

An Empirical Analysis of The Firm-Specific Internal Factors on the Profits of Insurance Companies in Sri Lanka

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The insurance sector plays an important role in the national economy, managing risks and providing financial security. The goal of every company is to achieve optimal profit. Profits are important to investors and management as sources of dividend payments and growth. For insurers and regulators, profits provide additional protection against insolvency. Therefore, companies must identify the factors that affect their profits. This study investigates the impact of premium income, claim expenses, risk-based capital, underwriting results, and investment return on the profit of life and general insurance companies in Sri Lanka.

The study sample consists of all life and general insurance companies in Sri Lanka from 2016 to 2022. A quantitative approach is used for this study. Independent variables include premium income, claims expenses, risk-based capital, investment returns, and underwriting results. Profit is considered the dependent variable in the regression model. Descriptive analysis, correlation analysis, and panel data regression are used to analyze the data in this study.

As a result, the profit margin of insurance businesses in Sri Lanka would be greatly impacted by premium income, claims expenses, risk-based capital, investment return, and underwriting performance. The regression results could not reject every null hypothesis for the life and general insurance industry. More specifically, neither model rejected the null hypothesis that claimed that profit is not much impacted by risk-based capital and investment return. The analysis showed that underwriting outcomes, claims costs and premium income significantly affect profit.

Keywords – *Claim Expenses, Premium Income, Investment Return, Risk-Based Capital, Underwriting Result*

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Introduction

Background of the Study

Insurance is a critical means of mitigating the financial consequences of unforeseen events. By pooling the risks of a large group of people, insurance companies can spread out potential losses, and policyholders can better manage them. This collective risk-sharing approach forms the basis of insurance. (Agustirana, I, & Darmawan, 2019). Agustirana et al. (2019) mentioned that Insurance plays an important role in modern society, providing a safety net against the financial repercussions of unexpected events. By facilitating risk transfer and offering financial protection, insurance empowers individuals and businesses to navigate the uncertainties of life with greater confidence and resilience. In addition, twenty-eight (28) companies were operating as insurers in the Sri Lankan insurance market. Insurance companies are critical in managing long-term funds, which are essential for financing development projects and infrastructure. These funds are primarily derived from premium payments made by policyholders. Assets are invested in a diversified portfolio, ensuring their stability and growth over time. (Gründl & Gal, 2017). Maximizing profit is a fundamental objective for businesses across industries. Profit serves as a key indicator of a company's financial health and operational effectiveness. Furthermore, a company's ability to generate consistent and increasing profits demonstrates the competence of its management team in allocating resources efficiently and strategically. (Jensen, 2010)

Table 1.1

Total Profit, Premium and Claim, Investment Return of General Insurance Companies for 2016 – 2022

Indicator	2016	2017	2018	2019	2020	2021	2022
Profit	15,771	9,373	11,737	11,130	23,360	19,042	27,992
Premium	83,142	97,086	105,281	114,202	111,634	115,813	130,593
Claim	40,443	47,921	76,831	82,433	42,534	48,317	60,172
Investment Return	13,887	8,182	9,780	12,296	10,282	11,282	22,867

Source: IRC SL Financial Reports 2022

Table 1.2

Total Profit, Premium and Claim, Investment Return of Life Insurance Companies for 2016 – 2022

Indicator	2016	2017	2018	2019	2020	2021	2022
Profit	13,616	39,268	26,025	19,540	19,143	23,130	24,836
Premium	63,477	71,504	80,294	88,781	103,000	124,752	136,271
Claim	23,388	27,183	35,130	36,843	39,863	48,060	65,526
Investment Return	27,759	34,056	37,032	42,970	45,686	54,250	68,131

Source: IRC SL Financial Reports 2022

The general insurance industry experienced significant profit fluctuations between 2016 and 2022. In 2016, profit was 15,771 million, dropping to 9,373 million in 2017. Profit gradually increased in 2018 and 2019, reaching 11,737 million rupees and 11,130 million rupees, respectively. However, profit surged to 23,360 million rupees in 2020, declining to 19,042 million in 2021. Profit further increased to 27,992 million rupees in 2022. The long-term insurance industry also experienced profit fluctuations during the same period. Profit was 13,616 million rupees in 2016, which soared to 39,268 million in 2017. Profit declined to 26,025 million rupees in 2018 and decreased to 19,540 million in 2019. Profit remained relatively stable in 2020 and 2021, reaching 19,143 million rupees and 23,130 million rupees, respectively. Profit increased to 24,836 million rupees in 2022. (IRCSL,2022)

One of the key factors that influence the profit of insurance companies is premium income. According to Sastri, Sujana, & Dan Sinarwati, 2017 Premium income refers to the sum of money collected from policyholders in exchange for the insurance coverage provided by the insurer as per the agreed-upon contract terms. The second crucial factor is the payment of claims. (Reschiwati & Solikhah, 2018) Defines claim payment as the cost borne by the insurer in fulfilling its obligation to provide protection benefits to policyholders against previously insured risks. This expense represents the financial outflow of indemnifying policyholders for losses covered under their policies. Risk-based capital is the third factor to consider when assessing an insurance company's financial stability in Sri Lanka. As per Government Regulation (RBC RULE), all loss insurance companies operating in Sri Lanka must maintain a minimum risk-based capital health ratio of 120%. This ratio indicates the company's financial resilience and ability to meet its obligations in the event of adverse circumstances. A higher risk-based capital health ratio signifies the insurance company's more robust financial standing. (IRCSL, 2022)

An important consideration for insurance firms is investment returns. The company's asset investment portfolio yields the returns necessary to meet the rising demand for managed funds. For the most part, insurance firms use the earnings on their investments to make up for policyholders' lower premium payments. Therefore, effective investment management is paramount for insurance companies to ensure financial stability and fulfil their obligations to policyholders (Purnamawati, 2019).

This study investigates the impact of premium income, claim payment, risk-based capital, investment return, and underwriting results on the profit of insurance companies from 2016 to 2022.

Problem Statement

According to Gottesman & Morey (2010), the profit of insurance companies is a crucial aspect of their long-term sustainability and growth. The insurance industry in Sri Lanka plays a significant role in the economy, with a gross written premium (GWP) amounting to billions of rupees in 2021 (IRCSL, 2022). Premium income is a key driver of insurance company revenue, representing the amounts collected from policyholders for coverage (Alipour, Rezaee, & Zare, 2019). Therefore, analyzing the relationship between premium income and insurance company profits is crucial to understanding its impact. Claim payment is another critical factor affecting insurance company profits. Understanding how claim payment levels influence profit can shed light on optimal claims management strategies (Hang , Ma, & Liu, 2018). Risk-based capital measures an insurance company's financial strength and ability to absorb unexpected losses. Investment returns are a significant contributor to insurance company profits. Insurance companies invest their premium income to generate returns and cover their operational costs and claims (Arzelan, 2017). Investigating the relationship between underwriting results and insurance company profits can reveal the effectiveness of underwriting practices and pricing strategies.

(Amani & Markonah, 2020). In Sri Lanka, understanding the factors influencing insurance company profits is very important to forecast the future.

