

## The Impact of Firm Performance on Market Capitalization in Listed Insurance Companies in Sri Lanka

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### Abstract

**Introduction:** This research investigates into the relationship between firm performance and market capitalization within Sri Lanka's listed insurance sector.

**Methodology:** Key financial indicators, including Return on Equity (ROE), Return on Assets (ROA), Capital Adequacy Ratio (CAR), Current Ratio (CR), and Total Assets (TA) as control variables, are examined using a quantitative approach. This study uses a sample 10 years of data of listed Insurance companies in the Colombo Stock Exchange. This study employs fixed effect panel regression method to investigate the relationship between firm performance and market capitalization.

**Findings:** The findings reveal that Total Assets demonstrate a robust, positive correlation with market capitalization, indicating larger insurers' attractiveness for investment. Notably, ROE emerges as a significant predictor, emphasizing profitability's critical role in assessing growth potential within insurance companies. Conversely, ROA, CAR, and CR do not exhibit statistically significant relationships with market capitalization. The results challenge prevailing hypotheses, indicating that neither profitability nor liquidity substantially influences market capitalization.

**Conclusion:** In conclusion, this research bridges a crucial knowledge gap within Sri Lanka's insurance sector, offering empirically grounded insights for stakeholders. The findings provide a foundation for subsequent research and actionable implications, guiding future investment strategies, regulatory frameworks, and strategic initiatives.

**Keywords:** Market Capitalization; Capital Adequacy; Firm Performance; Profitability