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RESEARCH ARTICLE

Evaluation of the Financial Performance of the Insurance Company Using Financial Ratios: A Case Study of Salama Insurance in Algeria

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Abstract

This study examines the financial performance of Salama Insurance Company in Algeria through the systematic application of financial ratio analysis over the period 2016–2019. Given the strategic importance of insurance companies within the financial system and their role in risk mitigation and economic stability, evaluating their financial soundness is essential for stakeholders, regulators, and decision-makers. The research seeks to assess the company's financial condition, identify trends in performance indicators, and determine the effectiveness of financial ratios as analytical tools in measuring operational efficiency and financial stability. To achieve these objectives, the study adopts a descriptive-analytical methodology based on the examination of Salama Insurance Company's published financial statements. A set of key financial ratios—including liquidity, profitability, solvency, and operational efficiency ratios—were calculated and analyzed to provide a comprehensive assessment of the company's financial performance during the study period. Comparative analysis across years was employed to detect structural changes and performance fluctuations. The findings reveal a general deterioration in most financial ratios, indicating weaknesses in liquidity management, declining profitability, and reduced financial resilience. These results suggest that Salama Insurance Company faced notable challenges in maintaining financial efficiency and stability during the analyzed period. The study underscores the effectiveness of financial ratio analysis as a diagnostic tool for identifying financial strengths and weaknesses in insurance companies and emphasizes the need for improved financial management practices. The outcomes of this research provide valuable insights for policymakers, financial managers, and investors and contribute to the empirical literature on insurance company performance in emerging markets.

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Introduction

The insurance sector holds a strategic position among all sectors, being one of the most important and interconnected with various other economic sectors. It plays a crucial role in the growth and stability of all sectors, as well as in protecting individuals and their assets from various risks. In recent years, there has been an increased focus on insurance as one of the pillars of the financial industry, significantly contributing to the enhancement and growth of this sector.

The nature of operations in insurance companies is characterized by a set of features that place them at a higher risk compared to traditional insurance firms. Therefore, it is essential for insurance companies to maintain a high level of financial efficiency in their performance. This underscores the importance of financial analysis in insurance companies, which aims to track trends and monitor changes in the company's financial position over time. This is achieved by comparing indicators from year to year, as well as benchmarking them against competitors in the sector and against specific standards relevant to the company's activities under analysis. Such comparisons enhance the value of financial indicators as monitoring tools to identify the strengths and weaknesses within the company.

From the preceding discussion, we propose the following research question:

What is the role of financial analysis using financial ratios in assessing the financial performance of Salama Insurance Company in Algeria?

Hypotheses:

Financial analysis using financial ratios offers a realistic representation of the company's actual financial performance and emphasizes the relative significance of the elements within the financial statements.

Objectives of the Study

To assess the financial position of Salama Insurance Company for the period (2016-2019).

Importance of the Study

The significance of this study is reflected in:

-The importance of insurance companies in the financial industry and their contribution to achieving economic development plans.

-The importance of analyzing financial performance using financial ratios to reveal the financial status of insurance companies in order to identify strengths and weaknesses and address them.

Methodology of the Study

The descriptive analytical approach was employed as it is more suitable for the study's objectives. Additionally, financial ratios were used to analyze the financial performance of the insurance company under investigation.

Scope of the Study

Salama Insurance Company in Algeria was selected for this study. In terms of time frame, the study covers the period from 2016 to 2019.

First: Previous Studies

Many previous studies have addressed the topic of evaluating the financial performance of insurance companies using financial ratios. A selection of these studies is presented below:

A study by Mukdad (2023) aims to measure the financial performance of three insurance companies operating in the United Arab Emirates during the period (2006-2009), with the purpose of assessing the impact of the financial crisis on performance. The analysis focuses on key performance indicators such as profitability, liquidity, capital structure, and market performance indicators from 2006 to 2009. The results generally reveal high levels of instability in profitability indicators. In terms of liquidity and capital structure, the companies experienced lower levels of volatility and instability across all areas. Profitability per share exhibited a higher

level of volatility, in contrast to the stock market value indicator, which remained relatively stable throughout the period in question. Additionally, profitability levels showed a systematic and significant decline during the 2008 crisis.

