



**A STUDY ON THE RELATIONSHIP BETWEEN CAPITAL
STRUCTURE AND FINANCIAL PERFORMANCE OF
INSURANCE COMPANIES IN MALAYSIA**

FIN 650

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ABSTRACT

The purpose of this research is to study the relationship between capital structure and financial performance, which is focus on insurance company. Only 3 companies were selected as sample for a year starting from 1995 to 1999. Data regarding capital structure and financial performance of the company in the sample was collected from library in Kuala Lumpur Stock Exchange's (KLSE) and library in University Technology Mara, Terengganu.

Capital structure is represented by the financial leverage ratios and measured in term of Debt Ratio, Debt to Equity Ratio and Long-term Debt to Total Assets. Hence, financial performance is represented by profitability ratios and measured in term of Return on Investment and Return on Equity.

A statistical tool known as Time Series Package (TSP) is used to do regression analysis. The conclusion that can be derived from this research is that financial performance is not effect much by the capital structure. It means there a weak relationship between capital structure and financial performance. There are other factors that may effects the financial performance.

LIST OF ABBREVIATION

ROE	Return on Equity
ROI	Return on Investment
EPS	Earnings Per Share
DR	Debt Ratio
ETL	Equity To Total Liabilities
ETA	Equity To Total Assets
KLSE	Kuala Lumpur Stock Exchange
BNM	Bank Negara Malaysia
MAA	Malaysian Assurance Alliance
GARCH	Generalized Auto Regressive Conditional Heteroskedasticity
SPSS	Statistical Package For Social Science
CI	Confidence Interval

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