

# The Impact of Claims payments on Profitability: Evidence from General Insurance Companies in Sri Lanka

W.P.W. Kiel<sup>1</sup>, S.T.M.S. Tennekoon<sup>2</sup>

Department of Finance, University of Kelaniya, Sri Lanka<sup>1,2</sup>

[Prathibhakiel00@gmail.com](mailto:Prathibhakiel00@gmail.com)<sup>1</sup>, [subhaniet@kln.ac.lk](mailto:subhaniet@kln.ac.lk)<sup>2</sup>

## Abstract

**Introduction:** Claims cost is the biggest expenditure for the insurance company. Claims settlement is an essential part of an insurance contract because it is critical to both the insured and the insurer. The primary purpose of this study is to empirically investigate the impact of claim payments on the financial performance of general insurance companies in Sri Lanka.

**Methodology:** The methodology employed in this study is deductive and quantitative. The study is based on Secondary data from 10 general insurance companies from 2015 to 2022 and data were collected through annual reports of the companies and IRCSL handbooks. The research has employed, Return on assets as the dependent variable, while net claims, loss ratio, and expense ratio are the independent variables of this study. Data was tested through descriptive analysis, correlation analysis, and regression analysis under STATA software to analyze the data.

**Findings:** The research findings show a significant positive relationship between net claims and Return on assets, while there is a negative relationship and significant impact between loss ratio and Return on assets. However, the results also show a negative and insignificant relationship between Return on assets and loss ratio in general insurance companies in Sri Lanka. In conclusion, there is a significant impact of claims payments on the profitability of general insurance companies in Sri Lanka.

**Conclusion:** The study's findings will be helpful for insurance companies and future academic research in the context of general insurance companies of Sri Lanka. Findings will be helpful for the insurance companies to manage their claims operations effectively to retain their existing customers while maintaining healthy profit from the operations.

**Keywords:** Claims Payments, Financial Performance, Expense Ratio, Loss ratio, Expense Ratio