A study by Amer et al. (2021) aimed to evaluate the financial performance of national insurance companies during the period from (2014-2019) using vertical and horizontal financial analysis. The results of the analysis led to several conclusions, the most notable being a significant decline in the ratio of insurance operation revenues during the period (2014-2019), accompanied by an increase in the ratio of insurance operation expenses. The key recommendations included the necessity to review the cost centers of the insurance operations to identify the reasons behind the observed increase.

A study by Darla N. and Chraja K. (2021) aimed to analyze the financial performance of life insurance companies in India by examining the determinants of profitability. The sample included five insurance companies: LIC, SBI, ICICI, Birla Sun, and HDFC, covering a reference period of five years from 2014 to 2019. To analyze financial performance using the current ratio, two variables were considered: surplus and profit after tax. The study found that the current ratio for life insurance companies ICICI and Birla Sun showed an increasing trend year after year, while LIC, SBI, and HDFC exhibited a decreasing trend due to an increase in current liabilities.

A study by Haji (2020) examined the state of the solidarity insurance industry in the Gulf Cooperation Council (GCC) countries and evaluated the financial performance of a sample consisting of ten solidarity insurance companies in the GCC region for the period (2013-2020) using financial ratios based on several criteria: risk management efficiency, financial solvency, liquidity, administrative efficiency, and profitability efficiency. The study concluded that insurance constitutes a very small part of the Islamic finance industry; however, it has shown significant development in recent years. The Gulf solidarity market is considered one of the largest solidarity markets in the world, with six companies from the sample demonstrating financial performance efficiency, led by two Saudi companies, while the remaining companies in the sample lack financial performance efficiency.

A study by Shlal and Ali (2018) aimed to identify the criteria and financial indicators used to evaluate the financial performance of insurance companies and the factors influencing them. The study applied indicators such as the volume of insurance premiums, investment revenues, total number of subscribers, reserves, and others to assess the financial performance of the national insurance company in Basra during the period from 2008 to 2015. The findings indicated that insurance premiums experienced growth, attributed to increased underwriting in energy projects (electricity and oil), which had a positive impact on net profit. Furthermore, the reduction in the treasury's share of insurance operation revenues contributed to maximizing the company's profits. However, investment revenues exhibited volatility due to various internal and external factors.

A study by Ahmed and Mohamed (2017) employed financial analysis to evaluate the performance of cooperative insurance companies in Saudi Arabia. The researchers also utilized a discriminant analysis approach to classify these insurance companies based on their performance evaluation results. The study identified the most appropriate performance measurement indicators consistent with the characteristics of the Saudi market and developed a quantitative model to measure the financial solvency of insurance companies, facilitating the classification of companies within the sector.

A study by Eyerusalem Y. (2017) aimed to analyze the performance of three insurance companies: Awash, Nile, and Nyala, and to compare them with the industry average regarding liquidity, asset efficiency, profitability, and long-term solvency for the period from 2011 to 2016. The study utilized ten financial ratios. The liquidity analysis revealed that Nyala outperformed the others, while Nile's performance was slightly above the industry average. Conversely, Awash exhibited lower performance compared to the industry average. In terms of asset management efficiency, both Awash and Nile were found to be less efficient than the industry average, whereas Nyala demonstrated exceptional performance. The findings also indicated that Awash and Nile had lower profitability compared to the industry average, except when compared to Nyala. Furthermore, Nyala and Nile displayed outstanding financial solvency over the five consecutive years, while Awash's performance was aligned with the industry average.

A study by Emmanuel K. and Matthew K. (2015) aimed to evaluate the financial performance of insurance companies in Ghana within the Ghana Stock Exchange (GSE) and the broader Ghanaian insurance industry by comparing the performance of the companies against the overall industry using risk ratios, profitability ratios, and asset management metrics for the period from 2009 to 2013. The findings revealed significant differences

in performance between the two companies concerning total risk, net risk, claims reserve ratio, and retention ratio, while only minor differences were observed in the claims ratio and technical reserve coverage ratio in assessing risk management. Furthermore, slight variations were noted in all three profitability ratios assessed. The analysis indicated substantial discrepancies in the performance of the two companies regarding the ratio of investment income to total investment and the ratio of receivables to equity. However, insignificant differences were found in changes in capital and surplus, the ratio of receivables to total assets, the ratio of receivables to equity, the expenses ratio, and the combined ratio. The study concluded that there were no significant differences between the two companies and the industry averages, except for the profitability ratios, which showed insignificant differences across all metrics.

