the net underwriting result of class of business.

5) *Provision for income tax:*
Provision for income tax is made in the accounts on profit remaining after making reserve for exceptional losses.

2.04: Employee's Recruitment And Benefit Plans of FICL:

The insurance company recruits employees based on the required position. They advertise on the daily newspaper and maintain a recruitment process. They recruit the candidates based on their skills and abilities for the given position.

The company operates a contributory provident fund for its permanent employees. Provision for which are being made annually as per rules. The National Board Of Revenue, administered by a Board of Trustee, approves the fund and is funded by contribution partly from employees and partly from the company at predetermined rates. These contributions are invested separately from the company's assets. The permanent employees of the company are covered under a Group Insurance Scheme Premium for which is being charged to profit and loss account. Employees are entitled to an unfounded gratuity benefit after completion of minimum 15 years of service in the company. The gratuity is calculated on the last basic pay and is payable at the rate of one month basic pay for every completed year of service. No provisions are made against gratuity scheme.

2.05 Major Area Of Investment Of FICL:

The company invests on different financial assets. It invests on FDR, STD and PSD, National Investment Bond. The company also gives loan for different purposes like House building loan, short-term loan etc.

CHAPTER - THREE

Review of the related project

3.01 Meaning of performance evaluation:

Performance evolution is a very critical term. In order to performance, dynamic of a firm , attempts must be devoted to evolutes the quality , quantity, style, determinates, behaviors and growth potential of that firm with a view to control information.

Basically performance evolution is based upon financial analysis which is the process of the interpretation and analysis of financial statements in order to measure and judge the growth, trend and overall financial condition of a firm. Thus financial statements are an important aid to financial analysis.

Balance sheet only view the financial position as an a particular date in term of assets, liabilities and owners equity etc. profit and loss account shows the net result of trading activities for a year. Therefore to get better insight about the financial strengths and to evaluate the weakness of the firm, financial analysis such as ratio, trend, common financial size etc, help to evaluate relationship between each other. Component parts of performance of financial statements to obtain a better understanding of the firm's position of performance.

So performance evaluation means establishing proper relationship between the items of the balance sheet and profit and loss account with the help of financial analysis, process to get accurate information about the financial health, probability, efficiency, and identity the strength and weakness and overall performance of the firm.

3.02 Performance Evaluation Technique:

To evaluate the financial condition and performance of a firm , financial statements of a firm are analyzed with the help of the following tolls of financial analysis.

a) Comparative balance sheet and income statements.
b) Common size percentages.
c) Trend analysis.
d) Ratio analysis.

a) Comparative statements:

A simple method of tracing the periodic changes in the financial performance of the company is to prepare comparative statements. It contents item at least two periods changes increase and decrease in income statements and balance sheet over period can be shown in two ways, aggregate changes and proportional changes. There are two types of comparison, inter firm comparison in which for drawing inferences financial statements of two or more firm can be compared and inter period comparison in which comparison of the financial statements of the same firm over a period.

b) Common size statement:

Absolute figure of financial statements are not easily understandable and some time they are misleading. Therefore relative and proportional changes are shown by recording percentage calculated in relation to a common base in special columns.

So preparing financial statements in terms of common base percentages are called common size statement. It is also called vertical analysis and indicates static relationships since relative changes are studied at a specific date.

c) Trend Analysis:

In financial analysis the direction of changes over a year has important. In order to analyze the trend of data shown in the financial statements over a period of years, that is done with the aid of trend analysis. Trend can be analyzed and shown in many ways, some of them are as follows,

(i) Trend percentage: In order to analyze the trend of data shown in the financial statements over a period of years. It involves the calculation of percentage relationship that each statements item bears to the same item in the base year.

(ii) Trend Ratio: trend analysis of ratio indicates the direction of changes over a period of year. Trend ratios are calculated only for some important items in order to connect them logically with each other. So they become much meaningful.

d) Ratio Analysis:

Ratio analysis is a very important and powerful tool for financial analysis. In financial analysis, a ratio is an index or yardstick in order to evaluate the financial position and performance of a firm. It makes relationship between two accounting figures, which is expressed mathematically.

So, ratio analysis may be defined as the systematic use of ratio to interpret the financial statement in order to determine the strength and weakness of a firm as well as its historical performance and current financial condition. The main purposes of ratio analysis arte as follows;

1) To determine the liquidity position
2) To show the debt and equity proportion in financing assets.
3) To analyze future solvency and profitability.
4) To compare the future and present profitability.

5) Proper utilization of assets
6) To measure the performance and effectiveness of the firm.

Types of ratio analysis:

1) Liquidity ratio.
2) Solvency ratio.
3) Activity ratio
4) Profitability ratio.

3.02.01 Liquidity Ratio:

It measure the ability of a firm to meet the short term obligations when they become due for payment with a view to reflect short term financing strength and weakness of the firm. The liquidity ratios are;

1) Net Working Capital Asset- It indicates the ability to meet the creditors and meeting the day-to-day needs of business.
2) Current Ratio- It measures the short-term solvency.
3) Quick Ratio- This ratio establishes a relationship between quick and liquid assets and current liabilities.
4) Cash Ratio – cash is the most liquid assets. Cash consists of cash and marketable securities.

3.02.2 Solvency Ratio:

To judge the long-term financial position of the firm, financial leverage or structure, and ratios are calculated. It indicates funds provided by owners and lenders. It includes the following ratios;

1) Capital- Gearing Ratio- Gearing the capital means, the technique of raising finances for the firm by reasoning the fixed interest or dividend carrying securities.
2) Debt Equity Ratio- It helps to access the soundness of long term financial policies and determines the relative claims of creditors and shareholders against the assets of the firm.
3) Debt To Total Capital Employed per assets- It helps to know the proportion of interest basing debt in the capital structure.
4) Propriety Ratio- It relates to capital equity to total assets. It also indicates the total assets financed by owners.
5) Fixed Assets to net worth- It helps to know how much funds to contributed together by lenders and owners for each of the owners contribution.
6) Current Assets To Net Worth- It helps to reflect the same purpose as fixed asses to net worth.
7) Cash flow To Debt- It helps to determine the payments that are met out of cash available with the firm.

8) Interest Coverage Ratio- It measures the firm's debt servicing capacity is so far as fixed interest on long term loan is concerned.

3.02.3 profitability Ratio:

The profitability ratios measure the operating efficiency of the firm. Besides, these helps to show the returns to varies investors. It can be calculated on the following basis;

(a) Sales
(b) Investment

(a) Profitability in relation to sales:

(i) Gross Profit Ratio- It reflects the efficiency with which management produces each unit of product. It indicates the average spread between the cost of goods sold and sales revenue.

(i) Profit Volume Ratio – It can be calculated when a firm's categories are its expenses into fixed and variable components.

(ii) Net Profit Ratio- It determines the relationship between net profit and sales of firm.

(b) Profitability in Relation To investment:

(i) Return On Total Assets- It helps to measure the profitability of total funds of the firm.

(ii) Return On Net Worth- It helps to show the profitability of the owners investments.

(iii) Return On Investment- Profitability ratio can be computed by relating the profit of a firm to its investments. But profit after tax is affected by capital structure. So it is appropriate to use the following measure of ROI for comparing the operating efficiency of the firms.

3.02.4 Activity Ratio:

Activity ratios evaluate the efficiency with which the firm manages and utilizes its assets. These ratios indicates the speed and rapidity with which assets are converted into sales. To judge the effectiveness of assets utilization the following activity ratio can be calculated;

(i) Inventory Turnover Ratio – It indicates the number of items inventory is replaced during the year and the efficiency of the firm in selling its products.

(ii) Average collection Period – It is inter related with and depends upon the receivables turnover ratio. The average number of days for which book debts remain outstanding is known as average collection period.

(iv) Total Assets Turnover- It reflects the firm's ability in generating sales from all financial resources committed to total assets.

(v) Fixed Assets Turnover – It shows the firm's efficiency of utilizing fixed assets and current assets separately.

3.03 Limitation of Balance Sheet:

The limitation of balance sheet is as follows;

i) Statement of assets and liabilities:

Though a balance sheet is a statement of assets and liabilities, it does not disclose certain assets.

ii) Static view:

It is only a static view. It does not indicate the causes of changes as the moment of finance.

iii) Historical basis:

The item shown in the balance sheet are on a historical basis. But due to technological and economic change there will be changed. So it will not reflect the market value of asset.

iv) Going concern basis:

Balance sheet is prepared on the basis of going concern. It does not show the market value of assets. it only shows unexpired or unamortised cost.

v) Misleading picture:

Because of the flexibility of accounting principles, certain liabilities are not provided for and to that extant balance sheet will give a misleading picture.

3.04 Limitation of the ratio analysis:

(i) Limitation Of Financial Statement:

Financial statements are the basis of ratio analysis, which are themselves subject to serve limitation. So any ratio analysis are based on such statements suffer from similar limitation.

(ii) Difficulty In Inter-Firm In comparison:

In inter firm comparison between two firm's the factors are not same. If these factors are not considered, it becomes difficult in comparison ratios.

(iii) Affect Of Price Level Changes:

Price level changes affect both the inter-period and inter- firm comparisons are as follows;

- The validity of ratios calculated for different time periods can be affected by price level changes.
- So the ratio analysis may not clearly indicate the trends insolvency and profitability of the firm.