Research Gap

According to Malik, 2011 One of the most significant aims of financial management is to maximize profit. The yearly reports of Sri Lankan insurance companies over the previous few years have revealed significant profit swings. This disparity in insurance firms' profits points to the importance of firm-specific factors in determining insurance company profits. Determining these variables and how they assist insurance businesses in making decisions that will boost their profits is crucial. There is a significant research gap concerning the thorough examination of the impact of premium income, claim payment, risk-based capital, investment return, and underwriting results on the profit of insurance companies in Sri Lanka, even though studies have been conducted on the subject. In particular, there isn't a study in the literature that looks at how these elements interact and work together to impact the financial performance of insurance companies in Sri Lanka. Therefore, the research gap in this context can be defined as the absence of a comprehensive investigation into the simultaneous influence of premium income, claim payment, risk-based capital, investment return, and underwriting results on the profit of insurance companies in Sri Lanka.

Research Questions

1. Does premium income, claim payment, risk-based capital, investment return, and underwriting results impact the profit of Life insurance and General insurance companies in Sri Lanka?

Research Objectives

1. To determine the impact of premium income, claim payment, risk-based capital, investment return, and underwriting results on the profit of Life insurance and General insurance companies in Sri Lanka

Significance of the Study

Practical Significance

This study offers practical insights for Sri Lankan insurance companies, helping them identify key profit-influencing factors and inform strategic decisions to optimize operations and achieve sustainable profits. Policymakers and industry regulators can use these findings to develop effective policies that enhance financial stability, consumer protection, and industry growth. Understanding the impact of premium income, claim payments, risk-based capital, investment returns, and underwriting results enables better risk management and profit maximization. This ensures that insurance companies remain financially viable, can invest wisely, adjust premiums appropriately, and continue providing valuable services to the public.

Academic Significance

This study fills a research gap by examining the impact of premium income, claim payment, risk-based capital, investment return, and underwriting results on Sri Lankan insurance company profits. It offers a holistic understanding of these factors, enhancing academic literature and providing insights applicable to the broader insurance industry in Sri Lanka.

Literature Review

Sri Lankan Insurance Industry

The insurance industry in Sri Lanka is relatively young, with its roots dating back to the early 1900s. The industry was nationalized in 1961 when the SLIC was formed. SLIC maintained a monopoly on the insurance market until 1980 when the NIC was established. The insurance industry in Sri Lanka is regulated by the IRC SL. The IRC SL was established in 1986 to oversee the insurance industry and protect the interests of policyholders. (IRC SL, 2022). Currently, 28 insurance companies operate in the industry.

Empirical Review

Insurance Profit

Dipoyanti (2014) mentioned that profit is the outcome of the business's financial health report after carrying out operations and business activities, which are determined by nominal outcomes. Profit arises from an organization's ability to effectively manage its operations to reduce costs and turn a profit. (Amani & Markonah, 2020) Profit is a measure of a firm's ability to make money that is used to determine how much money the company can make at a level that is considered acceptable. (Soegihono et al., 2021)

Premium Income

The concept of profit has been defined in different ways by different authors. According to Arzelan, 2017, premium income is the money an insurance company receives from its policyholders in exchange for insurance coverage. This income is the company's profit and a part of its future obligations. The company must set aside a portion of the premium income as a reserve to pay for claims that may be filed in

the future. Examines the use of premium income as a reserve to pay for claims. Dhaniati, 2011 finds that the amount of premium income that an insurance company sets aside as a reserve depends on several factors, including the type of insurance, the risk profile of the policyholders, and the expected claims experience. The reserve is typically invested to generate income that can be used to pay for claims.

Furthermore, premium income reserves impacted insurance company solvency. According to Zweifel (2014), the reserve is critical to an insurance company's financial stability. If the reserve is too low, the company may not be able to meet its financial obligations to its policyholders in the event of a large number of claims. Reserve is a key factor in determining the profit of an insurance company. If the reserve is too high, the company will have less profit. If the reserve is too low, the company may be at risk of insolvency.

Underwriting Result

(Markonah, 2021) The underwriting result is "the profit or loss from the main insurance activities obtained from the difference between underwriting income (premium income) and underwriting expenses. "The significance of underwriting results as a gauge of the profits of an insurance company's primary insurance operations is emphasized by this term. (Oscar Akotey, 2013) Defines the underwriting result as "supporting report summary income or loss." This definition emphasizes the role of underwriting results as a component of the company's overall financial performance.

According to Arzelan, 2017, the underwriting result is the amount left over after operating costs and claim expenses are deducted from underwriting results. It is a metric for the insurance industry's profit and one element that makes up net income. Investment uses underwriting results as well. Amani & Markonah, 2020 examine

the impact of underwriting results on insurance company performance. Underwriting results are a significant driver of insurance company performance. Insurance companies with better underwriting results are more likely to be profitable and have a higher market value. Furthermore, Htay et al. (2013) study the role of risk assessment in underwriting results. The risk assessment is a critical factor in determining underwriting results. Insurance companies that use better risk assessment tools are more likely to identify and price risk more accurately, leading to better underwriting results. Investment management can also have a significant impact on underwriting results. Insurance companies that manage their investments more effectively are more likely to generate higher investment returns, which can offset the cost of claims and improve underwriting results.

Risk-Based Capital

Risk-based capital (RBC) is a measure of the financial strength of an insurance company. It is calculated by dividing the company's Total Available Capital (TAC) by the amount of risk (Risk-based Capital Requirement (RCR) that it has borne.

(Bintang, 2019) Provided an explanation that Risk-Based Capital (RBC) is the minimum amount of capital insurance companies must maintain to support their business activities and minimize the risk of bankruptcy. (Bintang, 2019) Further, it states that RBC is a ratio that assesses capital adequacy relative to the risks assumed by insurance companies. It serves as a crucial indicator for evaluating the financial health of insurance companies, particularly their ability to fulfil their obligations.

Rather than following regulations set forth by the regulator and insurance providers, RBC is more concerned with risk management. Additionally, it provides a flexible framework for maintaining minimum capital requirements that consider the individual insurance firm's riskiness. The development of the RBC frameworks followed an assessment of the state of the local insurance market. These frameworks

include risk characteristics that insurance companies disclose, including credit, concentration, market, operational, and liability risks. (Sastri et al., 2017)

It also contains the methodology for valuing the assets and liabilities of insurance businesses as well as quantifiable capital charges for certain risk variables. Due to the long-term nature of their business, long-term insurance businesses tend to be more impacted by RBC than regular insurance companies. Since 2011, the RBC framework has been tested and improved, and as of early 2016, RBC is fully implemented. Templates and questions created specifically for life and general insurance companies throughout the previous years make up RBC's reporting to the regulatory body. (Pratiwi & Azib., 2018)

Investment Returns

Investment is placing money into something to earn it back later. Insurance firms invest the premiums they get from policyholders to make a profit. This return can be used to settle disputes, pay for ongoing costs, and create a profit for the company.

Investment returns are a major factor in insurance firms' profits since they dictate how much profit is split between the business and participants. The investment returns are the money earned before the manager's profit-sharing part is subtracted from the total investment outcomes. Based on certain ratios, the profit-sharing method is decided upon in accordance with Sharia rules. Research conducted by (Hissiyah & Meylianingrum, 2023), (Nurochim, 2020), (Nainggolan & Soemitra, 2020), (Wulandari et al., 2020), and (Haniva, 2018) has shown that investment returns have a significant impact on the profits of insurance companies.

However, in contrast to the aforementioned studies, (Markonah, 2021) found that investment returns did not have a significant effect on profits. This discrepancy suggests that the relationship between investment returns and profit may vary

depending on different factors such as the specific context, market conditions, and investment strategies employed by insurance companies.

Claim Expenses

Claim expenses are incurred by an insurance company to pay for claims filed by policyholders. These expenses can be significant and have a major impact on the company's profit.