A study by Abdel Samad (2014) aimed to assess the financial condition and analyze the solvency margin of the National Insurance Company in Algeria. The findings indicated a negative impact of the financial position on the short term regarding permanent working capital, suggesting an unsound financial position for the company in the short term. Furthermore, the study concluded that the company's solvency margin was not adequate throughout the study period. The study was titled "Evaluation of the Financial Position."

A study by Faiza (2013) examined the state of the Iraqi Insurance Company and analyzed its financial performance using various financial analysis tools to evaluate the financial performance of insurance companies. The study concluded that the Iraqi Insurance Company is one of the most significant and largest insurance companies operating in the Iraqi sector. The performance measurement indicated a growth in the company's profitability, attributed to an increase in the volume of underwritten general insurance premiums. Furthermore, the indicators revealed that the company has sufficient liquidity to meet its obligations. Regarding the company's investments, it is heavily concentrated in real estate, accounting for 55%, which is a reflection of the prevailing economic conditions.

A study by Akotey et al. (2013) successfully measured the financial performance of life insurance companies using three indicators: net investment, underwriting profits, and gross sales profitability. The study was conducted on ten life insurance companies operating in Ghana, covering the period from 2000 to 2010. The findings revealed that life insurance companies incurred underwriting losses, which negatively impacted their financial performance. This was attributed to an increase in claims and rising administrative expenses. Furthermore, the study indicated that total premiums written and total assets had a negative effect on net investment.

A study by Tabaibiya (2010) aimed to determine the appropriate methodology for evaluating the performance of insurance companies to assess their financial position and the rational utilization of their available resources. The researcher analyzed the financial performance of the Algerian Insurance Company, using a set of financial ratios that align with the specific characteristics of the insurance sector. The study concluded with an evaluation of the company's financial status, identification of deviations, and recommendations for their rectification.

Second: Theoretical Framework

1. Financial Performance:

Researchers have varying opinions regarding the definition of financial performance. Some consider financial performance to be the ability to achieve set financial goals, expressed through financial indicators such as profitability and liquidity (Al-Khateeb, 2010: 45). On the other hand, Al-Amri and Al-Rakabi (2007) argue that financial performance is related to the optimal use of available resources, with evaluations made based on the data contained in financial statements, identifying variances, and addressing them to ensure the company's sustainability and competitiveness. Additionally, Codjia (2010) links financial performance to achieved financial returns, defined by presenting the volume of revenues and expenses and the difference between them, which results in profit or loss.

2. The Importance of Financial Performance:

The significance of financial performance lies primarily in its role in evaluating the performance of companies across various aspects (profitability, liquidity, activity growth, indebtedness, etc.), benefiting data users from related parties in revealing the financial position of the company, which aids them in making informed decisions. Specifically, the importance of financial performance is that it diagnoses the company's situation, assesses performance levels, and directs performance towards established objectives by identifying shortcomings and variances, and proposing corrective measures to ensure the company's sustainability and continuity (Al-Khateeb, 2010: 46).

3. Evaluation of Financial Performance:

Evaluating performance involves measuring to ensure that actual financial performance aligns with established performance standards. This assessment is essential for an organization to achieve its goals based on the set criteria. It is a periodic process aimed at identifying strengths and weaknesses to accomplish a specific objective that the organization has previously planned for (Al-Mutairi, 2010: 10).

4.Steps for Evaluating Financial Performance:

There is no consensus among researchers on specific steps or phases for the financial performance evaluation process. Al-Mutairi (2011: 18-19) believes that the evaluation process consists of several key stages, including the following:

A. Planning Stage: In this stage, budgets and projected financial statements are prepared, and evaluation tools and expected future goals are determined.

B. Results Comparison Stage: In this stage, actual performance results are compared with planned performance to assess the extent to which the previously set goals have been achieved.

C. Post-Comparison Stage: In this stage, any deviations are identified for analysis, and their causes are diagnosed and addressed.

