

## How does Altman's revised z-score model impact the insurance companies in Sri Lanka

J.M. Shehara<sup>1</sup>, H.J.R. Buddhika<sup>2</sup>

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

[sheharabm19410@stu.kln.ac.lk1](mailto:sheharabm19410@stu.kln.ac.lk1), [buddhikar@kln.ac.lk2](mailto:buddhikar@kln.ac.lk2)

### Abstract

**Introduction:** The insurance industry is a major part of the country's economy. The revised Altman's z-score model measures financial distress among companies. Today, financial distress can be a huge problem that leads to company bankruptcy. Hence, this research tests the factors that may influence such financial distress among insurance companies incorporated in Sri Lanka using the revised Altman's z-score model.

**Methodology:** This study collected data on insurance companies incorporated in Sri Lanka from 2016 to 2021. Distress insurance companies are the sample measured using Revised Altman's z-score model. Using quantitative approaches, this study collected data from annual reports and industry handbooks. Profitability (ROA), Leverage, Capital adequacy, and Inflation rate are used as independent variables to reflect the impact of the revised Altman's z-score model on the Sri Lankan insurance industry. A random effect model was used in this study to analyze the data.

**Findings:** The result of this study revealed that there is no significant impact of any of the independent variables on the dependent variable. Therefore, all the hypotheses are rejected.

**Conclusion:** In line with the findings of this study the impact of the profitability, leverage, capital adequacy, and inflation rate are not significant. However, it is very important to research to find the determinants that may lead the insurance companies to financial distress as there was no research done on this and there was an issue of financial distress within the insurance companies incorporated in Sri Lanka.

**Keywords:** Financial Distress, Altman's revised Z score model, Insurance industry, Profitability, Leverage, Capital adequacy and Inflation rate