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

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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.