(iv) Comparisons Are Meaningless:

Comparisons become meaningless, if varies items like gross profit, net profit , current assets and liabilities etc are not properly defined.

(v) Window Dressing:

Ratio analysis is based on the balance sheet, which is on the accounting date. So it may lead to cover up bad financial position.

(vi) Unreliability:

Because of window dressing of financial position, ratios are based on the items of such statement, are not reliable.

CHAPTER - FOUR

Analysis and comments of ratio analysis

4.01 Liquidity Ratio:

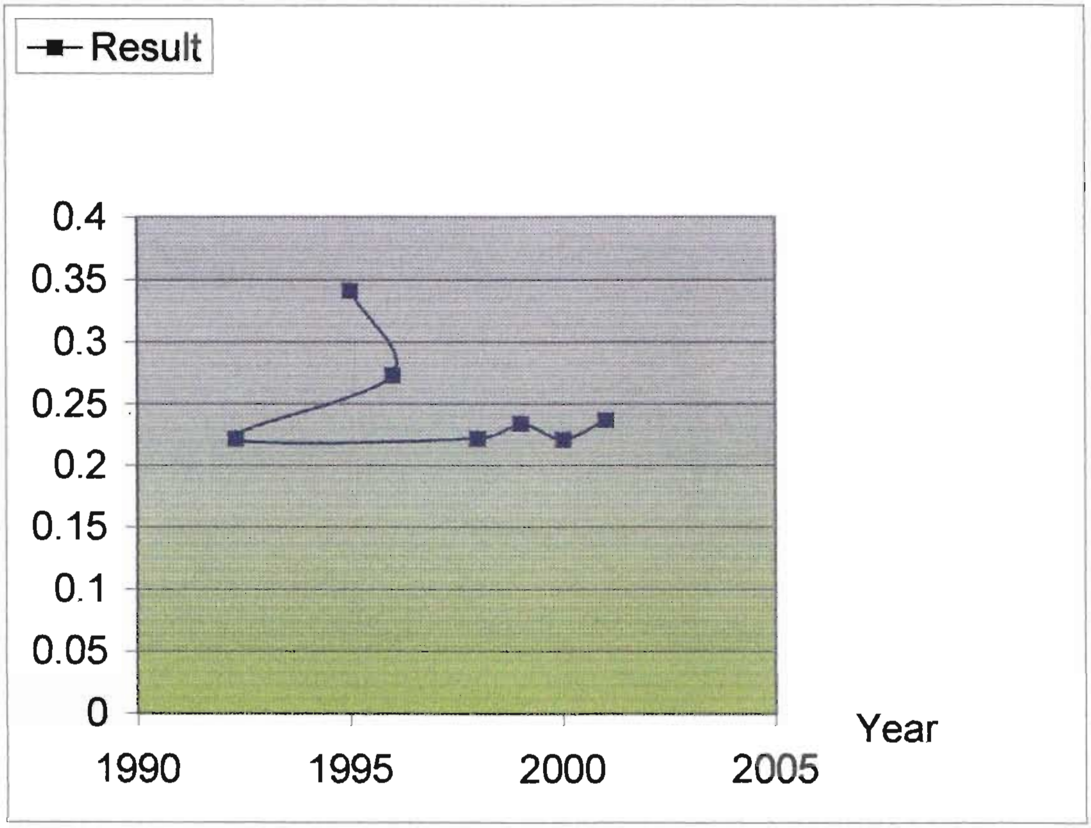
1) Net Working Capital To Total Assets:

$$= \frac{\text{Net Working Capital}}{\text{Total Assets}}$$

Net Working Capital = (Current Assets – Current Liabilities)

Year	NWC	Ratio	Result
1995	267254549-168682162	98572387/288952149	0.341
1996	259920628-178755159	81165469/297456689	0.273
1997	311798398-233291903	78506495/354816662	0.222
1998	312276243-234143352	78132891/352819679	0.222
1999	361324169-268670722	92653447/396856829	0.234
2000	413070339-314980019	98090320/444200559	0.221
2001	425913034-319139629	106773405/452026523	0.237

The Graphical Presentation of Net Working Capital To Total Assets:



Comment:

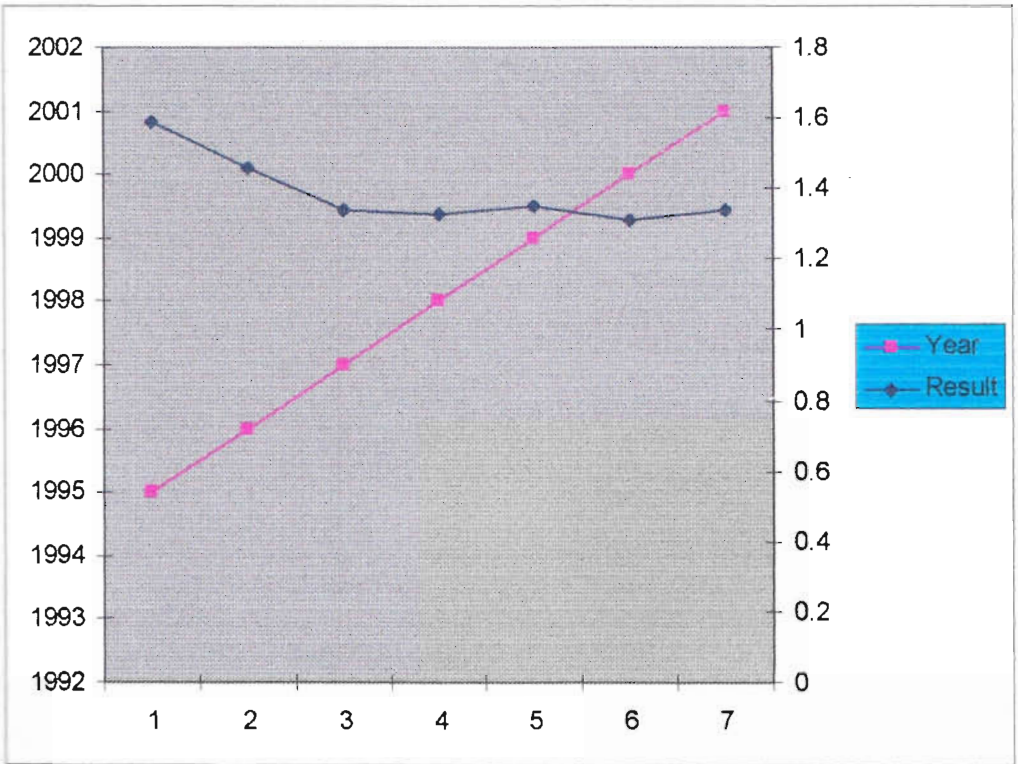
Net working capital to total assets ratios is higher in 1995.and the ratio was low in 2001 among all the year. Except the two years, there were small variations among all the year. It indicates that the company performed better.

2) Current Ratio:

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

Year	Ratio	Result
1995	267254549/168682162	1.59
1996	259920628/178755159	1.46
1997	311798398/233291903	1.34
1998	3122766243/234143352	1.33
1999	361324169/268670722	1.35
2000	413070339/314980019	1.31
2001	425913034/319139629	1.34

The Graphical presentation of quick ratio;



Comment:

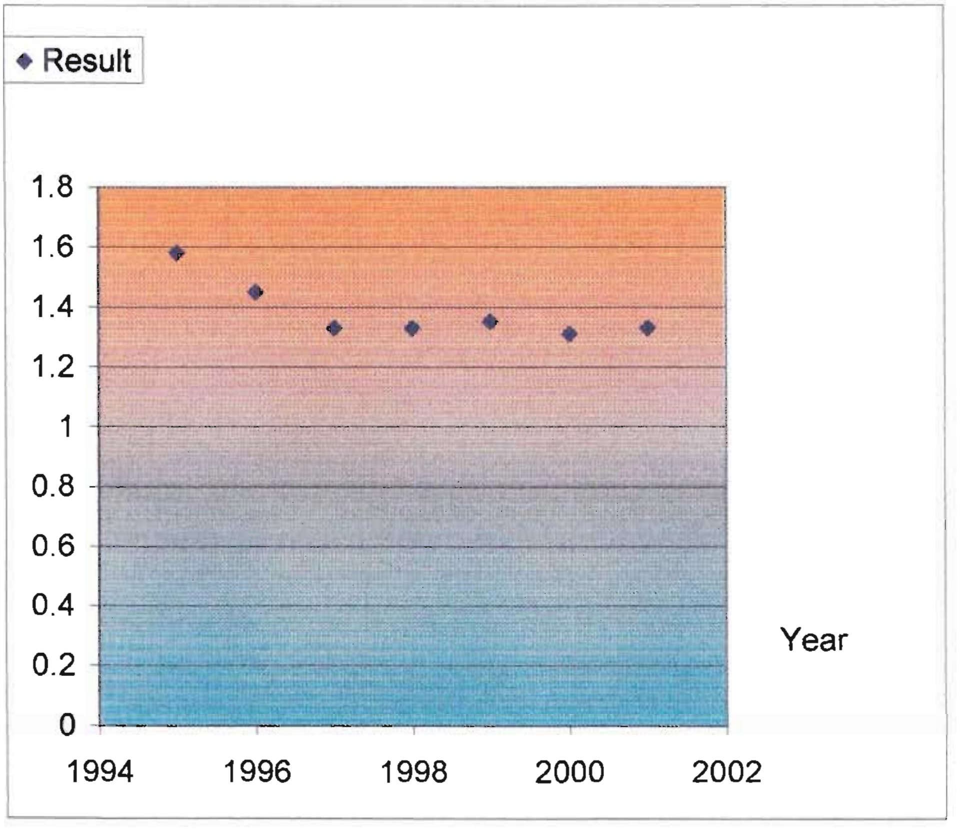
The ratio was highest in 1995. But except the year the company was able to manage its current assets in respect with current liabilities well over all the year.