5.Indicators for Evaluating Financial Performance

A performance indicator is a quantitative or qualitative measure that reflects the progress of a company, unit, or individual (Piroozfar et al., 2012: 6332). Financial ratios derived from data in the income statement and balance sheet serve as measurement tools for the monetary relationship between two variables, with one as the numerator and the other as the denominator. This approach aims to provide meaningful interpretations of the data presented in these statements, thereby facilitating performance evaluation and informing appropriate managerial decisions (Al-Tamimi, 2019: 78). These ratios are essential tools for assessing company performance.

Evaluating financial performance depends on the process of financial analysis, defined as a series of financial methods used to identify an organization's strengths and weaknesses. Financial ratios are primarily employed in this analysis to compare past performance with current and projected performance and to identify areas of deviation. Furthermore, the majority of ratios and financial indicators utilized in performance evaluation include profitability ratios, liquidity ratios, activity ratios, and debt ratios.

6.Importance and Objectives of Financial Performance Evaluation Using Financial Ratios:

The importance of evaluating performance through financial ratios lies in their ability to identify the strengths and weaknesses of companies in terms of liquidity, growth, and profitability (Yalcin et al., 2012: 350). Many researchers support this view, emphasizing that financial performance is a crucial aspect of a company's overall performance, typically assessed using financial statement analysis and financial ratio analysis (Dalfard et al., 2012: 184).

Evaluating financial performance using ratios allows stakeholders to make informed decisions, enhance strategic planning, and improve overall organizational effectiveness. Financial ratios provide critical insights into operational efficiency, asset management, and profitability, enabling companies to align their strategies with their financial goals.

The financial analysis using financial ratios aims to achieve several key points, which include:

- Providing the opportunity to make comparisons between homogeneous institutions and within the same institution over different time periods.
- Assisting analysts in diagnosing the financial condition of the institution.
- Guiding oversight towards activities that exhibit signs of weakness.
- Planning the future performance of the economic unit.
- Aiding both internal and external control bodies in carrying out their tasks effectively.

7.Types of Financial Ratios

A. Profitability Ratios: Profitability ratios reflect the overall performance of insurance companies and assess their ability to generate profits. These ratios represent the relationship between the profits achieved by the company and the assets that contributed to generating these profits. Profitability is a primary objective for insurance companies and serves as a measure of their efficiency. The researcher will focus on two indicators as evidence of profitability:

- Return on Assets (ROA): This ratio measures the overall efficiency of the company in generating profits and is calculated as follows:

- Return on Assets = Net Income Before Tax / Total Assets (Al-Amiri, 2013: 88).

- Return on Equity (ROE): This ratio measures the return generated on the owners' equity investment and is calculated as follows:

- Return on Equity = Net Income Before Tax / Shareholders' Equity (Al-Amiri et al., 2007: 118).

B. Liquidity Ratios: Liquidity can be defined as the ability of an insurance company to convert its assets into cash quickly enough to meet its current liabilities. The researcher will rely on the current ratio and the quick ratio to measure liquidity, which are as follows:

Current Ratio: The current ratio measures how many times current assets cover current liabilities, thereby assessing financial balance. It indicates the alignment between short-term uses and short-term financial sources, meaning the company has the financial capacity to meet its financial obligations promptly while ensuring operational continuity. A low current ratio suggests potential cash flow problems in the short term, which may lead to the company's inability to settle its debts. Conversely, a high ratio indicates a safer position for short-term lenders.

To evaluate this ratio, it is advisable to compare it with the industry average, considering a ratio of 2 as a benchmark and a minimum of 1. If the current ratio is greater than 1 but less than 2, it implies that the company is well-positioned to cover its short-term liabilities and operating expenses. However, if it exceeds 2, it indicates underutilized liquidity. For lenders, this situation is safer regarding the recovery of their funds. The current ratio is calculated as:

Current Ratio = Current Assets / Current Liabilities (Al-Rakabi et al., 2007: 115).

Quick Ratio: To address the shortcomings of the current ratio, which includes slow-moving accounts that are not easily converted to cash, the quick ratio is calculated to show a company's ability to meet its obligations using its quickly convertible current assets. This ratio is derived by dividing current assets into two categories: quick assets, such as cash, temporary investments, and accounts receivable, and less liquid assets, such as inventory, which takes time to convert into cash.

Prepaid expenses are also considered low-liquidity assets due to their inability to be recovered in a timely manner, and therefore they are excluded from current assets when calculating the quick ratio. A quick ratio of 1 or more is a positive indicator that the company can cover immediate expenses and is in a good financial position (Abdul Rahman, 2020: 31).

