Impact of Enterprise Risk Management Practices on Performance of insurance companies in Sri Lanka.

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Enterprise risk management (ERM) has gained an increasing attention among the corporate managers in the recent past as a strategic approach to managing risk. This study empirically verifies whether the adoption of ERM has an impact on firm performance and uses both primary and the secondary data relating to the Sri Lankan insurance companies. 230 executive level employees from 26 Sri Lankan insurance companies have been selected as the sample of this study using stratified random sampling technique and primary data were collected using a structured questionnaire. Return on Assets (ROA) and Tobin's Q are used as proxies to measure the firm performance and ERM practices have been measured based on the guidelines of COSO ERM framework. Descriptive statistics, Correlation analysis and regression analysis are used to analyze data. Results of the mean testing reveals that three components of COSO ERM framework namely, Internal Environment, Objective setting and Risk Assessment indicate a high level of practice. Further, correlation analysis indicates two independent variables namely, control environment and Information & communication have a significant relationship with ROA. At the same time, two independent variables namely, objective setting and Information & communication have a significant relationship with Tobin's Q. Hypotheses testing identified that Control activities; Information & communication and monitoring are the most crucial variables which have a positive impact on the performance of the insurance industry. These results indicate that, even though the level of implementation of ERM practices in Sri Lankan insurance industry is moderate / high levels, the other than Control activities, Information & communication and monitoring all other five components are not showing significant impact towards the performance. It implies that the expected value addition from the ERM practices have not been achieved by the Sri Lankan insurance companies yet. Findings of this study contributes methodologically as researcher used robust model to measure ERM practices and the results may be helpful to Insurance companies in Sri Lanka to improve their ERM practices and to adopt efficient strategies to improve firm financial performance through the implementing proper ERM practices.

Keywords: Enterprise Risk Management (ERM); COSO ERM Framework, Firm Performance, Return on Assets, Tobin's Q

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