3) Quick Ratio:

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

Year	Ratio	Result
1995	266323497/168682162	1.58
1996	259014592/178755159	1.45
1997	310783910/233291903	1.33
1998	311367806/234143352	1.33
1999	360430331/268670722	1.35
2000	412166381/314980019	1.31
2001	424915060/319139629	1.33

The graphical outlay of Quick Ratio:



Comment:

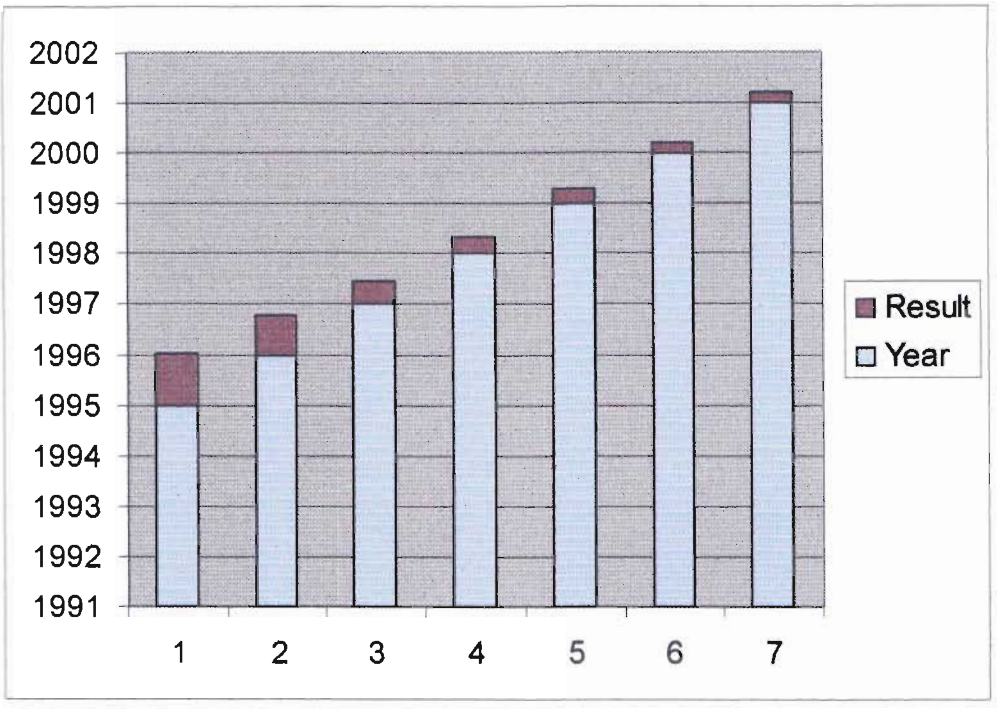
The highest ratio was in1995 and there were no more variations among all the years. So the company managed the Quick Ratio well.

4) Cash ratio:

$$= \frac{\text{Cash + Marketable Securities}}{\text{Current Liabilities}}$$

Year	Ratio	Result
1995	170098794/168682162	1.01
1996	132202207/178755159	0.78
1997	110302919/233291903	0.47
1998	76330559/234143352	0.33
1999	72764266/268670722	0.27
2000	67914995/314980019	0.22
2001	68149769/319139629	0.22

The Graphical Presentation of Cash ratio:



Comment:

This ratio was good in 1995 and the ratio was low in 2000 and also in2001. So the company managed its cash ratio well in 1995. The company didn't manage its cash ratio in others year.

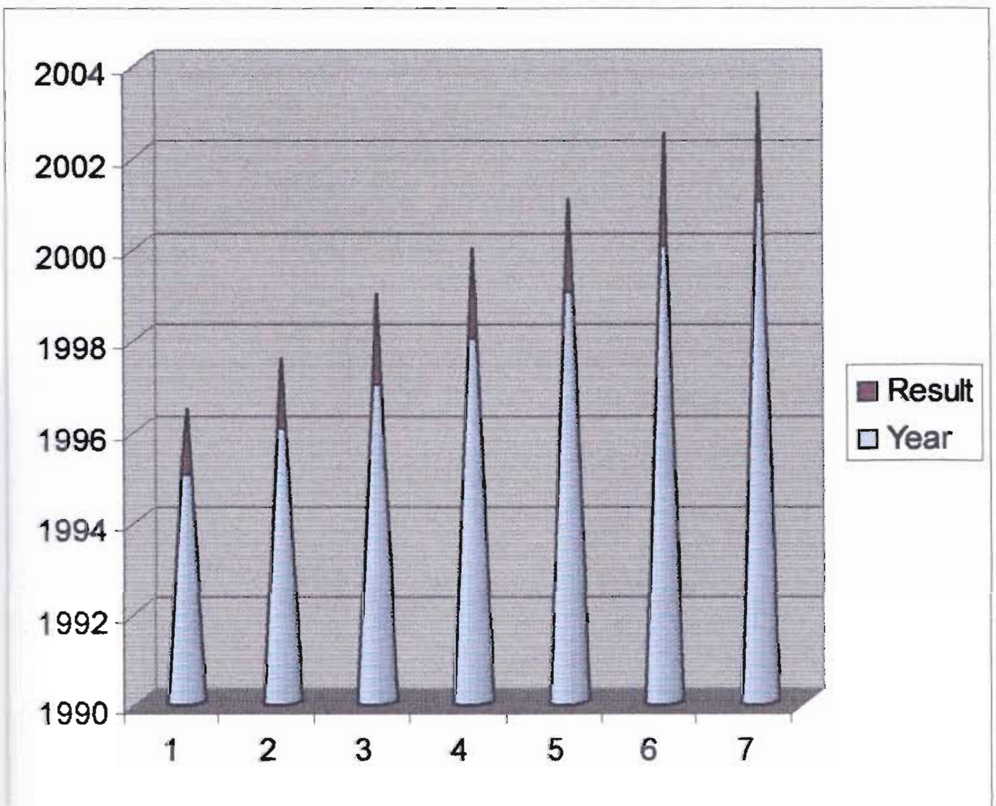
4.02 Solvency Ratio:

a) Debt Equity Ratio:

$$= \frac{\text{Debt}}{\text{Equity}}$$

Year	Ratio	Result
1995	168682162/120269987	1.40
1996	178755159/118701530	1.51
1997	233291903/121524759	1.92
1998	234143352/118676327	1.97
1999	268670722/128186107	2.01
2000	314980019/129220540	2.44
2001	319139629/136886894	2.33

The Graphical Presentation Of Debt Equity Ratio:



Comment:

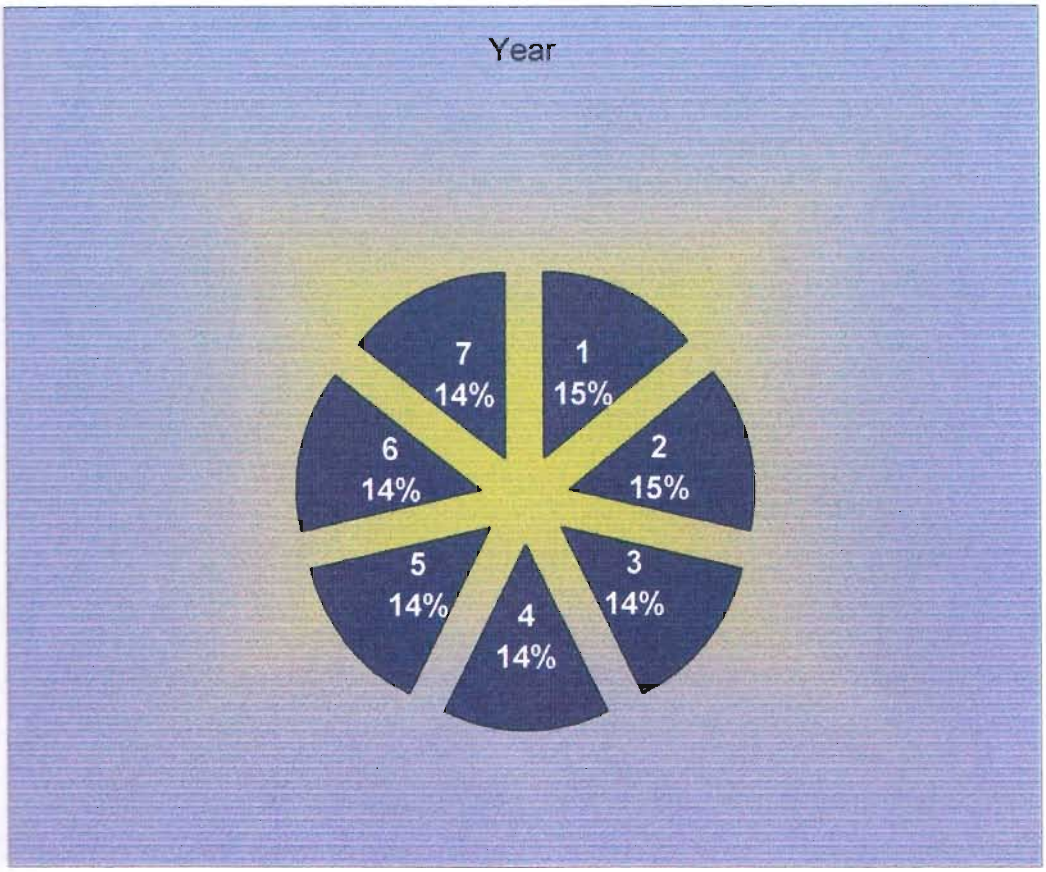
Among the year from 1995 to 2001, the company managed its debt equity ratio well in 1995 and in 1996. The company didn't manage its debt equity ratios all the year except in1995 and in1996.