The quick ratio is calculated as follows:

Quick Ratio = (Current Assets - (Inventory + Prepaid Expenses)) / Current Liabilities.

Instant Liquidity Ratios: This ratio indicates the cash available to a company at a specific moment to settle short-term obligations. It differs from the previous ratios as it focuses solely on cash and cash-equivalent items, reflecting a cautious approach. This ratio assumes that current liabilities become due before collecting amounts from debtors, accounts receivable, and selling inventory.

The instant liquidity ratio is calculated as follows:

Instant Liquidity Ratio = Cash Equivalents / Current Liabilities (Hamoud et al., 2014: 212).

C. Activity Ratios: These ratios are used to evaluate how successfully a company's management utilizes its assets. They measure the efficiency of the company in using its available resources to acquire assets and its ability to optimally use these assets to achieve the highest possible volume of sales and profits. The following are the main activity ratios (Mohammed, 2023):

- Total Asset Turnover Ratio: This ratio indicates the activity level of assets and their ability to generate sales through the use of the company's total assets. The higher the turnover ratios, the greater the efficiency in asset investment. It is calculated as follows:

Total Asset Turnover Ratio = Net Sales / Total Assets

- Fixed Asset Turnover Ratio: This ratio measures the total sales generated relative to the average fixed assets, and it is used as an indicator of the company's efficiency in generating sales from fixed assets, especially in industrial companies. It is calculated as follows:

Fixed Asset Turnover Ratio = Net Sales / Fixed Assets

- Current Asset Turnover Ratio: This ratio indicates the ability and efficiency of the management in utilizing current assets to generate sales and achieve profits. It is measured at the end of the financial year, and the higher the turnover ratio, the better the company's performance. This ratio is calculated as follows:

Current Asset Turnover Ratio = Net Sales / Current Assets.

D. Debt Ratios: This group of ratios indicates the ability of the entity to repay its obligations from debts through borrowing from others. The most important ratios in this group are as follows:

- Long-term Debt Coverage Ratio: This ratio shows the extent to which fixed assets cover long-term debts. A low ratio indicates a weak ability of the company to meet long-term obligations upon their maturity by liquidating its fixed assets, which consequently reduces the company's chances of obtaining future external financing or may impose additional and stringent conditions. It is calculated as follows:

Long-term Debt Coverage Ratio = Fixed Assets / Long-term Debt (Kamilia, 2019: 40).

- Long-term Debt to Equity Ratio: This ratio measures the extent to which the entity relies on external funds to finance its needs, indicating the proportion of debt financing compared to equity financing from shareholders or owners. Generally, an increase in this ratio suggests that the company may face bankruptcy or liquidation risks. Therefore, the lower the long-term debt to equity ratio, the less risk associated with debts and obligations, which is favorable for the company. This ratio is calculated as follows:

Long-term Debt to Equity Ratio = Total Long-term Debt / Equity.

- Debt Ratio or General Solvency Ratio: This ratio measures the extent to which liabilities contribute to financing the company's assets. It considers the total liabilities, including both short-term and long-term obligations, against total assets, including current and fixed assets. A high ratio indicates a poor financial position for the company and weak ability to repay long-term debts, which may deter new lenders from providing loans to the company. This ratio is calculated using the following formula:

Debt Ratio = Total Liabilities / Total Assets (Mouyed and Ghassan, 2011: 135).

Third.The Applied Study

3.1.Study Population and Sample:

The study population represents the insurance market in Algeria, while the sample consists of Salama Insurance Company, established by decision number 46 issued on July 2, 2006. It was created by acquiring the company "Baraka and Aman," which began operations on March 26, 2000, and its accreditation was renewed under the name "Salama."

3.2.Study Variab

Today, the number of its branches has reached more than 250 points across the entire national territory. Since its inception, the company has witnessed significant customer demand for its insurance products, with a continuous increase in the number of its clients, exceeding 500,000 annually, which has allowed the company to achieve growth exceeding the market average by 5 to 6 times.

3.3. Study Results and Discussion

A. Profitability Ratios

Return on Assets (ROA):

Years	Net Income	Total Assets	%ROE
2016	210524592	10798017382	1.94965969
2017	403341877	12520542849	3.22144081
2018	70421507	14013026089	0.50254318
2019	982278991	15803167386	6.21570959

Table 01: Return on Assets for Salama Insurance Company (2016-2019)

Source: Prepared by the researcher based on the financial reports of the company.

