

## **The Impact of Exchange Rate Volatility on Profitability of the Insurance Industry in Sri Lanka**

Weerasinghe, W.M.Y.P.<sup>1</sup> and Weerasinghe, W.D.J.D.<sup>2</sup>  
Department of Finance, University of Kelaniya, Sri Lanka<sup>1,2</sup>  
[ypweerasingha650@gmail.com](mailto:ypweerasingha650@gmail.com)<sup>1</sup>, [damindaj@kln.ac.lk](mailto:damindaj@kln.ac.lk)<sup>2</sup>

### **ABSTRACT**

**Purpose:** The Objective of this study is to identify the impact of Exchange Rate Volatility on firm performance in Insurance companies in Sri Lanka.

**Design/Methodology/Approach:** The study is a quantitative study taking 10 insurance companies operating in Sri Lanka as the sample. The companies were selected based on the data availability during the time period from 2012 to 2021. Following data are collected from secondary sources, Return on Assets (ROA), Exchange rates, Inflation rate, Annual GDP growth rate, Population growth rate, and Interest rate for this study. Exchange Rate Volatility used as independent variable and Inflation Rate, GDP Annual Growth Rate, Population Growth Rate, and Interest Rate use as the Control Variables. Return on assets used as dependent variables to measure the firm performance. The descriptive statistic, correlation analysis and regression equation are used for the purpose of analysing data.

**Findings:** According to the findings of this study, overall, a negative impact of exchange rate volatility on ROA is shown. Further, the annual population growth rate, interest rate, GDP growth rate and inflation rate have a significant negative impact on ROA.

**Originality:** The findings of this study can help the decision makers to be aware of the importance of Exchange rate volatility on improving the insurance firm's performance to improve their competitive edge.

**Keywords:** *Exchange Rate Volatility, Return on Assets, GDP Annual Growth Rate, Inflation Rate, Interest Rate*