b) Debt To Total Assets Employed:

$$= \frac{\text{Debt}}{\text{Total Assets}}$$

Year	Ratio	Result
1995	168682162/288952149	0.58
1996	178755159/297456689	.61
1997	233291903/354816662	.66
1998	234143352/352819679	.66
1999	268670722/396856829	.68
2000	314980019/444200559	.71
2001	319139629/452026523	0.77

The Graphical Presentation Of Debt To Total assets Ratio:



Comment:

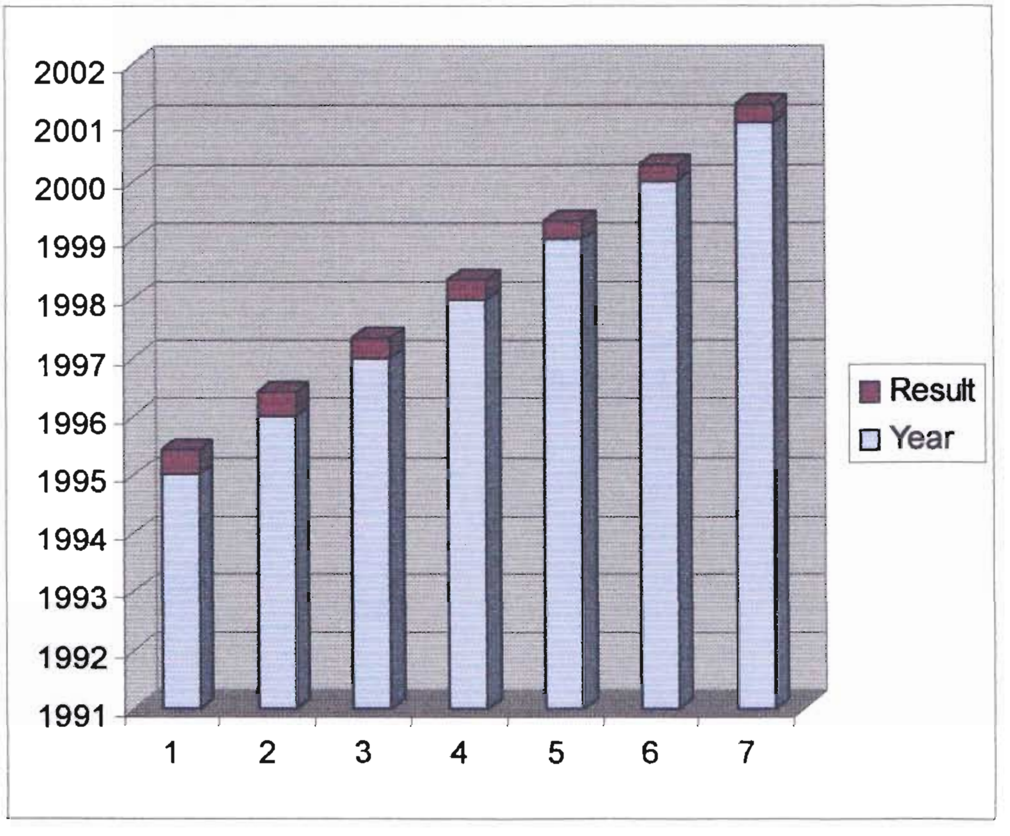
The ratio was increasing at an increasing way. The lower the ratio, the efficient managing the company. From the analysis, we can say that the company wasn't able to manage well its debt ratio.

c) Propriety Ratio:

$$= \frac{\text{Share Holders Equity}}{\text{Total Assets}}$$

Year	Ratio	Result
1995	120269987/288952149	0.42
1996	118701530/297456689	0.41
1997	121524759/354816662	0.34
1998	118676327/352819679	0.34
1999	128186107/396856829	0.33
2000	129220540/444200559	0.29
2001	136886894/452026523	0.31

The Graphical Presentation Of Propriety Ratio:



Comment:

This ratio indicates the proportion of equity from total assets. The higher rate was in 1995 and lowest was in 2000. Except the two years, there were a little variations in others period. So the company managed this ratio better.

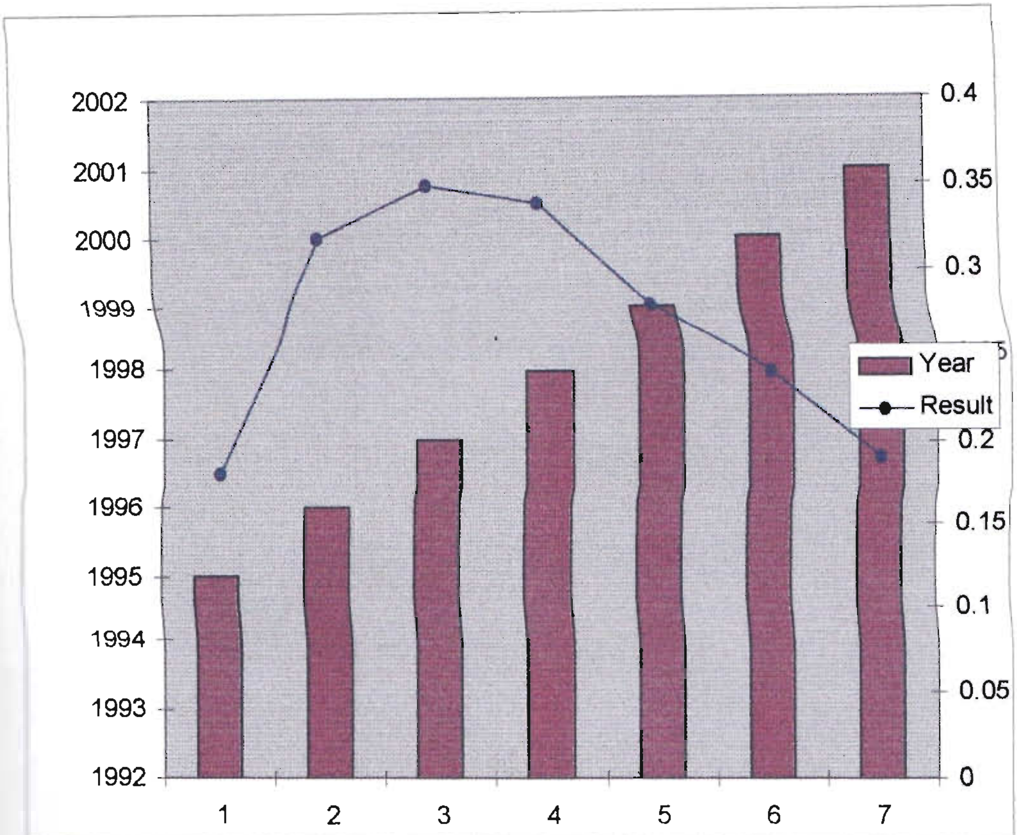
d) Fixed Assets To Net Worth:

$$= \frac{\text{Fixed Assets}}{\text{Net Worth}}$$

Net Worth=(total Assets – Total Debt)

Year	Ratio	Result
1995	21697600/120269987	0.18
1996	37536061/118701530	0.32
1997	43018264/121524759	0.35
1998	40543436/118676327	0.34
1999	35532660/128186107	0.28
2000	31130220/129220540	0.24
2001	26113489/136886894	0.19

The Graphical Presentation Of Fixed Assets To Net Worth:



Comment:

