EMPOWER
DEVELOPMENT

Commonly used ratios			
Category	**Name**	**Ratio Formula**	**Information**
Profitability Ratios (money outputs compared to the input)	Gross profit percentage ratio	Gross profit / Sales (revenue) x 100	Shows gross profit compared to sales. Higher percent is good.
	Net profit percentage ratio	Net profit / Sales (revenue/turnover) x 100	Shows net profit (after expenses, Inc. tax) compared to sales. Higher percent is good.
	Return on Capital employed (ROCE)	profit before interest charges & tax / share capital + reserves (inc retained earnings) + borrowings x 100	Allows an investor to see if the insurer is making money for them. Higher percent is good.
Productivity / Efficiency Ratios (measures other inputs and outputs like how efficiently a company uses its assets and liabilities)	Trade receivables /debtor collection period	Trade receivables (debtors) / sales x 365 days	Shows a firm's efficiency in collecting outstanding payments. A lower number is a good result.
	Payables (creditor) payment period	Payables (creditors) / purchases x 365 days	Shows a firm's efficiency in paying outstanding debts. Higher may be better if interest free credit is offered.
	Inventory (stock) turnover period	Inventory or stock / cost of sales x 365 days	Shows the average number of days that stock is held for before it is sold. Lower is better as stock is being turned over to meet demand.
Liquidity Ratios (how much liquidity a company has)	Current ratio	Current assets / current liabilities	Shows how liquid a business is (how much cash or assets can be sold quickly to meet liabilities). Approximately 2 or sometimes 1.5 is sufficient.
	Quick ratio	Current assets excluding stock / current liabilities	Shows how much cash or cash equivalents a business has. May be below 1 but that may show issues.
Activity (or turnover) Ratios (measures a firm's ability to convert different balance sheet items into cash or sales)	Stock turnover ratio	Cost of sales / average stock	Shows the number of times or how often stock turns over in a year. A higher number is better.
	Debtors' turnover ratio	Sales / debtors	Shows how often the number of debtors are turned over each year. A higher number shows debts are being turned into cash faster.
	Creditors turnover ratio	Purchases / creditors	Shows how often number of creditors are turned over each year. A lower number may be better which shows credit is kept longer.
Gearing Ratios (how much is being borrowed compared to shareholder's equity)	Gearing ratio	Long term borrowings / shareholders equity x 100	Shows borrowings as a percentage of the shareholders equity. A lower number is good to show the business is not relying too much on debt finance. Typically, between 25% and 50% .
	Return on equity (ROE)	Profit after tax / shareholders equity (capital) x 100	Shows an investor if a company is making money for them and at what rate. The higher the number the better.

Insurance industry specific ratios			
Category	**Name**	**Ratio Formula**	**Information**
Solvency Ratios (how solvent is the insurer)	Solvency ratio	net assets (total assets - total liabilities) / earned premium net of reinsurance	Shows the net assets compared to the premium earned in that period. A higher figure is usually better but if rates increase (such as in a hard market), the ratio figure will lower.
	Solvency coverage ratio	total eligible capital / solvency capital requirement	Shows surplus regulatory capital available compared to the regulatory capital that is required.
Liquidity Ratios (how liquid the insurer is)	Liquidity ratio	Total liabilities / cash + investments	Shows how liquid an insurer is. The lower the result the greater the liquidity but shouldn't be too low, as this would mean too many assets are tied up and not making any money.
Profitability Ratios (the monetary outputs compared to the inputs - usually done over a number of years at one time)	Return on equity (ROE)	Profit after tax / shareholders' equity (capital) x 100	Shows an investor whether a company is making money for them and at what rate. The higher the number the better.
	Gearing ratio	Long-term borrowings / shareholders' equity x 100	Shows borrowings as a percentage of shareholders equity. A lower number is good to show the business is not relying too much on their borrowing. Highly geared would be over 120% and low would be 60%.
	Claims ratio	Claims incurred net of reinsurance / earned premium net of reinsurance x 100	Shows the claims incurred compared the premium earned.
	Expense ratio	Administrative expenses / earned premium (net of reinsurance)x 100	Shows the administrative expense compared to the premium earned. (includes the cost of reinsurance, claims handling, underwriting and administration).
	Commission ratio	Acquisition costs / earned premium (net of reinsurance) x 100	Shows acquisition (commission) costs compared with the premium earned.
	Combined ratio	Claims + expenses + commission costs / earned premium (net of reinsurance) x 100	Shows overall underwriting performance compared with the premium earned to show the underwriting performance (as opposed to profitability as investment income is not included.) A combined ratio below 100% shows good underwriting, above 110% is poor.
	Outstanding claims ratio	outstanding claims net of reinsurance / net assets (total assets - total liabilities)	Shows outstanding claims compared to assets. A lower ratio means more security, if there is no under reserving.