This ratio is considered one of the most important profitability ratios. The table shows that the return on assets rates are weak, indicating that every dinar of assets generates a maximum of 6.12% of net profits in 2019. In the other years, the return on assets was even lower, suggesting that Salama Insurance Company lacks the ability to generate profits from its asset operations, indicating a potential mismanagement of its assets.

Return on Equity:

Years	Net Income	Total Equity	%ROE
2016	210524592	3239120238	6.499437394
2017	403341877	3752365718	10.74900229
2018	70421507	4016281713	1.753400584
2019	982278991	4101358118	23.95009074

Table 02: Return on Equity Ratio for Salama Insurance Company (2016-2019)

Source: Prepared by the researcher based on the company's financial reports

This is one of the most important profitability ratios as it reflects the company's efficiency in generating profits and provides a clear perspective for investors to compare between companies and make informed investment decisions. The table indicates that the return on equity ratio shows a rising trend; however, there was a sharp decline in 2018 due to a setback in net profit achieved that year. The highest return on equity ratio achieved by Salama Insurance Company was in 2019, reaching (23.95), compared to other years under study. When this indicator is linked to other metrics, the increase in 2019 can be explained by the company financing its activities through debt, as the value of long-term debt in that year was higher than in other years. Therefore, we conclude that the rise in the return on equity ratio does not necessarily indicate effective management of the company's assets.

B - Liquidity Ratios

Current Ratio

Years	Current Assets	Current Liabilities	Current Ratio
2016	4418052104	7190883271	0.614396304
2017	5300214364	8325693444	0.636609359
2018	7549711707	9491257305	0.795438525
2019	9635778377	11034537198	0.873238107

Table03: Current Ratio for Salama Insurance Company for the Period (2016-2019)

Source: Prepared by the researcher based on the financial reports of the company.

The results in Table (03) show that the current ratio for Salama Insurance Company has been continuously increasing throughout the study period. This increase is attributed to a rise in current assets compared to the base year, with the percentage increases as follows: 19.96%, 70.88%, and 123.47% for the years 2017, 2018, and 2019, respectively.

Accompanying the increase in current assets was a rise in current liabilities, which showed percentage increases of 15.78%, 53.45%, and 32%, respectively, compared to the base year. Therefore, despite the increase in current assets, it did not positively affect the current ratio.

Although the current ratio increased during the study period, it remained below the standard of 1:1, which is a negative indicator for the company. This suggests that the company lacks the ability to cover its current liabilities with its current assets, indicating potential issues with cash flow in the short term that could lead to the company being unable to meet its obligations.

Quick Ratio:

Years	Current assets	Prepaid Expenses	Current Liabilities	Quick Ratio
2016	4418052104	1650000	7190883271	0.614166
2017	5300214364	3116444	8325693444	0.636235
2018	7549711707	5675511	9491257305	0.794840
2019	9635778377	3050000	11034537198	0.872961

Table 04: Quick Ratio for Salama Insurance Company (2016-2019)

Source: Prepared by the researcher based on the company's financial statements.

The results from Table (04) indicate that this ratio has improved during the study period, although it did not reach 1. The quick liquidity ratios show that for every one dinar of current liabilities, there are 0.61 DZD, 0.63 DZD, 0.79 DZD, and 0.87 DZD of liquid assets available for conversion into cash in the study years of 2016, 2017, 2018, and 2019, respectively. This is a negative indicator, as it means that the company can cover its current liabilities with 0.61% in 2016 and 0.87% in 2019. In other words, in all years, the company was unable to cover its current obligations by 100%.

Instant Liquidity Ratios:

Years	Ready Cash	Current Liabilities	Instant Liquidity Ratio
2016	337410383	7190883271	0.046921966
2017	696789821	8325693444	0.083691506
2018	1942549421	9491257305	0.204667238
2019	3102931248	11034537198	0.281201757

Table 05: Instant Liquidity Ratio for Salama Insurance Company (2016-2019)

Source: Prepared by the researcher based on the company's financial reports.