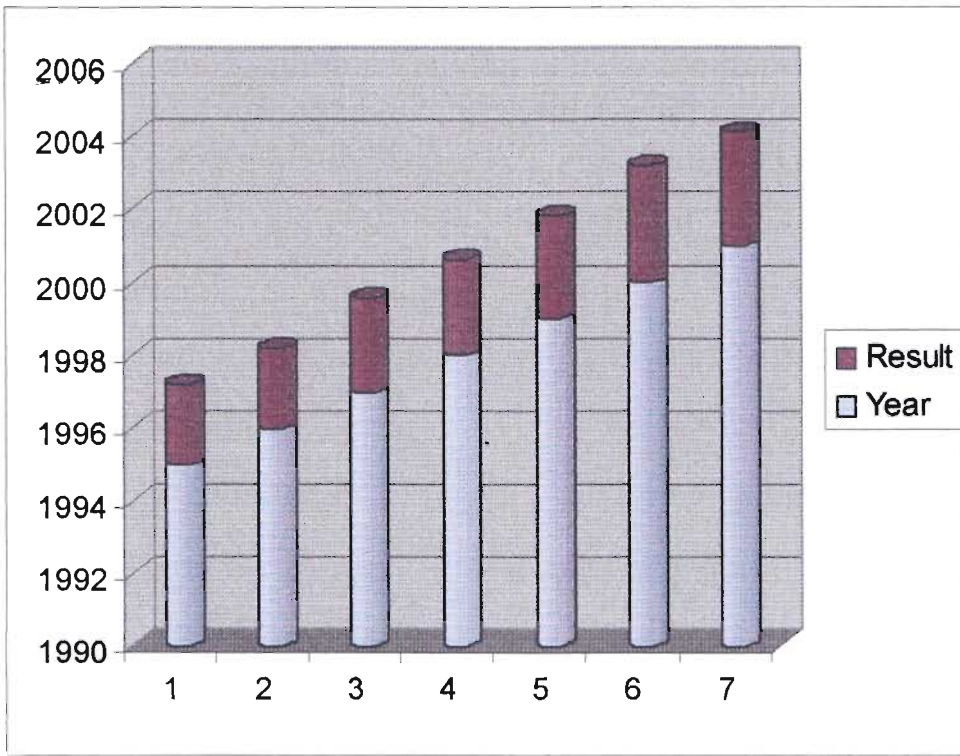
The larger the ratio the better the managing of the ratio. From all the ratios , the company's performance was better in 1996,1997 and in 1998.

e) Current Assets To Net Worth:

$$= \frac{\text{Current Assets}}{\text{Net Worth}}$$

Year	Ratio	Result
1995	267254549/120269987	2.22
1996	259920628/118701530	2.19
1997	311796398/121524759	2.57
1998	312276243/118676327	2.63
1999	361324169/128186107	2.81
2000	413070339/129220540	3.19
2001	125913034/136886894	3.11

The Graphical Presentation Of Asset To Net Worth:



Comment:

The higher the ratio the better the managing of the company. The ratio was good in 1999, 2000 and in2001. Except the three years, the company didn't perform well in the rest of the year.

4.03 Profitability Ratio:

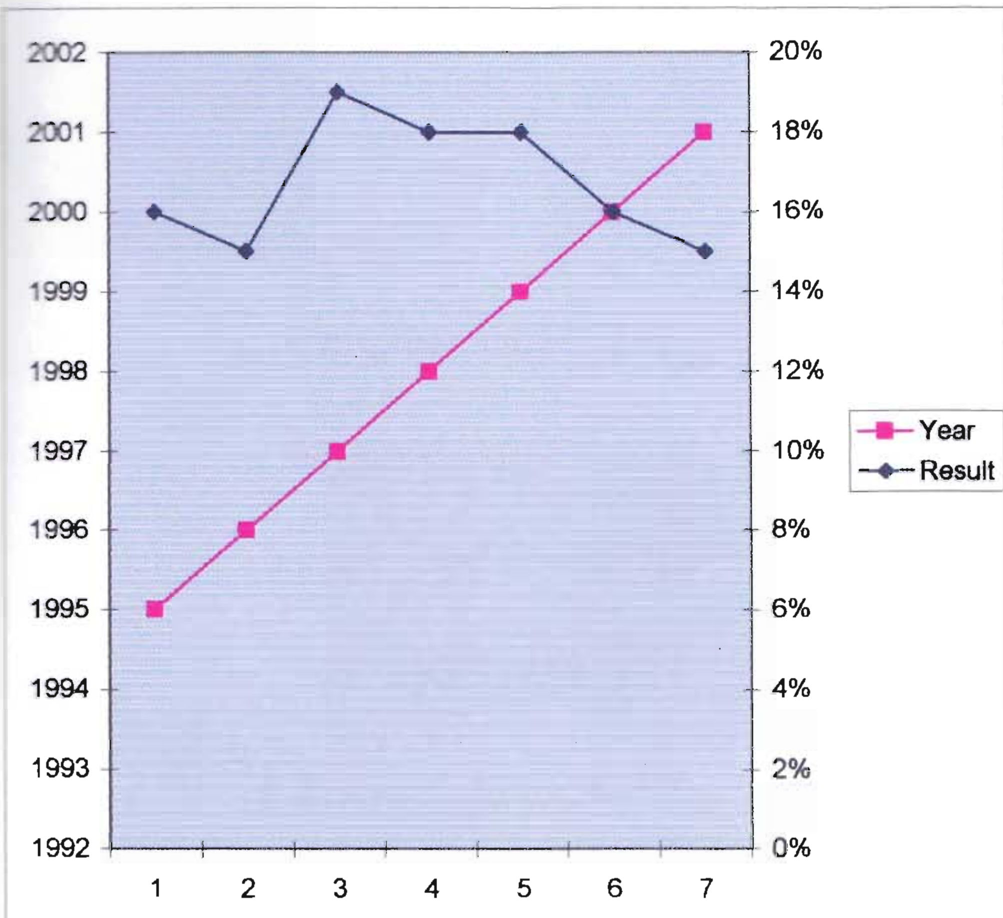
a) Gross Profit Ratio:

$$= \frac{\text{Gross Profit}}{\text{Net Sales}} * 100$$

Here, Gross Profit = Under Writing Profit
Net Sales = Operational Income

Year	Ratio	Result
1995	(21966585/139231770)*100	16%
1996	(24821207/164628562)*100	15%
1997	(35097976/182984665)*100	19%
1998	(28517542/154424662)*100	18%
1999	(25691366/147704277)*100	18%
2000	(26079930/165042935)*100	16%
2001	(25787549/174851803)*100	15%

The Graphical Presentation Of Profit Ratio:



Comment:

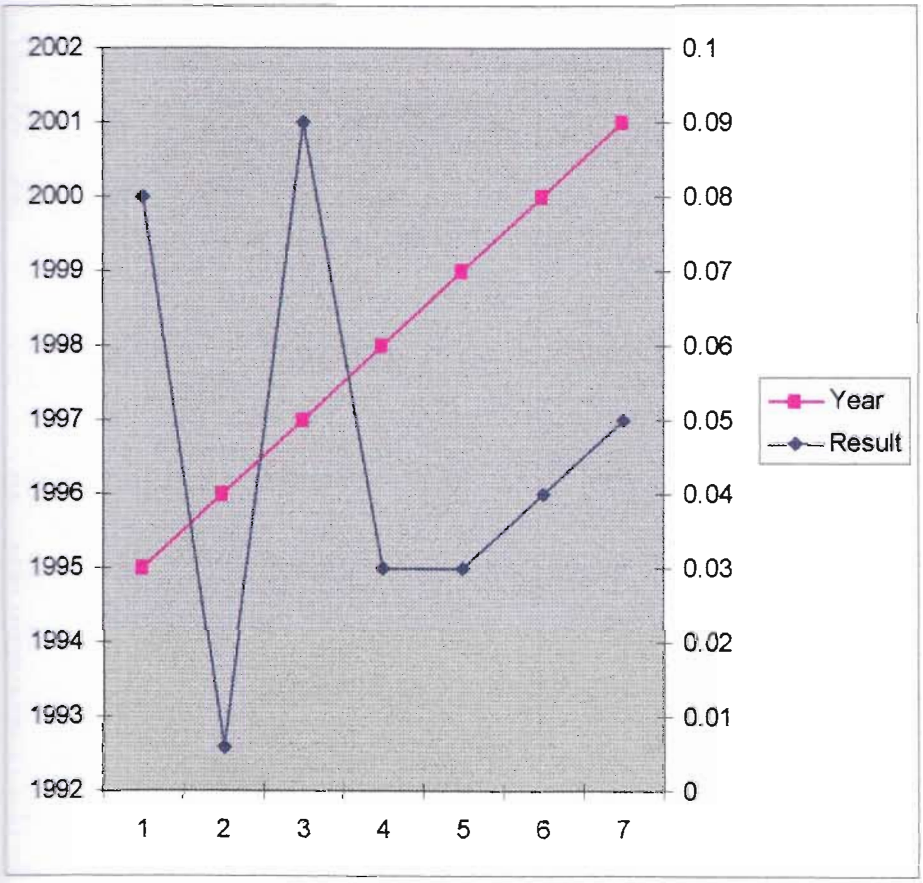
This ratio indicates the percentage of profit that a company earned for a year. The highest profit was in 1997 and the lowest was in 2001 and in 1996. Except the two years, there were small variations among the rest of the years.

b) Return On Net Worth:

$$= \frac{\text{Net Profit}}{\text{Net Worth}}$$

Year	Ratio	Result
1995	8916805/120269987	0.08
1996	6938859/1187701530	0.006
1997	10613488/121524759	0.09
1998	3647470/118076327	0.03
1999	3179045/128186107	0.03
2000	4390574/129220540	0.04
2001	6714789/136886894	0.05

The Graphical Presentation Of Return On Net Worth:



Comment:

This ratio indicates the profitability percentage compare with net worth. The ratio was highest in 1997. After 1997, the company didn't perform well because the ratio was decreasing at a decreasing rate.

