



**PREDICTING FINANCIAL DISTRESS OF INSURANCE
FIRMS IN MALAYSIA: AN EMPIRICAL TEST OF FIRMS
FINANCIAL RATIOS**

**NUDHIRA BINTI ABDUL AZIZ
2010151911**

**BACHELOR OF BUSINESS ADMINISTRATION
(HONS) ISLAMIC BANKING
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
JOHOR**

JANUARI 2013

ACKNOWLEDGEMENT

Praise to the Almighty Allah, most Gracious, the Merciful and most Compassionate because eventually I had completed my research entitled PREDICTING FINANCIAL DISTRESS OF INSURANCE FIRMS IN MALAYSIA: AN EMPIRICAL TEST OF FIRMS FINANCIAL RATIOS. All the strength that comes from Allah will never forget because I need to face a lot of challenges to complete this research.

I wish to express my sincere appreciation to all lecturers at UiTM Segamat, Johor, especially for Puan Nur Liyana Mohamed Yousop as my advisor for giving me the most beneficial assistance and offered countless comments, constant guidance, patience, understanding and inspiration as well as for his constructive criticism in preparing this report. I could not repay her opinions and ideas she gave me in conducting this report.

I would also like to express my sincere gratitude and appreciation to Encik Abd Rashid Mohd Noor as branch manager for giving me an opportunity to do industrial training at the organization and gives me valuable experience in working environment. I'm also thankful to all staffs at the Bank Rakyat Segamat Segamat who had helped me and gave me cooperation, encouragement as well advised in completing the study.

I would like to express my appreciation to my beloved family especially to my parents, Encik Abdul Aziz Salleh and Puan Ariza Yaacob for their support, contributions and encouragement throughout my study. I am sincerely grateful to all who had assisted me with my project paper. Last but not least, a thousand thanks to all of my friends and classmates. I will never forget their kindness and sharings they gave in completing the report successfully.

May Allah forgive our short comings, Ameen.

Thank you.

TABLE OF CONTENTS

TITLE PAGE.....	i
DECLARATION OF ORIGINAL WORK.....	ii
LETTER OF SUBMISSION	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENT.....	v
LIST OF DIAGRAMS AND TABLES.....	ix
LIST OF ABBREVIATIONS	x
ABSTRACT	xi

CHAPTER 1

INTRODUCTION

1.0 History of Insurance Industry in Malaysia	1
1.1 Background of Study	3
1.2 Problem Statement.....	4
1.3 Research Question	5
1.4 Objectives of the Study.....	6
1.5 Significant of the Study	6
1.5.1 Regulators.....	6
1.5.2 Policyholders	7
1.5.3 Insurance firms	7
1.6 Scope of Study.....	8
1.7 Limitation of Study.....	8
1.7.1 Accuracy of Data.....	9
1.7.2 Difficulty in obtaining information	9
1.7.3 Availability of Data.....	9
1.8 Definition of Terms	10
1.8.1 Net profit margin (NPM).....	10
1.8.2 Return on Asset (ROA)	10
1.8.3 Return on Equity (ROE).....	11
1.8.4 Debt to Equity Ratio.....	11

LIST OF DIAGRAMS AND TABLES

Diagram 2.1	: Research Framework
Diagram 4.1	: Example of Skewness
Diagram 4.2	: Histogram of Residual
Table 2.1	: Previous Study Summary
Table 4.1	: Skewness
Table 4.2	: Descriptive Statistics
Table 4.3	: Strength of Linear Relationship
Table 4.4	: Pearson Correlation
Table 4.5	: Coefficient, Standard Error, t-Statistic and Probability
Table 4.6	: Model Summary

ABSTRACT

Financial distress can be defined as a condition where a company cannot meet or has difficulty paying off its financial obligations (Wruck. K. H., 1990). A company under financial distress is related to the situation such as insolvency. Like other firms, insurance firms also face financial distress. There are several insurance firms are takeover by other insurance firms because of mismanagement and lack monetary resources moreover it was more difficult to see the performance of insurance firms from the beginning to the present. The objectives of this research are to examine financial distress that faced by insurance firms in Malaysia and to identify financial ratios (liquidity ratio, profitability ratio and debt ratio) that has significantly predict financial distress of insurance company in Malaysia. The method that were used in this research is panel data analysis. The data are gathered from annual report of insurance firms in Malaysia. The results of the study shows that Net Profit Margin (NPM), Return on Equity (ROE), and Debt to Equity Ratio (DTER) are significant and simultaneously will affect on an insurance firms performance especially when to detect the existence of financial distress.