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The Impact of Underwriting Risk and Solvency on Profitability -Evidence from Listed Insurance Companies in Sri Lanka

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Abstract

Introduction: Insurance services are currently being integrated into the broader financial industry. Further, it plays an essential role in the country's economy. Profitability is one of the most important objectives of financial management because one goal of financial management is to maximize the owner's wealth. The current study aims to identify the factors that have a bearing on the financial performance and, by extension, the financial stability of the listed Insurance Companies in Sri Lanka.

Methodology: The study explores the impact of solvency and underwriting risk on the profitability of listed insurance companies in Sri Lanka from 2013 to 2022. ROA and ROE are used to measure profitability. The study analyzed 11 insurance companies with a total of 110 observations. Descriptive statistics and regression analysis were conducted using the STATA software.

Findings: The regression results suggest that underwriting risk had a negative and statistically insignificant impact on both ROE and ROA. Further, the study indicates a positive and statistically insignificant impact of solvency on financial performance.

Conclusion: The results indicate that underwriting risk and solvency have a statistically insignificant relationship with financial performance and impact on return on equity and return on assets for listed insurance companies in Sri Lanka. The findings contribute valuable insights to understanding the intricate dynamics between risk, solvency, and financial performance in the context of the Sri Lankan insurance industry.

Keywords: Insurance, Underwriting risk, Solvency, Financial Performance, Sri Lanka