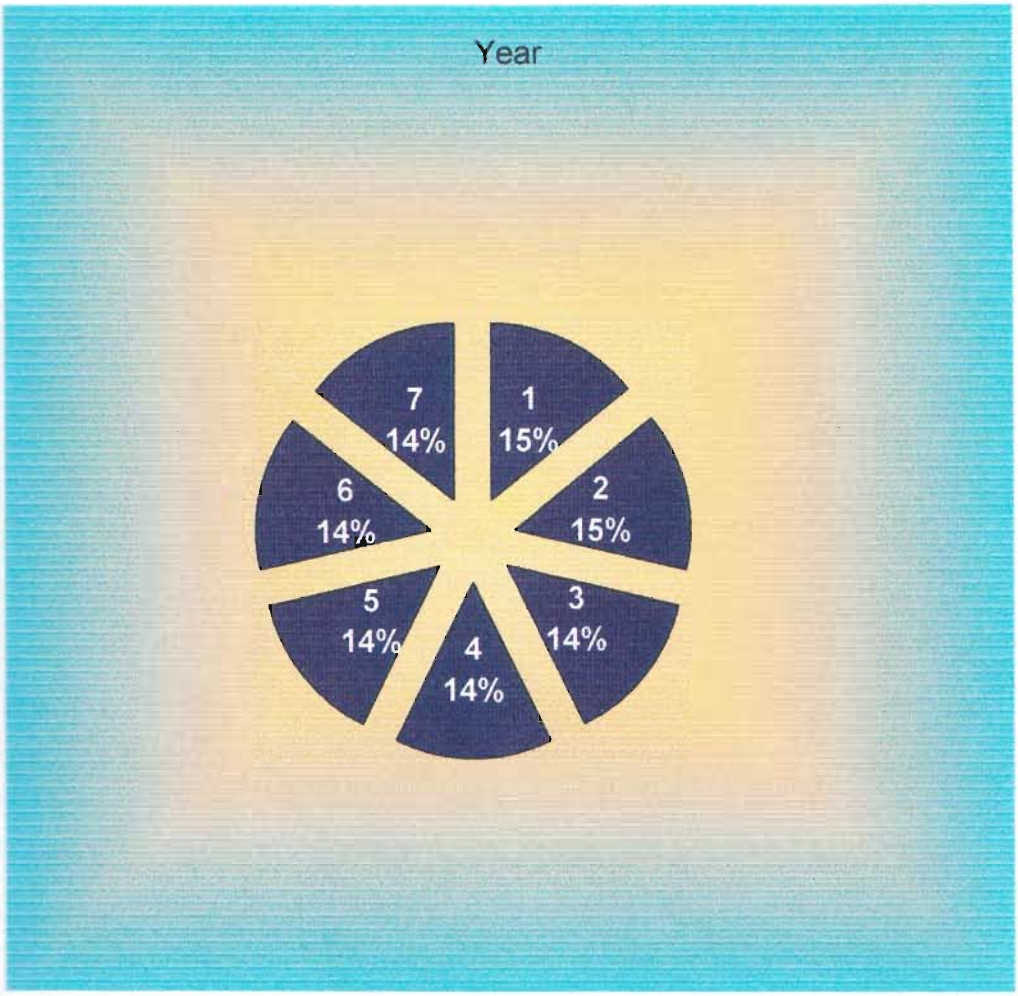
c) Return On Investment:

$$= \frac{\text{EBIT}}{\text{Total Assets}}$$

EBIT = Earning Before Income & Taxes

Year	Ratio	Result
1995	17316805/288952149	0.06
1996	14153850/297456689	0.05
1997	15443488/354816662	0.05
1998	5532470/351819679	0.02
1999	4829045/396856829	0.01
2000	6350574/444200559	0.02
2001	10714789/452026523	0.03

The Graphical Presentation Of return On Investment:



Comment:

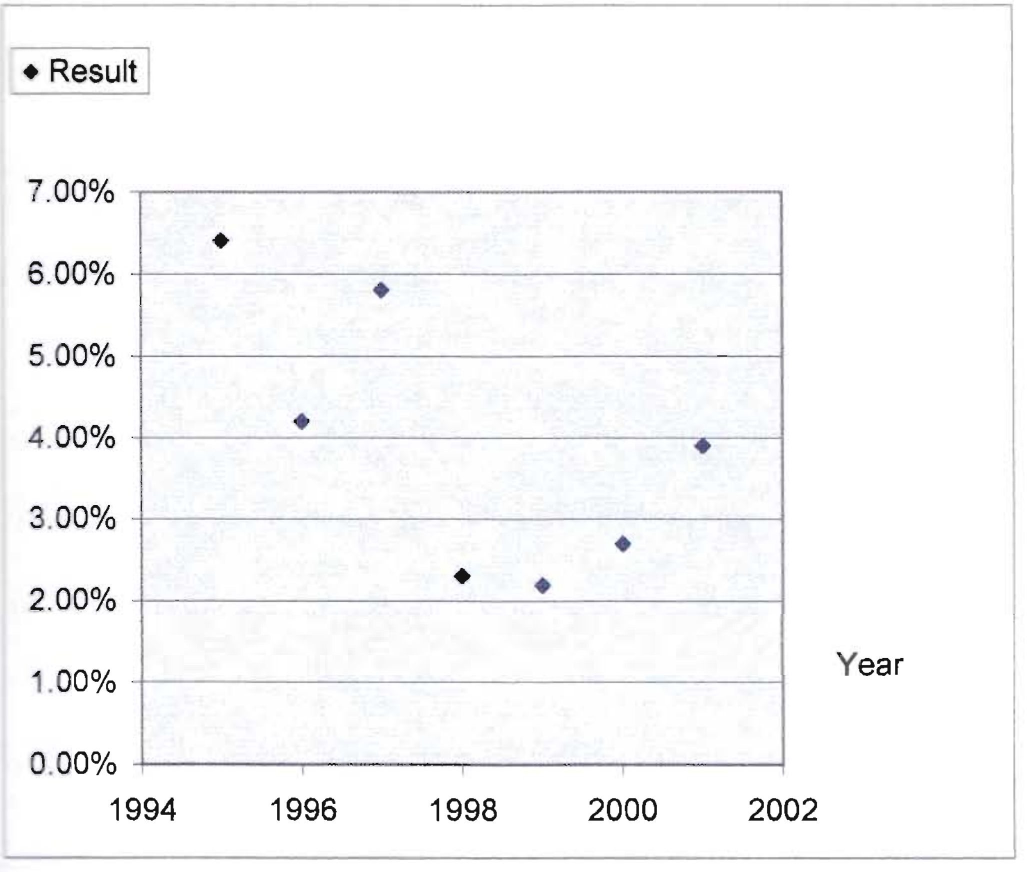
The higher the ratio the better for the company. The ratio was highest in 1995 and it was only 6%. From the year the ratio was decreasing at a decreasing rate. So the company didn't perform well.

d) Net Profit Ratio With Sales:

$$= \frac{\text{Net Profit}}{\text{Net Sales}} * 100$$

Year	Ratio	Result
1995	(8916805/139231770)*100	6.40%
1996	(6938859/164628562)*100	4.20%
1997	(10613488/182984665)*100	5.80%
1998	(3647470/154424662)*100	2.30%
1999	(3179045/147704277)*100	2.20%
2000	(4390574/165042935)*100	2.70%
2001	(6714789/174851803)*100	3.90%

The Graphical Presentation Of Net Profit Ratio With Sales:



Comment:

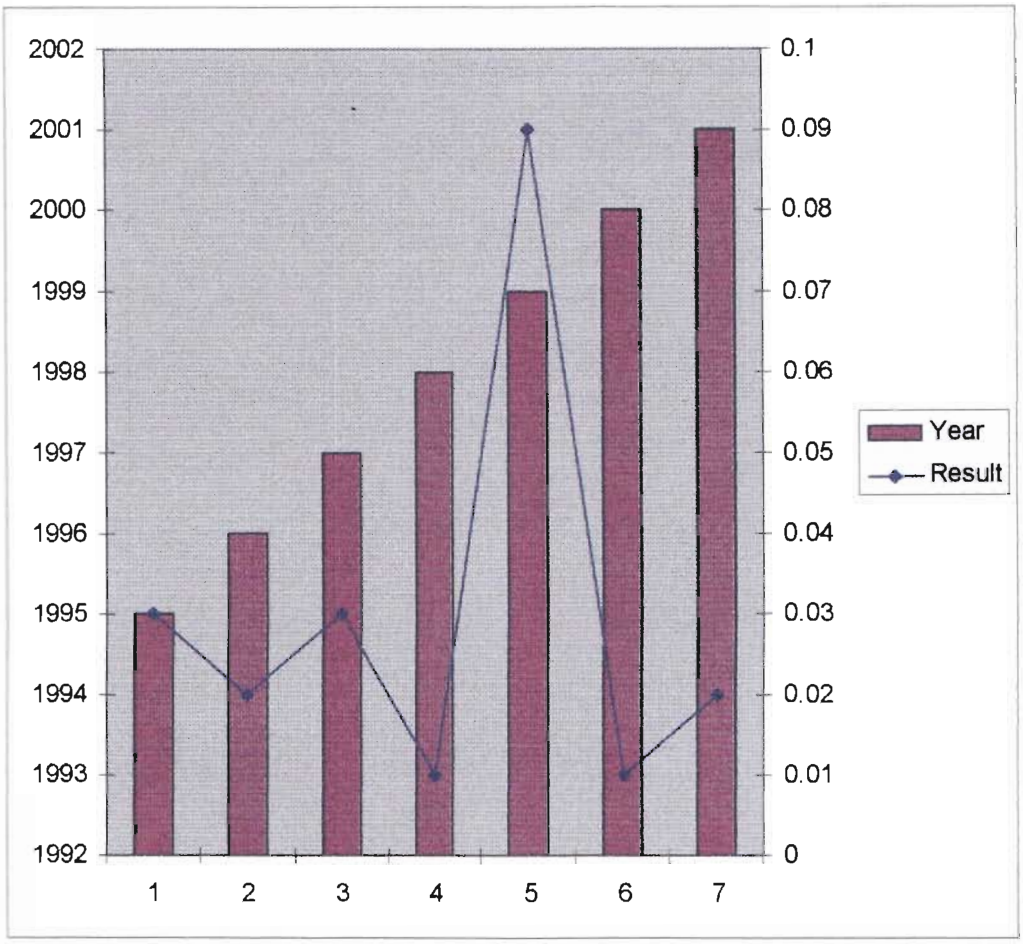
The ratio indicates the percentage of profit compare with total sales. The highest was in 1995. Except the year, the company didn't perform well because the ratio was decreasing at a decreasing rate.

