

Determinants of Profitability of Insurance Companies in Sri Lanka

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ABSTRACT

Introduction - Insurance sector in Sri Lanka is now being integrated into wider financial industry. Profitability of the aforesaid industry is key in maximizing its owner's wealth. A key indicator of insurance companies' profitability is return on assets. The main objective of this study is to identify and compare the determinants of profitability of Insurance Companies in Sri Lanka.

Design/Methodology/Approach - The sample of this study includes top 10 insurance companies including both general and life insurance companies. The sample data covers a period of 5 years. Secondary data obtained from financial statements of individual insurance companies, IRCSL publications and related other journals. Descriptive Statistics, Correlation Analysis, Multiple Linear Regression and panel data analysis are the analysis tools used for data analysis.

Findings - This research provide results found that there is a positive relationship between profitability and the firm's age, volume of capital, loss ratio, economic growth as well as inflation rate. On the other hand, the rest of the explanatory variables shows that there is a negative relationship between profitability.

Conclusion – It is concluded that when the maturity of an insurance company increases in terms of age and volume of capital the profitability of the insurance company increases. Further, when economic growth increases insurance products become more popular among policy holder and it increases the profitability.

Keywords: *profitability, explanatory variables, panel analysis, Life Insurance firms, General Insurance Firms.*