We observe that the instant liquidity ratio gradually increased during the study period, from 0.04692 in the base year to 0.08369 in 2017, then further to 0.20466 in 2018, reaching its highest point at 0.212 in 2019. However, despite this growth, the ratio remains low compared to the legal standard (0.76-1), which is considered a negative indicator.

C- Debt Ratios

Long-term Debt Coverage Ratio:

Years	Fixed assets	Long-term debts	Long-term debt coverage ratio
2016	2081378244	5872471	354.4297186
2017	2207652857	58722471	375.932526
2018	2158809569	5872471	367.6151945
2019	2137889197	6472471	330.304948

Table 06: Long-term Debt Coverage Ratio for Salama Insurance Company (2016-2019)

Source: Prepared by the researcher based on the company's financial statements.

It is clear from Table (06) that the long-term debt coverage ratio increased during the first three years of the study, then declined in the final year, reaching a ratio of 330.30 times. This is attributed to the following reasons:

Tangible fixed assets saw an increase followed by a decrease. In 2017, they increased by 6.06% compared to the base year, reaching DZD 220,765,285, the highest value of tangible fixed assets during the study period. However, the value of assets decreased in 2018 and 2019, reaching DZD 2,158,809,569 and DZD 2,137,889,197, respectively.

The long-term debt remained stable at DZD 5,872,471 for the first three years of the study, then increased by about 10.21% in 2019, reaching DZD 6,472,471.

This explains the rise in the long-term debt coverage ratio in 2017, where it reached a peak of 375.93. This means that for every dinar of debt, there were 375.93 dinars of tangible fixed assets available to cover it. The ratio then declined in 2018 and 2019. However, all the ratios during the study period confirm that the company is in a good credit position.

Long-term debt ratio:

Years	Long-term debts	Equity	Debt ratio
2016	5872471	3239120238	0.181298333
2017	5872471	6752365718	0.156500497
2018	5872471	4016281713	0.146216611
2019	6472471	4101358118	0:157812571

Table 07: Long-Term Debt Ratio for Salama Insurance Company (2016-2019)

Source: Prepared by the researcher based on the company's financial reports

The results from Table (07) show that the long-term debt ratio fluctuated, initially declining for the first three years, starting from a ratio of 0.18129 in the base year to 0.15650 in 2017, reaching its lowest point of 0.1462 in 2018. It then increased again in 2019 to 0.1581. This means that for every dinar of equity utilized, there are long-term debts and obligations amounting to 0.18%. All these ratios are below 1, indicating that the contribution of long-term debts is less compared to the contribution of equity holders, suggesting to creditors that there are guarantees for recovering their debts.

General Debt Ratios or Solvency Ratios:

Years	Total Liabilities	Total Assets	General Solvency Ratio
2016	7558897143	10798017382	0.700026391
2017	8768177131	12520542849	0.700303273
2018	9996744377	14013026089	0.713389407
2019	11701809269	15803167386	0.740472399

Table 08: General Solvency Ratio for Salama Insurance Company (2016-2019)

Source: Prepared by the researcher based on the company's financial reports.

The results in the table (08) above indicate that every dinar utilized from the assets corresponds to liabilities ranging between 70% and 74%. This means that debts constitute 70% to 74% of the assets, indicating that the company has financed 70% to 74% of its assets through external financing sources. This is a high ratio since the general benchmark for this ratio is to be less than 0.5.

Moreover, it can be inferred that 25% to 30% of the company's assets are financed from its own sources through shareholders' equity or owner's equity. From these ratios, we conclude that the company's reliance on external sources for financing its assets is significant.

D. Activity Ratios

Years / The ratio	2016	2017	2018	2019
Total asset turnover ratio.	0.15333	0.14074	0.00092	0.12859
The evolution of the asset turnover ratio.		-8.21 %	-99.40%	-16.13%
Fixed asset turnover ratio.	0.25951	0.24406	0.001995	0.32952
Development of the fixed asset turnover ratio.		-5.98%	-99.23%	26.00%
Current asset turnover ratio.	0.23025	0.21166	0.001708	0.21091
Development of the current asset turnover ratio.		-8.07%	-99.25%	-8.39%

Table 09: Activity Ratio for Salama Insurance Company (2016-2019)

Source: Prepared by the researcher based on the company's financial statements.

