

Determinants of financial performance of takaful and insurance companies; evidence from Pakistan

Zoya Tanveer



**University of Management
and Technology**



**Institute of
Islamic Banking**

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



معهد المصارف الإسلامية
Institute of Islamic Banking

**Determinants of Financial Performance of Takaful and Insurance Companies;
Evidence from Pakistan**

Zoya Tanveer

**A thesis submitted in partial fulfillment of the requirements for the
MS in Islamic Banking and Finance**



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DECLARATION

I hereby declare that no portion of the work that appears in this study has been used in support of an application for another degree in qualification to this or any other university or institution of higher learning.

This thesis is a presentation of my original research work. Wherever contributions of others are involved, every effort has been made to indicate this clearly, with due reference to the literature and acknowledgement of collaborative research and discussions.

The work was done under the guidance of Dr. Talat Hussain, Assistant Professor, Institute of Islamic Banking, University of Management and Technology, Lahore, Pakistan.

Zoya Tanveer

Date: _____

In my capacity as supervisor of the candidate's thesis, I certify that the above statements are true to the best of my knowledge.

Dr. Talat Hussain

Date: _____

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DEDICATION

Dedicated to my parents who remained always a source of inspiration and whose prayers are always with me in every step of life.

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With the name of Allah, who is the most merciful, the most beneficent. I am very grateful to Allah *Subhana wa tala* for his countless blessing on me and thirst of knowledge is one of them. Allah gave us courage to know the things explore the phenomena's and derive the solutions for the benefits of other humans. I acknowledge the contribution of our Holy prophet in our lives, having unmatched wisdom, the widest scope of knowledge in all sphere of life and the humble attitude to win the hearts of others.

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ABSTRACT

Research Purpose: The main aim of this research study is to determine the financial fundamental ratios that may influence on the financial performance of the KSE - 100 index listed insurance and takaful companies. The research study determines the important selected financial variables that an investor / decision makers considers to be impact significantly on the insurer's financial performance.

Methodology / Design / Approach: The research study constitutes secondary data of 22 insurance and 5 takaful listed companies to examine the impact of retention ratio, loss ratio, liquidity ratio, efficiency ratio, capital adequacy and current ratio on the financial performance (ROA and ROE) during the period 2010 to 2016. The data is collected from the annual financial statements of selected companies.

Research Findings: The finding of the study concludes that insurance company's decision makers should consider retention ratio, loss ratio and efficiency ratio as an important financial fundamental factor that impact the performance (ROA) in conventional insurance scenario. Further, study contributed that retention ratio, loss ratio, efficiency ratio, capital adequacy and liquidity ratio have statistically significant relationship to the ROA, while retention ratio, loss ratio and liquidity ratio have significant association to the ROE in the context of Islamic insurance companies. However, the research study found insignificant relationship between current ratio and financial performance for all models.

Managerial Implications / Originality: The study assist investor's and decision making authorities of domestic and international companies to have a better look of considering financial fundamental factors, thus predict the company's performance. First comprehensive study has been conducted on financial factors determines the stock price of KSE - 100 listed insurance and takaful companies within the Pakistan.

Keywords: Financial Performance, Insurance, Islamic Insurance, Takaful, Pakistan

1. INTRODUCTION

1.1 Background of the Study

The basic purpose of a company's annual financial reports is to provide useful and necessary information to the interested parties involved in the decision making process. These published financial reports are considered to be the reliable and best source to forecast the future growth potential and performance assessment of the company. The companies put in order a set of files at the end of each financial period from which investors, shareholders and strategic policy makers measure the short term and long term financial sustainable position of organization (Hoque & Parker, 2014). These financial statements often accompanied with financial ratio analysis to provide a snapshot of all company's aspects in terms of performance, profitability, assets and liabilities management. From this valuable information, shareholders extract evaluation related to financing, operating effectiveness, investment policies and future potential of the company. Therefore, such financial reports are often audited by best auditing agencies and accountants to ensure the accuracy of each and every financing transaction.