A claim represents the coverage value paid to a participant or policyholder to compensate for the risks they have experienced. The payment of claims is based on the provisions agreed upon in the insurance policy and the results of an investigation into the incurred risk. In insurance companies, claim payments are not considered a burden of the manager's responsibility but rather an insurance or underwriting burden that is covered by the funds contributed by participants.

The claim payment is seen as an obligation that the company incurs when it decides to compensate the participant after the completion of the claim investigation process (Baynah et al., 2019)

Research conducted by Yolanda (2020 (Nurochim, 2020), (Nainggolan & Soemitra, 2020), (Haniva, 2018) and (Reschiwati & Solikhah, 2017) has shown that claims have a significant impact on the profit of insurance companies. However, (Santoso, 2020), (Wulandari et al., 2021), and (Luthfiati, 2018) found contrasting results, indicating that claims may not significantly affect profit in certain contexts.

Relationship of Internal Factors to Profit

Relationship of Premium Income to Profit

The amount of money that a policyholder pays an insurance firm in connection with the insurance agreement as specified in the insurance policy is known as premium income, according to (Ratnasiri, et al., 2018) (Mulyadi & Sinaga, 2019) Added that premium is the risk insurance cost, which the guarantor must pay for a specific risk, in a specific location, and for a specific amount of time. Insurance premiums, according to (Ahmed et al., 2006), are obligations of the insured party to the guarantor in the form of periodic payments of certain amounts of money.

Premium income is the amount of money paid by the insured party in return for protection services the insurer provides according to the previously agreed agreement. (Markonah, 2021) Research regarding the profit of Premium income has been carried out by several researchers. According to (Surantho & Walandouw, 2017) premium income has a significant positive effect on profit.

The result of the research conducted by (Sastri et al., 2017) discovered a positive correlation between insurance companies' profitability and premium income characteristics. For insurance firms, premium income is their primary source of revenue. Consequently, profit growth will be impacted by the size of the premium acquisition. The results of this research are consistent with research conducted by (Dhaniati, 2011), (Andriandin, 2013), (Dipoyanti, 2014), (Riani, 2014) and (Prasetyo et al., 2018). However, these results contrast with research conducted by (Bintang, 2019), which states that premium income does not significantly influence insurance companies' profits.

Premium income received by the company is not only the company's profit but also part of the company's obligations in the future (Mulyadi & Sinaga, 2019). According

to (Marwansyah, 2017) the premiums had a positive and significant effect on the profits of the insurance companies

Relationship of Underwriting Results to Profit

According to (Soegihono et al., 2021) The underwriting results are the profit or loss from the main insurance activities obtained from the difference between underwriting income (premium income) and underwriting expenses. This underwriting result is one of the variables that creates net income and is also used for investing. Meanwhile, according to (Sulastri et al., 2020) the results of underwriting support the report summary of income or loss. The Components of the underwriting results are premium income, claim expenses, and commission expenses.

Underwriting is the most crucial factor in boosting business profit in the insurance industry, aside from income from insurance premiums. The organization will ascertain the extent of potential risk and its capacity to assume that risk through the underwriting process. Not every client submission will be accepted immediately; instead, there will be a step in the process before the customer's submission is accepted. (Mutmainnah, 2015), which states that underwriting results have a noticeable positive impact on insurance company earnings. Whereas (Dhaniati, 2011) states that the underwriting ratio variable does not influence insurance companies' profits.

(Sastri et al., 2017) It was discovered that underwriting results variables and insurance company earnings had a substantial positive correlation. Underwriting results are the surplus funds that remain after an insurance company's underwriting expenditures are paid in full. A high underwriting result will impact on the insurance company's profits. The results of this research were consistent with the research conducted by (Mutmainnah, 2015) but the results of this research were opposite the

research conducted by (Lawson, 2006) and (Dhaniati, 2011), which states that there is no influence between the results of underwriting and the insurance companies' profits.

Relationship of Investment Return to Profit

An investment result may serve as a gauge for a company's performance, in which case the insurance provider might be seen as a type of portfolio. According to (Agung & Fikri, 2009), A portfolio is a collection of coordinated investment vehicles designed to generate returns on investments. The yield, an income from investments stated as a percentage of returns in the form of dividends or interest, is an investment return. While (Ramadhan, 2015) outlined the factors that determine investment returns, including revenue sharing from deposits, share trade profit or loss, building rental income, foreign exchange differences, interest income, and dividends, which are recognized at the time of the transaction rather than when cash is received.

According to (Noprika, 2020) Insurance businesses collect a certain amount of money to be distributed to insurance participants. The result of this process is investment returns. Once directly relevant investment expenses have been subtracted, investment returns become visible. Businesses can enhance their assets to reinvest since they will receive high investment returns from their well-managed assets. Many scholars have studied the profits and returns on investments. Profits were somewhat impacted negatively by the investment returns. (Dhaniati, 2011) While according to (Noprika, 2020), Investment Returns had a significant effect on profits.

The research found a positive influence on investment returns and insurance profits. However, the results of this research were opposite to the research conducted by (Putri et al., 2023), which states that the investment return variable does not influence the insurance companies' profits.

Investment uses funds to earn profits, while investment returns are income from the investment portfolio of insurance company assets (Dhaniati, 2011). The insurance company's operations yield an investment return by collecting a certain amount of money that is then disbursed to insurance participants. Investment returns become visible after immediately associated investment expenses are subtracted from investment income. Businesses that prudently manage their resources will see strong investment returns. They will thus be able to enhance the quantity of assets that need to be reinvested. Based on the aforementioned research findings, investment returns have a favorable and noteworthy impact on insurance businesses' profits.

Relationship of Claim Payment to Profit

Claim expenses are expenses the insurance company bears as part of its obligation to pay protection benefits to the policyholder based on previously insured risks. Insurance firms typically incur claims expenses about client disbursements, which include authorized claims, claims pending settlement, and claims that have been active but not reported. Various scholars have conducted studies concerning expenses and profit. As a result, claim expenses do not affect profit (Noprika, 2020), while based on (Riani, 2014) claim expenses had a significant negative effect on profit.

(Husnul, 2014) and (Mutmainnah, 2015) conclude that the claim expense on Sharia life insurance does not significantly and negatively impact profits since a high income can offset the low claim burden because the study's claim expenses variable has a low value in comparison to income. In the year of observation, this study (Dhaniati, 2011) determined that because the premium and claim variables do not contribute positively to the profit, they produce a negative value in the regression equation. Greater premiums translate into greater claim values because businesses pay premiums to offset the risk of claims. (Riani, 2014) Partial coverage does not

affect profit, so the decrease or increase in claims does not affect the profit growth of Islamic general insurance companies.

According to (Dhaniati, 2011) The claim expenses are the costs incurred by the insurer as a responsibility for the protection benefits provided to the insured, according to the risks that have been previously insured. Insurance firms' claims expenses are typically associated with payments made by clients, encompassing authorized claims, claims pending settlement, and claims that have been active but unreported. According to the results of the research conducted by (Ahmad & Presetyo, 2015), claims expense has a significant effect on profit.

Relationship of Risk-Based Capital to Profit

Risk-based capital is the capital adequacy ratio to the risk borne and one of the main indicators in assessing the stability of insurance companies, especially those related to solvency or the company's ability to fulfil all its obligations (Surantho & Walandouw, 2017) Research on the effects of risk-based capital (RBC) on profits has been carried out by several researchers. (Sastri et al., 2017) Who explained if risk-based capital (RBC) had a significant positive effect on insurance company profits?