e) Return on Total Assets:

$$= \frac{\text{Net Profit}}{\text{Total Assets}}$$

Year	Ratio	Result
1995	8916805/288952149	0.03
1996	6938859/297456689	0.02
1997	10613488/354816662	0.03
1998	3647470/351819679	0.01
1999	3179045/39856829	0.09
2000	4390574/444200559	0.01
2001	6714789/452026523	0.02

The Graphical Presentation Of Return On Total Assets:



Comment

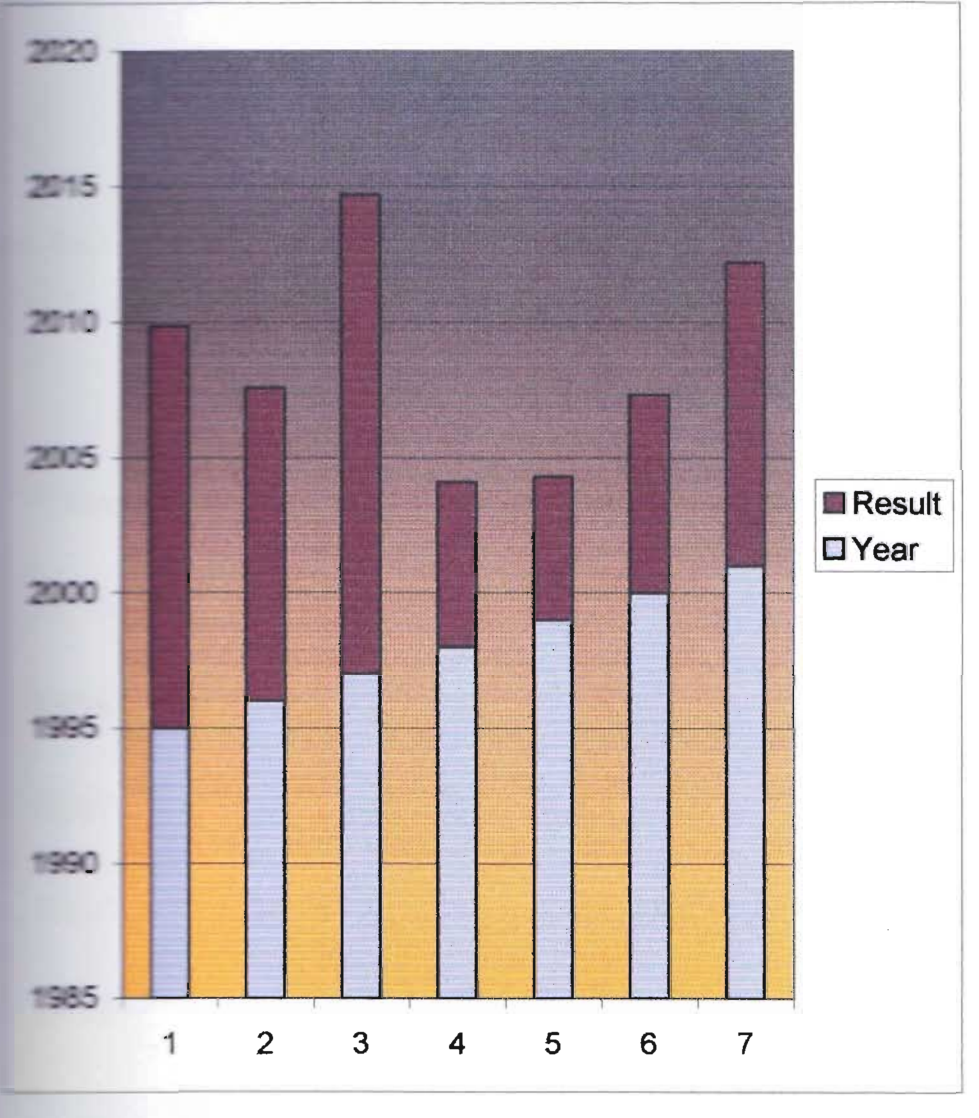
This ratio indicates the percentage of profit compare with total assets. The higher the ratio the better the company. The ratio was highest in 1999 and it was three times more than in 1995 and 1997. But the ratio was too low in 1996, 1998 and also 2001.

f) Earning Per Share:

$$= \frac{\text{Net Profit}}{\text{Number Of Share Outstanding}}$$

Year	Ratio	Result
1995	8916805/600000	14.86
1996	6938859/600000	11.57
1997	10613488/600000	17.69
1998	3647470/600000	6.11
1999	3179045/600000	5.31
2000	4390574/600000	7.32
2001	6714789/600000	11.19

The Graphical Presentation Of Earning Per Share:



Comment:

People invest on a particular share based on the earning per share. The higher the earning per share, the better the company share movement. The highest earning per share was in 1997. After the year the earning per share was decreasing at a decreasing rate. So the demand of the share was not so high.

4.04 Activity Ratio:

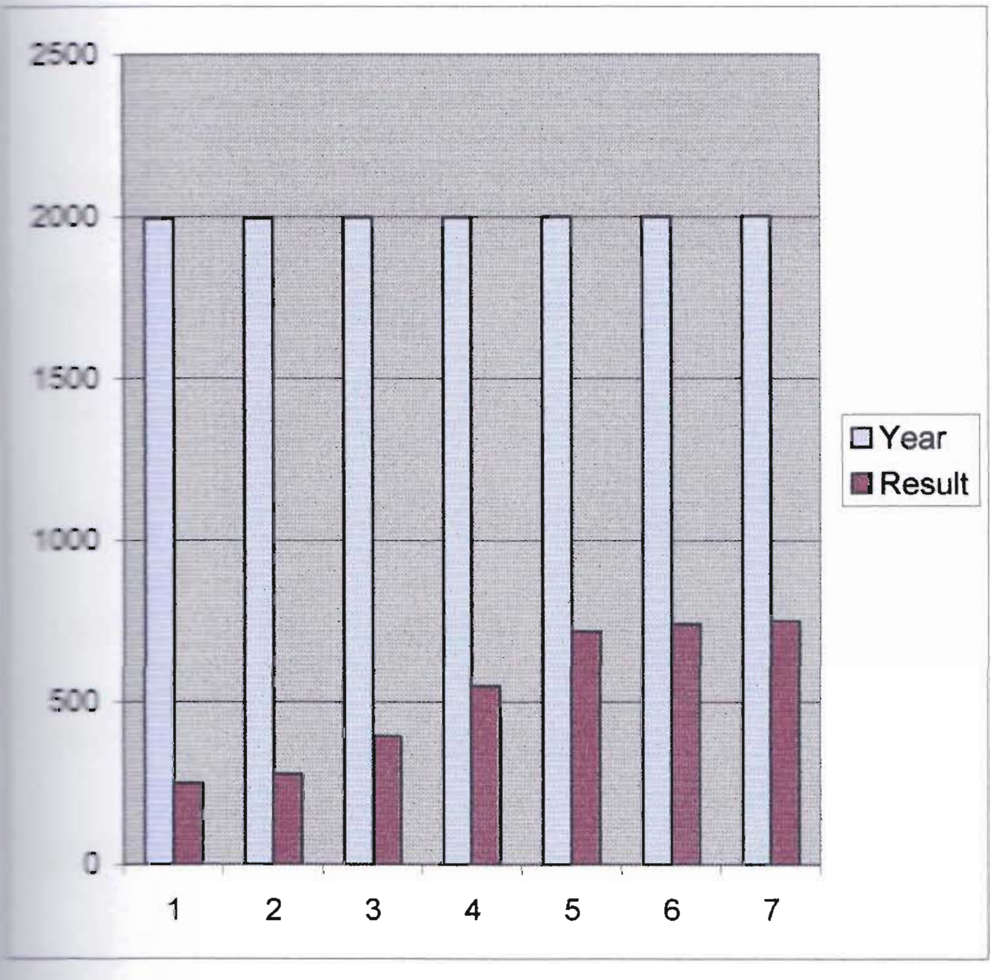
1) Average Collection Period:

$$= \frac{\text{Receivable}}{\text{Sales per Day}}$$

$$\text{Here, Sales Per Day} = \frac{\text{Operational Revenue}}{360}$$

Year	Ratio	Result
1995	96224703/(139231770/360)	249
1996	126812385/(164628562/360)	277
1997	200480991/(182984665/360)	394
1998	235037247/(154424662/360)	548
1999	294673840/(147704277/360)	718
2000	351313161/(168642935/360)	741
2001	363832866/(174851803/360)	750

