ISSN 2279-3097

Risk Management and Firm Financial Performance: A Study on Listed Insurance Companies in Sri Lanka

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ABSTRACT

Purpose: Risk management is a significant business function, particularly in the insurance sector. Thus, this study examines the effect of risk management on the financial performances of Sri Lankan insurance companies over the period of 2015 to 2021.

Design/methodology/approach: Ten listed insurance companies were chosen as the sample of the study. Solvency risk, underwriting risk, liquidity risk and operation risk are the independent variables of the study whereas return on assets and Return on Equity used as the proxies for the dependent variable. This study also examines the moderating effect of firm age in between the risk management and firm performances proxies.

Findings: Solvency risk, underwriting risk and operation risk show a significant impact on the insurance company performances. Further, firm Age shows significant moderating effects on the relationship between operational and solvency risk and of Insurance firms' financial performance.

Originality: The findings imply that effective management of a firm's operations lowers operating costs, which in turn raises net premiums and improves a firm's success. As a result, this study advise managers, other stakeholders, and directors should use effective risk management strategies to improve financial performance.

Keywords: *Operation Risk, Liquidity Risk, Underwriting Risk, Solvency Risk, Risk Management, Financial Performance.*