(Bintang, 2019) Investigates the impact of risk-based capital (RBC) rules on the profitability and solvency of Indonesian insurance companies. The author concludes that while RBC regulations have improved insurance companies' solvency, they have negatively impacted their profit margin. It is significant because it offers actual data regarding the impact of RBC requirements in the setting of emerging nations. According to his research, RBC requirements may have a detrimental effect on insurance company profit but can be a useful instrument for enhancing insurance company solvency.

According to the results of research conducted by (Sastri et al., 2017) risk-based capital has a positive and significant effect on profits

Theoretical Review

Efficiency Theory

The efficiency theory suggests that the operational efficiency of insurance firms can significantly impact profit. (Reschiwat & Solikhah, 2018) Factors such as cost management, underwriting discipline, claims management efficiency, investment management practices, and technology adoption can influence the firm's ability to generate profits. Insurance firms that effectively manage their operations, streamline processes, and minimize costs are likely to achieve higher profits compared to less efficient competitors. (Wulandari et al., 2021) The efficiency theory suggests that the operational efficiency of insurance firms can significantly impact profit. (Cummins, 1998)

Resource-Based View (RBV)

The RBV emphasizes the importance of firm-specific resources and capabilities in achieving a competitive advantage and superior profit. In the case of insurance firms, unique resources such as brand reputation, customer base, underwriting expertise, claims management systems and distribution networks can contribute to improved profit. By leveraging and effectively managing these resources, insurance firms can differentiate themselves from competitors and generate higher profits. (Barney, 1991)

These studies all found that firm-specific resources and capabilities are an important source of competitive advantage for insurance firms. Firms that have unique

resources and capabilities that are difficult to imitate are more likely to be successful in the long run. (Wernerfelt, 1984)

Overall, the RBV provides a useful framework for understanding the factors that affect the profit of insurance firms. Firms that can identify and exploit their unique resources and capabilities are more likely to be successful in the long run (Grant, 1991)

METHODS

Research Design

Research design is a straightforward synthesis of the underlying structure of several research methods and procedures a researcher employs. This study will be carried out as a quantitative research method to measure phenomena quantitatively through numerical analysis methods. It adhered to the positivist philosophy, which assumes the existence of an external and objective reality in the world. In addition, research followed a deductive logic, wherein the theory was utilized to develop hypotheses.

Data and sample

The population for this study, which investigates the influence of firm-specific internal factors on the profitability of insurance companies, consists of the 30 insurance companies licensed to operate in Sri Lanka as of December 31, 2022. Of the 30 insurance companies currently registered with the IRC SL, 28 comprise the study population. This research focuses on these 28 companies that have actively conducted insurance business in Sri Lanka over the past seven years. The two companies excluded from the study are a newly registered company and the National Insurance Trust Fund (NITF). Therefore, in this context, the sample and population are one and the same. This study utilizes annual data on insurance companies in Sri

Lanka, covering the period from 2016 to 2022. In addition, the secondary data enhances the validity and reliability of the study as it builds upon existing research. Secondary data, previously collected for a different purpose, can be adapted and utilized for current research. This study employed secondary data from various sources to examine the impact of firm-specific internal factors on the profitability of insurance companies in Sri Lanka. The researcher gathered data from annual financial statements for seven years, from 2016 to 2022. It emphasizes that the use of secondary data enhances the validity and reliability of the study by providing a foundation for the current research. In conclusion, this study analyzes 7 years of data from 2016 to 2022, using annual data from 28 insurance companies. (Appendix 01)

Method of analysis

This study adopted a quantitative research approach because it involved numerical and secondary data. To assess the performance of insurance businesses, the researcher used profit as a measure. As a result, the researcher intended to calculate premiums, claim expenses, RBC, investment return, and underwriting expenses. Descriptive statistics, regression, and correlation were used to analyze the data. The regression model was used to examine the impact of profit on insurance companies. A correlation analysis was conducted on the variables to determine their degree of association or linearity. Descriptive statistics generated a straightforward and easy-to-understand depiction of the variables. In this case, the mean and standard deviation were used as descriptive statistics.

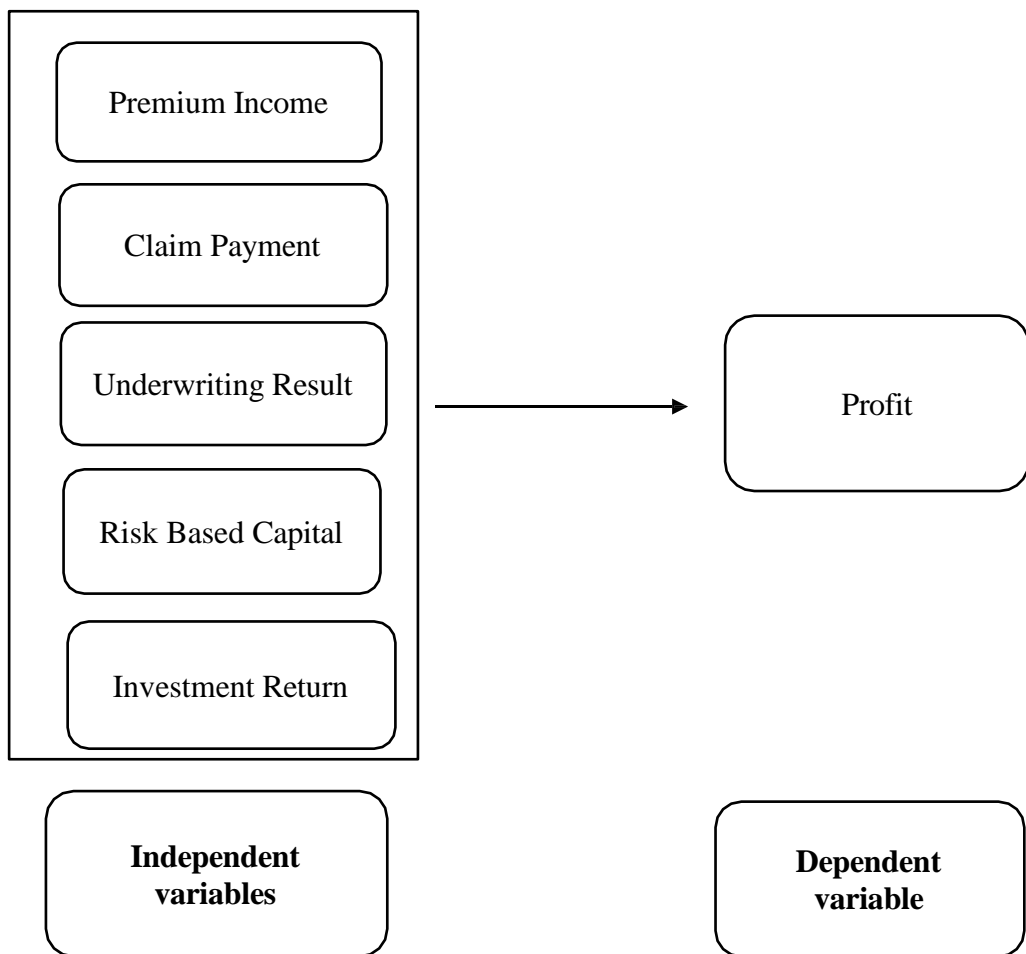
Conceptual Framework & Operationalization

The following figure (Table 3.2) will support identifying the independent variable and dependent variable of this study to identify the correct pathway for developing the research hypothesis under the different terms; also, the following operationalization supports identifying the different variable measurements with

proper research evidence according to the research contexts under the different circumstances.

