

## The Determinants of Demand for Reinsurance in the Sri Lankan General Insurance Market - Special Reference to the Marine Sector

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### Abstract

**Introduction:** Reinsurance is an indispensable tool in the risk management framework of the insurance industry, enabling companies to transfer significant risks while ensuring financial stability. This research focuses on the determinants of reinsurance demand in the general insurance market of Sri Lanka, focusing on the marine insurance sector, which is very important but not widely researched in the local context.

**Methodology:** This study collected data from 12 General Insurance Companies in Sri Lanka for a sample period of eight years, from 2015 to 2022. Using quantitative approach, this study collected secondary data from the annual reports of the selected companies. This study primarily investigates how critical financial factors such as Return on Total Assets (ROA), the growth of Gross Written Premiums (GWP), underwriting risk, solvency margin, and financial leverage affect the demand for reinsurance. A series of fixed-effects panel regression models were used in this study to analyze the data.

**Findings:** The results show that solvency margin, financial leverage and underwriting risk have a positive and significant impact on the demand for reinsurance. On the other hand, the ROA & GWP growth did not show any significant association with the demand for reinsurance, which thus indicates that financial stability rather than profitability or growth motivates the reinsurance decisions mainly in the SL context.

**Conclusion:** Firms with higher solvency margins use reinsurance to optimize risk retention and capital allocation. Similarly, the higher the leverage, the greater the demand for reinsurance as a strategy to mitigate risks associated with increased financial obligations.

**Keywords:** Reinsurance demand, Solvency margin, financial resilience, Marine insurance, Risk management.