

Impact of Capital Structure on Financial Performance of Life Insurance Companies Listed at the Colombo Stock Exchange (Cse) in Sri Lanka

U G H A Weerasinghe¹, S L Sudasinghe²

Department of Finance, University of Kelaniya, Sri Lanka^{1,2}
harshaniweerasinghe47@gmail.com¹, sandalis@kln.ac.lk²

Abstract

Introduction: The optimal capital structure levels and capital structure decisions that impact how a firm performs have been a great dilemma for many. Capital structure decisions have an impact on the growth and profitability of a firm, as these decisions enable firms to maximize their shareholders' wealth. The major research objective was to determine to identify the impact of capital structure on the financial performance of life insurance companies listed at the CSE in Sri Lanka.

Methodology: The data is obtained from CSE and IRCSL. The study only uses accounting data from listed life insurance companies between 2016 and 2022. The all the life insurance companies listed at the CSE taken as the sample for the analysis. The study used the capital structure as the independent variable and measured using the three most used capital structure indicators such as Total debt ratio (TDR), Debt to Equity Ratio (DER), Leverage (LEV). The dependent variable of this study was financial performance, and it was measured by using Return on Assets (ROA). In addition to the independent and dependent variables, Firm Size (FS) and growth rate (GR) used as the control variable of the research study.

Findings: Total debt ratio was found to influence ROA of insurance firms negatively. Results can be further interpreted as increase in debt in the insurance firms would lead to a lower financial performance. The findings show debt to equity, firm size, and growth rate are all positively and significantly associated with financial performance, while total debt ratio and leverage are not significantly associated with financial performance.

Conclusion: In view of this, it is recommended that life insurance firms that are capable of funding their operations through retained earnings do so and reduce their borrowings, as this will boost their overall performance.

Keywords: Capital Structure; Financial Performance; Life Insurance; Colombo Stock Exchange; Sri Lanka