Figure 3.1

Conceptual Framework



Hypotheses

According to (Osuala,2005), the essence of the hypothesis is to ensure the clear direction of the study, which will help avoid misleading data collection. Research hypotheses were developed as follows to determine the relationship between the independent and dependent variables.

H1_a: Insurance premiums have a significant impact on Profit in General Insurance Industry

H1_b: Insurance premiums have a significant impact on Profit in the Life Insurance Industry

H2_a: Insurance claim has a significant impact on Profit in General Insurance Industry

H2_b: Insurance claim has a significant impact on Profit in Life Insurance Industry

H3_a: Risk-Based Capital has a significant impact on Profit in General Insurance Industry

H3_b: Risk-Based Capital has a significant impact on Profit in Life Insurance Industry

H4_a: Investment return has a significant impact on Profit in General Insurance Industry

H4_b: Investment return has a significant impact on Profit in Life Insurance Industry

H4_a: Underwriting results have a significant impact on Profit in General Insurance Industry

H4_b: Underwriting results have a significant impact on Profit in Life Insurance Industry

Findings of Study

Descriptive Analysis

The study's basic features are described using descriptive statistics. Simple summaries of the sample and the measures should be provided. Table 4.1 provides descriptive statistics for profit, gross written premium (GWP), claim expense, risk-based capital (RBC), interest rate (IR), and underwriting return (UR) for both general insurance and life insurance. In general, life insurance companies have higher profits, lower claim expenses, and higher Risk-Based Capital than general insurance companies. Life insurance companies also have higher Investment Return (IR) but slightly lower Underwriting Results (UR) than general insurance companies.

Table 4.1

Descriptive Statistics – Model 01 & Model 02

	General Insurance					
	Profit	GWP	Claim Ex	RBC	IR	UR
Mean	0.7228	6.6433	3.0949	2.1492	0.5497	0.9060
Std. Dev	0.7836	6.0273	2.6959	0.4571	0.4628	0.8838
Minimum	-0.0685	0.8107	0.3011	1.5400	0.1097	0.0450
Maximum	2.3187	18.1379	8.2540	2.9100	1.3067	2.7432
Observations	91	91	91	91	91	91
	Life Insurance					
	Profit	GWP	Claim Ex	RBC	IR	UR
Mean	1.0946	6.3633	2.3117	3.2275	2.4414	0.9693
Std. Dev	1.3078	7.1777	2.7311	1.4414	3.2709	1.0302
Minimum	1.0000	0.3685	0.1089	0.4845	0.1132	-0.0137
Maximum	3.7437	29.1602	7.8444	8.8048	9.7832	4.9559
Observations	105	105	105	105	105	105

Source: Author Compiled

Test in Normality

Table 5.2 Result of the normality – Model 01 & Model 02

	General Insurance		Life Insurance	
	Skewness statistic	Kurtosis statistic	Skewness statistic	Kurtosis statistic
Profit	0.9162	2.5480	0.5199	1.5545
GWP	0.9538	2.4246	0.8119	2.0456
Claim Ex.	0.8911	2.3684	0.7235	1.7911
RBC	0.4049	1.8045	0.2525	1.7027
IR	0.7105	1.9336	1.3547	3.3586
UR	1.0654	3.8926	0.6838	0.3988

Source: Author Compiled.

The 4.2 table provides the skewness and kurtosis statistics. For skewness, values between -2 and 2 are considered acceptable for indicating normal distribution. As shown in the table, all skewness values for general and life insurance variables fall within this range, suggesting that the data sets are approximately normally distributed. For kurtosis, values less than 5 are considered acceptable for indicating normal distribution. Again, all kurtosis values for both general insurance and life insurance variables are below 5, further supporting the conclusion that the data sets are approximately normally distributed.

Test in Stationary

To test the unit root of the variables, we can develop hypotheses as shown below.

H0: Variable is not stationary (Unit root)

H1: Variable is stationary (No unit root)

Based on the results of the LLC test, all variables are statistically significant at the 5% level. This leads to rejecting the null hypothesis, indicating no unit root in the entire data set. Consequently, all variables can be considered stationary.

Table 4.3

Unit Root Tests – Model 01 & Model 02

Variable	General Insurance		Life Insurance	
	P Value	Stationery	P Value	Stationery
Profit	0.0000	At level	0.0000	At level
GWP	0.0000	At level	0.0032	At level
Claim Ex.	0.0000	At level	0.0000	At level
RBC	0.0003	At level	0.0000	At level
IR	0.0000	At level	0.0185	At level
UR	0.0000	At level	0.0000	At level

Source: Author Compiled.

Correlation analysis

The correlation table (Table 4.4) supports identifying the better correlation among the selected research variables in this study; according to the research contexts, the researcher has identified the correlation matrix for general insurance, which shows strong positive correlations between all of the variables, except for RBC. Profit has the strongest positive correlation with GWP (0.8138), followed by IR (0.8626) and

Claim Ex. (0.7876). This indicates that as GWP, IR, and Claim Ex. increase, profit. RBC has a weak positive correlation with profit (0.1753), indicating a very small positive relationship between the two variables. UR has a moderate positive correlation with profit (0.5627), indicating that profit also tends to increase as UR increases.

The correlation matrix for life insurance shows that there are strong positive correlations between all of the variables. Profit has the strongest positive correlation with GWP (0.9014), followed by IR (0.8326) and Claim Ex. (0.8666). This indicates that GWP, IR, and Claim Ex. increase profit. RBC has a moderate positive correlation with profit (0.3611), indicating a positive relationship between the two variables. UR has a strong positive correlation with profit (0.8875), indicating that profit also tends to increase as UR increases.

Table 4.4

Correlation Analysis – Model 01 & Model 02

	General Insurance					
	Profit	GWP	Claim Ex.	RBC	IR	UR
Profit	1.0000					
GWP	0.8138	1.0000				
Claim Ex.	0.7876	0.9478	1.0000			
RBC	0.1753	-0.0844	-0.0719	1.0000		
IR	0.8626	0.9342	0.9240	-0.0130		
UR	0.5627	0.3070	0.3186	0.1606	0.3896	1.0000
	Life Insurance					

	Profit	GWP	Claim Ex.	RBC	IR	UR
Profit	1.0000					
GWP	0.9014	1.0000				
Claim Ex.	0.8666	0.9758	1.0000			
RBC	0.3611	0.4365	0.4302	1.0000		
IR	0.8326	0.9330	0.9515	0.4893	1.0000	
UR	0.8875	0.9390	0.9105	0.4552	0.8652	1.0000

Source: Author Compiled.

Assumption Testing

Multicollinearity

Multicollinearity refers to a high degree of correlation among the explanatory variables in a regression model. When multicollinearity is present, the ordinary least squares (OLS) estimators exhibit inflated variances and covariances, leading to inaccurate and unreliable estimates of the model parameters.

According to the classical assumptions of the OLS regression model, the explanatory variables should not be perfectly correlated. Various diagnostic tools can be employed to assess the presence of multicollinearity, including the correlation matrix, variance inflation factors (VIFs), and tolerance values. For this particular study, VIFs were utilized to evaluate multicollinearity.

Table 4.5

VIF Test - Model 01 & Model 02

Variable	General Insurance		Life Insurance	
	VIF	1/VIF	VIF	1/VIF
Premium	12.48	0.080119	14.48	0.06906
Claim Ex.	9.75	0.102518	10.41	0.9604
RBC	2.29	0.437006	8.15	0.12273
IR	1.63	0.61198	7.5	0.13331
UR	1.01	0.987107	1.48	0.67719
Mean VIF	5.43		8.4	

Source: Author Compiled.

