The Impact of Risk Management on the Financial Performance of Listed Insurance Companies in Sri Lanka

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ABSTRACT

Introduction: Risk, if not adequately managed, can lead to the demise of most businesses, particularly those whose core business is risk management on a day-to-day basis. Risk management should therefore be at the heart of an organization's operations, with risk management techniques integrated throughout the whole organization's processes, systems, and culture. Thus, the goal of this research is to determine the impact of risk management strategies used by Sri Lankan insurance companies on their financial performance.

Design/Methodology/Approach: The study employed an exploratory research design, with 28 registered insurance companies in Sri Lanka as the target population. Secondary data was employed in the study. 15 insurance companies were contacted for secondary data. Secondary data was gathered over a six-year period from 2015 to 2020 using published sources as well as data from IRCSL's financial statements. Panel regression analysis was used in the research. Underwriting risk, market risk, liquidity risk, and operational risk were used as proxies for risk management whereas the return on asset is the proxy for financial performance. The firm size was used as a moderating variable and the type of insurance as the control variable.

Findings: Underwriting risk, market risk, operational risk showed a significant and positive relationship with the return on assets ratio and the moderating effect of firm size on the relationship between liquidity and financial performance also show a positive and significant impact. Liquidity risk showed a significant negative relationship with the return on assets.

Conclusion: The study suggests that Sri Lanka's listed insurance companies should consider reducing their costs and claims through appropriate estimating pricing and valuation techniques. Furthermore, insurance companies should provide sufficient diversification of the insurance policy portfolio in order to earn higher premiums that can cover other losses when they occur. The findings imply that good management of a firm's operations results in lower operating expenses, which leads to an increase in the proportion of net premiums to total assets, which improves a firm's performance. To cut expenses and improve financial performance, insurance companies should employ efficient operations management procedures.

Keywords: *Risk management, Risk factors, Insurance industry, Financial performances.*