Based on the results shown in the table, we note that:

The lowest total assets turnover ratio for Salam Company was 0.00092 in 2018, while the highest value was 0.15333 in the base year 2016. This means that every one dinar invested by the company generated 0.15333 DZD in revenue. This maximum ratio is insufficient and indicates the company's inefficiency in utilizing its available financial resources during the study period.

The fixed assets turnover ratio for the company reached its lowest value of 0.0019995 in 2018, while in 2019 it achieved a maximum value of 0.32952, representing an increase of 26.90% compared to the base year. This means that every dinar invested by the company in fixed assets generated a maximum of 0.32952 DZD in revenue, indicating that the company lacks efficiency in utilizing its fixed assets to generate sales, which is an uncomfortable situation.

The current assets turnover ratio reached its highest value in the base year at 0.23025 and its lowest value in 2018 at 0.001708. This means that every dinar invested by the company in its current assets generated a minimum of 0.001708 DZD and a maximum of 0.23025 DZD in revenue. In general, these ratios are considered very weak, indicating that the turnover of current assets in generating sales is very slow.

Conclusions and Recommendations

Through this study, the following results were reached:

- Financial performance is a tool for assessing the efficiency of companies and evaluating their activity level and effectiveness in achieving their goals. Consequently, it is also used to identify any imbalances that may affect the stability of these companies.

- The process of evaluating financial performance relies on a set of criteria and tools, among which financial ratios are considered significant instruments in financial analysis. They possess the capability to provide a clear picture of the institution's financial situation if properly assembled and interpreted. This is achieved by comparing actual results of financial indicators with their corresponding standard objectives.

There has been a decline in the financial performance of the institution under study, as evidenced by most of the calculated ratios during the study period. This confirms the validity of the hypothesis as follows:

- Profitability ratios indicate that Salama Insurance was able to generate profits through its efficiency in utilizing its assets in the years 2016, 2017, and 2019. However, in 2018, there was a failure in the company's management of its assets, leading to a deterioration in the profits achieved.

- Salama Insurance recorded low liquidity levels throughout the study period, indicating the company's inability to meet its financial obligations.

- The results of the debt ratios for Salama Insurance show that it enjoys financial independence, but it relies on external sources to finance its assets, thereby increasing the financial risks it may face.

- Activity ratios showed a noticeable decline during the study period, indicating the ineffectiveness of the institution's management in appropriately allocating its financial resources across various assets.

- There is a weak efficiency in managing the institution's assets to achieve sales, as evidenced by the poor results of the return on assets and return on equity ratios, except for the year 2019. This indicates that the company is financing its activities through debt..

Recommendations:

Based on the results of this study, we recommend the following:

- Focus on analyzing financial ratios when assessing financial performance due to their importance in revealing the company's financial condition, appreciating strengths, and addressing weaknesses.

- Develop a comprehensive strategy to enhance the company's liquidity by allocating secondary reserves that can be easily converted into cash at any time, such as cash and similar preferred stocks.

- The insurance company can benefit from partnering with banks to market insurance products through bank branches under a bancassurance agreement, positively impacting the company's financial performance.

- Automate insurance services to enable the company to conduct its various activities more efficiently and at lower costs, which can reduce expenses and maximize profits. Additionally, digitization can allow access to new markets, increasing the company's market share.

- It is essential to follow an investment policy to stimulate working capital in insurance companies.

- The company should diversify its investments in new areas with high returns and manageable risks.

- Focus on educating and training employees in this field to ensure that they possess high competence in all areas of the company's operations.

Ethical Considerations

This study adheres to established ethical standards in academic research. All data used in the analysis were obtained from publicly available financial statements and official company reports. No confidential, personal, or sensitive data were accessed or utilized. The research did not involve human participants or experimental procedures, and therefore did not require ethical approval from an institutional review board. Proper citation

and acknowledgment of previous studies have been ensured to avoid plagiarism and maintain academic integrity.

Author Contributions

- **Kir Nacira**: Conceptualization of the study, literature review, data collection, financial ratio analysis, interpretation of results, and drafting of the original manuscript.

- **Guerroudj Chahinez**: Methodological design, critical revision of the manuscript, validation of results, and contribution to discussion and conclusion sections.

All authors have read and approved the final version of the manuscript and agree to be accountable for all aspects of the work.

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Conflict of Interest

The authors declare that there is no conflict of interest regarding the publication of this article.

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