According to (Belsley et al., 1980) and (Hair et al., 2010) a VIF greater than 10 indicates that multicollinearity is severe and that the corresponding regression coefficient is likely to be unstable. According to Table 4.5, the mean VIF values are less than 10 for both life and general insurance. Specifically, the VIFs are 5.43 and 8.40 for general and life insurance, respectively. Therefore, there is no multicollinearity problem in this study.

Autocorrelation

If the error term is correlated with the error term of the previous period, this is called autocorrelation. The best regression model should be free from the autocorrelation problem, i.e. there should be no autocorrelation between the intercepts. The following hypothesis is developed to identify autocorrelation in the model:

(H₀): There is no autocorrelation between disturbances.

(H₁): There is autocorrelation between disturbances.

This study employed the Wooldridge test to measure autocorrelation.

Table 4.6

Wooldridge test for autocorrelation – Model 01 & Model 02

	General Insurance
F(1,12)	1.305
Prob>F	0.2756
	Life Insurance
F(1,14)	0.155
Prob>F	0.6994

Source: Author Compiled.

The Wooldridge test for autocorrelation was conducted for both general and life insurance. In both cases, the p-values were greater than 0.05, which means that the null hypothesis of no autocorrelation between the disturbances cannot be rejected. In other words, there is no evidence to suggest a problem with autocorrelation in either of the regression models. This is a good result, as it means that the regression models are likely to be reliable and that the estimated coefficients are not biased due to autocorrelation.

Heteroscedasticity

In the context of the classical assumptions of ordinary least squares (OLS) regression, homoscedasticity refers to the condition of equal variance of the error term or disturbance. When the error term or disturbance of the model is not constant, the variance is termed heteroscedasticity. An ideal regression model should exhibit

minimal variance. To assess the presence of heteroscedasticity in the model, the following hypotheses are formulated:

H₀: Homoscedasticity exists.

H₁: Heteroscedasticity exists.

The modified Wald test was employed to evaluate the presence of heteroscedasticity in the residuals. This test provides a statistical framework for determining whether heteroscedasticity exists in the model.

Table 4.7

Wald test for Heteroskedasticity – Model 01 & Model 02

	Chi-Sq. Statistic	Prob.
General Insurance	1.1e+06	0.0000
Life Insurance	4.4e+0.6	0.0000

Source: Author Compiled.

Based on the results, the p-value is less than 5% for both models, indicating statistical significance. This allows us to reject the null hypothesis for both models. Consequently, robust standard errors were employed to address heteroscedasticity in both models

Assumption Testing Summary

Table 4.8 Assumption Testing Summary

Assumption	Statistical Test	Result	Remedies
Multicollinearity	VIF Test	Absence of Multicollinearity	Not Required
Heteroscedasticity	Wald Test	Presence of Heteroscedasticity	Robust standard errors for panel regressions
Serial Correlation (Autocorrelation)	Wooldridge Test	Absence of Serial Correlation (Autocorrelation)	Not Required

Source: Author Compiled.

Empirical Model Testing

Table 4.9 Hausman Test Output

The Hausman test determines which model is more suitable: the fixed and random effect models. With the caveat that H₀ is accepted and H₁ is denied if the probability value is greater than 0.05. In the meantime, H₀ is rejected, and H₁ of this model is accepted if the probability value is less than 0.05. The following are the results of the Hausman test.

	Chi-Sq. Statistic	Prob.	Random/ Fixed
General Insurance	13.99	0.0156	Fixed
Life Insurance	84.09	0.0000	Fixed

Source: Author Compiled.

In the table above, the Chi-Sq. The statistics are 13.99 for general insurance and 84.09 for life insurance. The p-values are 0.0156 and 0.0000 for general and life insurance, respectively.

We reject the null hypothesis since the p-value is less than 0.05 for general and life insurance. This means the fixed effects estimator is more efficient than the random effects estimator for general and life insurance.

Fixed Effect Model Regression Result

This table presents the regression result of insurance firm-specific factors and the profit of insurance companies in Sri Lanka.

Table 4.10

Regression Analysis

	General Insurance				Life Insurance			
	Coefficient	Std. Error	t	Probability	Coefficient	Std. Error	t	Probability
Constant	-0.4540	0.1863	-2.44	0.0170	0.3355	0.2134	1.57	0.1200
GWP	0.1063	0.0274	3.88	0.0000	0.2771	0.5699	4.86	0.0000
Claim Ex.	-0.0781	0.0381	2.05	0.0440	-0.2579	0.1258	-2.05	0.0430
RBC	0.1197	0.0870	1.34	0.1730	-0.0345	0.0511	-0.68	0.5010
IR	0.2980	0.1737	1.72	0.0900	-0.0143	0.0795	-0.18	0.8580

UR	0.3618	0.1863	4.57	0.0000	-0.4562	0.2030	- 2.25	0.0270
No of groups	13				15			
No. of observations	91				105			
P value	0.0000				0.0000			
R-squared-within	0.645				0.2934			
R-squared-between	0.838				0.8167			
R-squared-overall	0.785				0.7483			

Source: Author Compiled.

Regression Model

General Insurance

$$\text{Profit} = \alpha + \beta_1\text{PI} + \beta_2\text{CE} + \beta_3\text{RBC} + \beta_4\text{IR} + \beta_5\text{UR} + \mu$$

$$\text{Profit} = -0.4540 + 0.1063\text{PI} + -0.0781\text{CE} + 0.1197\text{RBC} + 0.2980\text{IR} + 0.3618\text{UR} + \mu$$

Life Insurance

$$\text{Profit} = \alpha + \beta_1\text{PI} + \beta_2\text{CE} + \beta_3\text{RBC} + \beta_4\text{IR} + \beta_5\text{UR} + \mu$$

$$\text{Profit} = 0.3355 + 0.5699\text{PI} + 0.1258\text{CE} + 0.0511\text{RBC} + 0.0795\text{IR} + 0.2030\text{UR} + \mu$$

Regression Interpretation

Table 4.10 presents the robust fixed-effects regression results for interpreting life and general insurance. The R-squared-within value of 64.5% indicates that premium, claims ex., RBC, UR, and IR collectively explain 64.5% of the variation in the profit of the general insurance companies. Additionally, the R-squared-within value of 29.34% indicates that premium, claims ex., RBC, UR, and IR collectively explain 29.34% of the variation in the profit of the life insurance companies. The F-statistic with a p-value of 0.0000 confirms that the overall model is statistically significant at the 5% level for life and general insurance.

Discussion and Recommendation

The following conclusions have been derived from the research,

Based on the table below, the results of hypothesis tests on the impact of premium income on profit for general insurance and life insurance companies. The null hypothesis is that premium income has no significant impact on profit. The alternate hypothesis is that premium income does have a significant impact on profit.

Table 5.1

Hypothesis Testing

The hypothesis tests were conducted at a 5% significance level. This means the null hypothesis was rejected if the p-value was less than 0.05.

Models	General Insurance			Life Insurance		
	Probability	At 5% sig. level	Acceptance	Probability	At 5% sig. level	Acceptance
H1	0.0000	Significant	Do not reject	0.0000	Significant	Do not reject
H2	0.0440	Significant	Do not reject	0.0430	Significant	Do not reject
H3	0.1730	Insignificant	Rejected	0.5010	Insignificant	Rejected
H4	0.0900	Insignificant	Rejected	0.8580	Insignificant	Rejected
H5	0.0000	Significant	Do not reject	0.0270	Significant	Do not reject

Source: Author Compiled

H1a: Insurance premiums have a significant impact on Profit in General Insurance Industry

Based on the analysis results the p-value for the hypothesis test on premium income for general insurance is 0.0000. This is much less than 0.05, so the null hypothesis is rejected. This means that we can conclude that premium income has a significant impact on profit for general insurance companies.