The Graphical Presentation of Average Collection Period:



Comment:

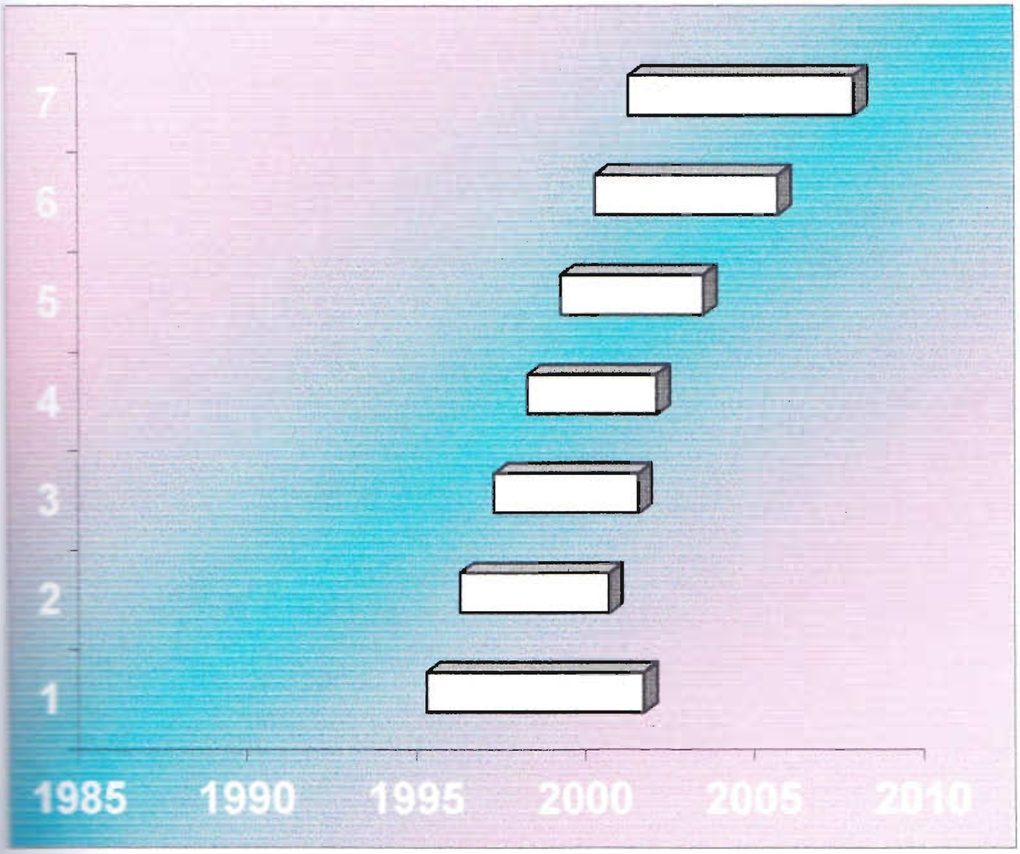
This ratio indicates that how many days needed to collect the receivable for a company. If a company collects its receivable quickly, it will be better for the company because the company gets cash and can use the cash in other investment area. The receivable period was lowest in 1995 for the federal insurance company and after the year the time period was increased. So the company didn't perform well.

2) Fixed Assets Turnover:

$$= \frac{\text{Sales}}{\text{Fixed Assets}}$$

Year	Ratio	Result
1995	139231770/21697600	6.42
1996	164628562/37536061	4.39
1997	182984665/43108264	4.26
1998	154424662/40543436	3.81
1999	147704277/35532660	4.20
2000	168642935/31130220	5.42
2001	4851803/26113489	6.67

The Graphical Presentation Of Fixed Assets Turn Over:



Comment:

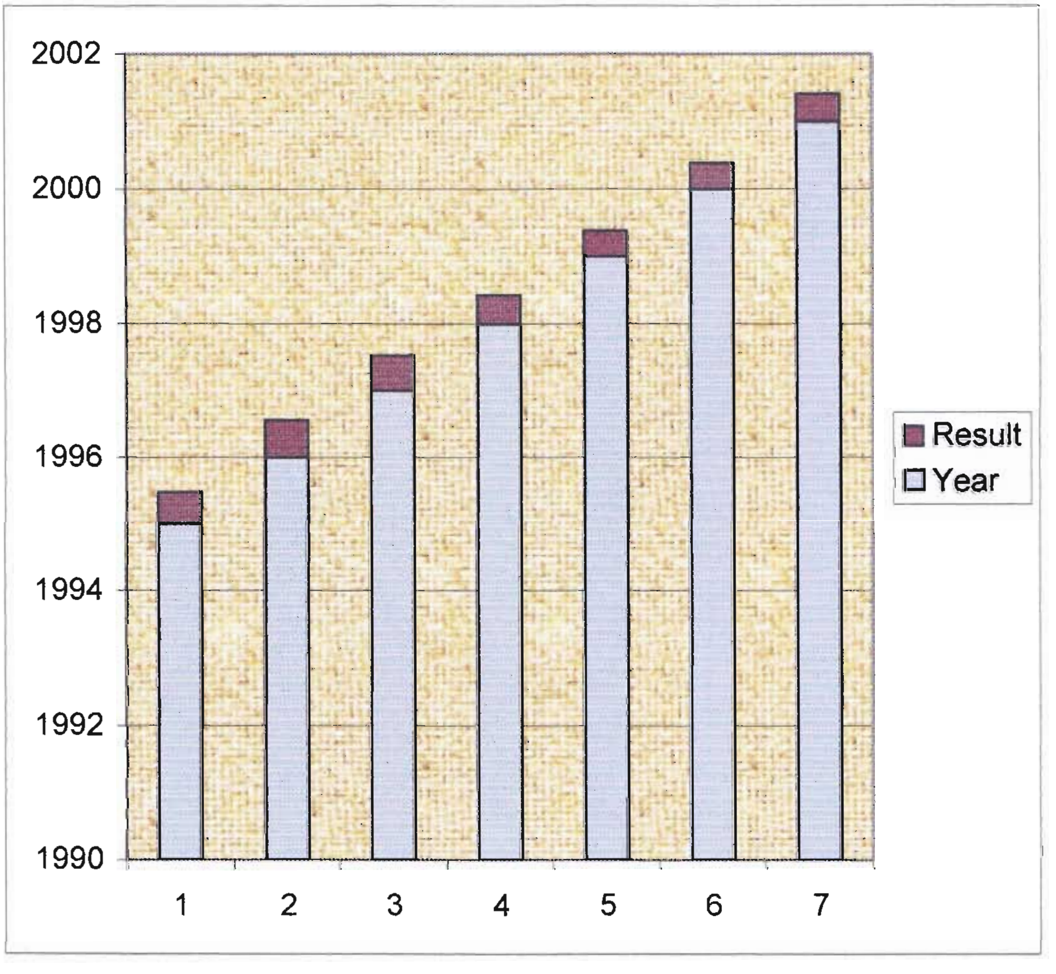
This ratio indicates the percentage of sale compare with fixed assets. The ratio was highest in 2001and lowest was in 1999. Except the two years, there were a small variations among the years. So the company performed good.

3) Total Assets Turnover:

$$= \frac{\text{Sales}}{\text{Total Assets}}$$

Year	Ratio	Result
1995	139231770/288952149	0.48
1996	164628562/297456689	0.56
1997	182984665/354816662	0.52
1998	154424662/351819679	0.42
1999	147704277/396856829	0.38
2000	165042935/444200559	0.38
2001	174851803/452026523	0.41

The Graphical Presentation Of Total Assets Turn Over:



Comment:

This ratio indicates the percentage of sales compare with total assets. The greater the ratio the better the performance of the company. The highest ratio was in 2001and lowest was in 2000 and 1999. Except those years, there was a little variation among the year. So the company managed the ratio well.

CHAPTER - FIVE

Conclusion

5.01 Summery:

The financial position of Federal Insurance Company is moderate. The liquidity and profitability ratios reflect the financial strength is higher than weakness. Solvency ratios show that, the current liabilities higher than the shareholders equity, but the company has available liquid assets to meet this liabilities. On the other side, the activity ratios show the efficiency in assets utilization that are not satisfactory.

The inter period comparison reflects that, the ratios are in decreasing tendency, but there is very possibility to get better financial condition and improvements by taking appropriate and accurate actions to protect from the decreasing tendency.

5.02 Recommendations:

In order to improve the financial position the company should take the following actions;

(i) The income from investment is higher than operating income. So FICL should increase its investment.

(ii) The premium collection should be increased to improve by collecting more clients because the capital employed has increased in 2001 than 1997. But the income has increased a little bit.

(iii) Utilization of resources should be increased to improve efficient asset management.

(iv) The proper actions should be taken to increase shareholders equity by making reserve.

(v) The company has no many long term liability, but has current liability which is higher than the owners equity, it should be decrease.

(vi) The expenses of management is so much high. It should be controlled.

(vii) People to be made concern to the insurance policy through advertisement, seminar etc.

(viii) Necessary measures to be taken for a promote claim statement.

(ix) Proper training facilities should be given the employees and officers of the insurance company to increase their efficiency.

(x) Independent surveyor to be appointed for determining amount of claim in case of disputes.

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Technical difficulties of the paper

BH

A-

Final grade

Good presentation