H1b: Insurance premiums have a significant impact on Profit in the Life Insurance Industry

The p-value for the hypothesis test on premium income for life insurance is 0.0000. This is also much less than 0.05, so the null hypothesis is rejected. This means that we can conclude that premium income also significantly impacts profit for life insurance companies.

The study's findings are consistent with previous studies showing that premium income increases company profits. The research was conducted by (Agung & Fikri, 2009) and (Sastri et al., 2017)

H2a: Insurance claim has a significant impact on Profit in General Insurance Industry

The p-value for the hypothesis test on claim expenses for general insurance is 0.0440. This is less than 0.05, so the null hypothesis is rejected. This means that we can conclude that claim expenses significantly impact profit for general insurance companies.

H2b: Insurance claim has a significant impact on Profit in Life Insurance Industry

The p-value for the hypothesis test on claim expenses for life insurance is 0.0270. This is also less than 0.05, so the null hypothesis is rejected. This means that we can conclude that claim expenses also significantly impact profit for life insurance companies.

The hypothesis testing results show that claim expenses significantly impact profit for both general insurance and life insurance companies. This is consistent with claims being the main expense for insurance companies.

The result of this study is in line with research conducted by (Pratiwi & Azib., 2018) and (Reschiwati & Solikhah, 2018)

H3a: Risk-Based Capital has a significant impact on Profit in General Insurance Industry

Regarding RBC for general insurance, the p-value for the hypothesis test is 0.1730. As a result, the null hypothesis is not rejected because this is more than 0.05. For general insurance firms, this means that they are unable to draw the conclusion that RBC significantly impacts profit.

H3b: Risk-Based Capital has a significant impact on Profit in Life Insurance Industry

The p-value for the hypothesis test on RBC for life insurance is 0.5010. This is also greater than 0.05, so the null hypothesis is not rejected. This means that we cannot conclude that RBC significantly impacts profit for life insurance companies.

In this study, risk-based capital (RBC) had no significant effect on company profits, meaning that an increase in RBC did not result in an increase in insurance company profits. There are a few possible reasons for this finding.

First, RBC requirements are set by regulators to ensure that insurance companies are financially sound and able to meet their obligations to policyholders. Companies that fail to meet the minimum RBC requirement of 120% are typically required to take corrective action, which may reduce their profits in the short term. However, companies may also choose to maintain higher levels of RBC than required, which can also reduce their profits.

The result of this study is in line with previous studies conducted by (Andriandin, 2013) and (Erlinawati, 2019), which stated that the risk-based capital variable does not affect insurance company profits.

H4a: Investment return has a significant impact on Profit in General Insurance Industry

The p-value for the hypothesis test on investment performance is 0.1730. Since the p-value is higher than 0.05, the null hypothesis is accepted. Thus, we cannot conclude that investment outcomes significantly affect the bottom line of the general insurance business.

H4b: Investment return has a significant impact on Profit in Life Insurance Industry

For life insurance, the p-value for the hypothesis test on investment performance is 0.5010. If the p-values are higher than 0.05, the null hypothesis is accepted. Thus, we cannot conclude that investment outcomes significantly affect the bottom line of life insurance business.

The result of this study is in line with previous research, which proved that investment return has a positive influence on company profits. The research was conducted by (Arzelan, 2017), (Wulandari et al., 2021)

H4a: Underwriting results have a significant impact on Profit in General Insurance Industry

The findings of the hypothesis test demonstrate that underwriting results significantly affect the profit margin of general insurance. The general insurance firms' p-values are below the significance level of 0.05. As a result, we may rule out

the null hypothesis, which states that underwriting results have no discernible effect on profit and conclude that the two variables have a meaningful relationship.

H4b Underwriting results have a significant impact on Profit in Life Insurance Industry

Life insurance firms' p-values are below the significance level of 0.05. As a result, we may rule out the null hypothesis.

The study's findings indicate that premium income positively and significantly affects profit, meaning that when premium income rises, profit also rises. Profit is significantly impacted negatively by claims expenses; therefore, as claims costs rise, profit falls. Profits are positively and significantly impacted by underwriting results, meaning that larger profits result from successful underwriting. Returns on investments and risk-based capital have little bearing on profit. These data indicate that the primary factors influencing the profit margin of general insurance businesses in Sri Lanka are premium income, claims expenses, and underwriting outcomes.

However, risk-based capital or investment returns don't affect profit significantly. The study's conclusions are significant because they aid in identifying the primary variables influencing the profits of general insurance companies operating in Sri Lanka. Businesses can increase their profit by concentrating on these elements. Companies can concentrate on raising premium revenue, cutting claims expenses, and enhancing underwriting outcomes.

The study's conclusions also have consequences for Sri Lanka's regulatory bodies. The study's conclusions may be considered by regulators when creating rules pertaining to the general insurance sector. Regulators could wish to concentrate on ensuring general insurance businesses properly manage their investment portfolios and risk capital, for instance.

The study's findings show that the income from premiums, the costs incurred in handling claims, and the results of the underwriting process all significantly impact the profitability of the life insurance market in Sri Lanka. Premium income positively and significantly affects earnings, suggesting that more premium income causes earnings to rise.

Conversely, claims expense substantially and adversely affects earnings, suggesting that a rise in claims expense corresponds to a fall in earnings. Likewise, underwriting performance substantially and negatively impacts profitability, indicating that better underwriting performance raises earnings. On the other hand, it was discovered that there was little difference in returns between risk-based capital (RBC) and investment return.

According to this, the impact of RBC and investment income on returns may be somewhat influenced, but it is not statistically significant in the Sri Lankan life insurance market. For Sri Lankan life insurance firms, these findings have several significant ramifications. They first stress how crucial it is to handle premium income wisely. To boost premium income and profits, businesses should concentrate on tactics that draw in new clients and raise policy retention rates.

The findings further emphasize the necessity of efficient claims handling procedures. To reduce false claims and manage claim expenses, businesses must take action. By doing this, they can lower the cost of filing claims and raise total profitability. Thirdly, the results emphasize the significance of prudent underwriting procedures. To determine suitable rates, companies must carefully evaluate the risk profile of potential policyholders. By enforcing strong underwriting rules, they can enhance their underwriting results and boost their profit. Even if RBC and investment results might not have a big, direct effect on revenues, they can nevertheless be helpful to life insurance businesses' overall financial stability. Companies that maintain appropriate RBC levels can better endure unforeseen losses and keep investors' trust.

Moreover, producing robust investment returns can enhance profit underwriting and promote general stability in the financial system. To sum up, this study's results offer insightful information about the critical elements influencing the profitability of the life insurance market in Sri Lanka. Life insurance firms can achieve long-term financial success and boost profitability by comprehending and controlling these aspects well. (Appendix 03)

Recommendations

General Insurance

The results for general insurance in Sri Lanka make it abundantly evident that underwriting and premium performance are key factors in profitability. Insurance companies can use this by strengthening their underwriting procedures and concentrating on strategic premium pricing, improving their bottom line. Furthermore, claim costs are a major detriment to earnings, so efforts must be made to reduce them. This can entail putting strict risk management procedures into place and looking into creative methods to cut expenses associated with claims. Examine different approaches to investing. Companies can still gain from diversifying their investment portfolios and looking for chances for higher returns even while the influence of investment returns on profit is lessened. This can entail making investments in a larger variety of asset classes, such as stocks or real estate, as well as using more aggressive investment management techniques

Life Insurance

Given life insurance's favourable and large influence on profits, careful premium management is essential. Insurance companies want to consider fine-tuning their premium structures to optimize profit and maintain market competitiveness. Examining and modifying these procedures are necessary to address the detrimental effects of claim costs and underwriting outcomes. Examining economical and effective underwriting techniques might enhance the life insurance industry's overall profit.

It is recommended that insurance companies keep an eye on and improve their investment strategies even though research on general and life insurance indicated that risk-based capital and investment return had little effect on profitability. Long-term financial stability can be ensured by taking an active approach to investment management and keeping a solid risk-based capital position, even though these variables might not contribute much to profits right now.

Limitations of the Study

The primary focus of the research is on financial measures, including underwriting results, risk-based capital, premium income, claim payment, and investment return. Although these measures are significant, it's possible that they don't account for every aspect that affects earnings. Other influences may also be market competitiveness, consumer happiness, and operational effectiveness.

Research has no qualitative component—quantitative analysis is the main method used. The comprehension of profit drivers can be improved by incorporating qualitative information about rival tactics, market trends, and customer behaviour. This will help to contextualize the quantitative results.

Correlations are found in the research between the dependent variable (profit) and the independent variables (premium revenue, claim payment, risk-based capital, investment return, and underwriting result). It is not always clear whether one variable drives the other because two variables are moving together. More investigation will be needed to determine the causes and impacts of these variables.

The research does not cover the effect of regulatory changes on profit throughout the study period. The profit of insurance businesses may have been impacted by regulatory changes, such as new accounting standards or solvency requirements.

Suggestion for Further Research

Future studies should combine qualitative and quantitative methods to better understand the variables affecting the profit of the insurance business. This could entail reviewing client feedback, speaking with industry experts, and looking at market trends.

The insurance sector in Sri Lanka is the subject of the study that is being given. The analysis's purview could encompass insurance providers from other nations or areas. As a result, comparing profit drivers across various markets and regulatory frameworks would be possible.

Technology is rapidly transforming the insurance sector. Subsequent studies ought to examine how technological advancements, such as Insurtech, big data analytics, and artificial intelligence, impact profit drivers.

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Appendices

Appendix-01

Table 2.1

Population and Sample

	Name of insurer	Class of insurance	Effective date of license	Sample
1	AIA Insurance Lanka Ltd	Long Term Insurance	16-Dec-87	Yes
2	Allianz Insurance Lanka Ltd	General Insurance	1-Jan-15	Yes
3	Allianz Life Insurance Lanka Ltd	Long Term Insurance	1-Jul-08	Yes
4	Amana Takaful Life PLC	Long Term Insurance	1-Jan-15	Yes
5	Amana Takaful PLC	General Insurance	1-Feb-02	Yes
6	Arpico Insurance PLC	Long Term Insurance	20-Oct-11	Yes
7	Ceylinco General Insurance Limited	General Insurance	1-Jun-15	Yes

8	Ceylinco Life Insurance Limited	long Term Insurance	1-Jun-05	Yes
9	Continental Insurance Lanka Ltd	General Insurance	18-Dec-09	Yes
10	Continental Insurance Life Lanka Ltd	Long Term Insurance	29-Jul-22	No
11	Cooperative Insurance Company PLC	General Insurance	18-Sep-98	Yes
12	Cooplife Insurance Limited	Long Term Insurance	1-Jan-15	Yes
13	Fairfirst Insurance Limited	General Insurance	1-Jan-15	Yes
14	HNB Assurance PLC	Long Term Insurance	30-Aug-01	Yes
15	HNB General Insurance Ltd	General Insurance	1-Jan-15	Yes
16	Janashakthi Insurance PLC	Long Term Insurance	12-Aug-94	Yes
17	Life Insurance Corporation (Lanka) Ltd.	Long Term Insurance	18-Dec-02	Yes
18	LOLC General Insurance PLC	General Insurance	1-Oct-15	Yes

19	LOLC Life Assurance Limited	Long Term Insurance	30-Apr-10	Yes
20	MBSL Insurance Company Limited	Long Term Insurance	1-Apr-05	Yes
21	MBSL Insurance Company Limited	General Insurance	2-Aug-05	Yes
22	National Insurance Trust Fund	General Insurance	7-Feb-11	No
23	Orient Insurance Limited	General Insurance	15-Oct-11	Yes
24	People's Insurance PLC	General Insurance	2-Dec-09	Yes
25	Sanasa General Insurance Company Limited	General Insurance	1-Jul-19	Yes
26	Sanasa Life Insurance Company PLC	Long Term Insurance	8-Jul-03	Yes
27	Softlogic Life Insurance PLC	Long Term Insurance	8-Mar-00	Yes
28	Sri Lanka Insurance Corporation Ltd	General Insurance	3-Feb-93	Yes
29	Sri Lanka Insurance Corporation Ltd	Long Term Insurance	3-Feb-93	Yes

30	Union Assurance PLC	Long Term Insurance	8-Jan-87	Yes
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Source: IRC SL Website

Appendix 02

Table 3.2*Operationalization*

Variable	Meaning	Interpretation	Sources
Profit	Insurance company profit is measured by net income, the difference between premiums collected and claims paid out, plus investment income	Net income = (Underwriting profit + Investment income)	(Arzelan, 2017)
Premium Income	The total amount of money an insurance company receives from policyholders in exchange for insurance coverage.	PI = Total Premium Income	(Wulandari et al., 2021)
Investment Return	The total amount of money an insurance company earns from its investments in stocks, bonds, real estate, and other assets	IR = Total of Investment Return	(Mutmainn ah, 2015)
Underwriting Result	The measure of the adequacy of premium funds to cover these expenditures	UW = (Earned premiums - Total claims paid out) - Underwriting expenses	(Wulandari et al., 2021)
RBC	Finding out if the insurance firm is solvent and if it can handle the risk of claims	RBC = Total Available Capital (TAC)/ Risk-based Capital Requirement (RCR)	(Erlinawati , 2019)
Claim Expenses	The total amount of money an insurance company pays to policyholders for covered losses	CE = Total Net Claim Expenses	(Hang et al., 2018)

Source: IRC SL Website

Appendix 03**Table 5.2***Research Conclusion*

Hypothesis	Model 01	Similarities with this Research	Model 02	Similarities with this Research
Insurance Premiums Have a Significant Impact on Profit.	Significant	(Agung & Fikri, 2009) (Sastri et al., 2017)	Significant	(Arzelan, 2017)
Insurance Claims Have a Significant Impact on Profit	Significant	(Pratiwi & Azib., 2018), (Reschiwati & Solikhah, 2018)	Significant	(Reschiwati & Solikhah, 2018)
RBC has a significant impact on Profit	Insignificant	(Andriandin, 2013) (Erlinawati, 2019)	Insignificant	(Arzelan, 2017)

Investment Returns Have a Significant Impact on Profit	Insignificant	(Arzelan, 2017) (Wulandari et al., 2021)	Insignificant	(Wulandari et al., 2021)
Underwriting results have a significant impact on Profit	Significant	(Prasetyo et al., 2018) (Wulandari et al., 2021)	Significant	(Wulandari et al., 2020)

Source: Author Compiled