

The Impact of Income Diversification on Risk and Return of Financial Sector in Sri Lanka

Piyumika, B.A.¹ and Abeywardhana D.K.Y.²

¹bgachinipiyumika@gmail.com; ²dilyapa@kln.ac.lk

Abstract

Financial sector in developing countries have not had diversification opportunities as financial sector in developed economies. Income source diversification is an important phenomenon which shifts financial sectors from its traditional or loan based activities to non-traditional activities. This study examines the impact of income diversification on risk and return of financial sector in Sri Lanka. Findings of the study will provide information about the relationship among income diversification, risk and return and effect of income diversification to the risk and return. For the purpose of study, Independent variables are Net Interest Income (INT) and Revenue Diversification (HHI). Control Variables of the study are Size (SIZE), Capitalization ratio (ETA) and Assets Growth (GTA). Dependent variables are Return and Risk. Return is measured using RoA and Risk is measured using Z-Score. This study use secondary data from Colombo Stock Exchange and have selected 40 listed companies for 10 years from from 2010 to 2019. The findings of the study will provide information to executives of financial institutions, investor who assessing best bank to invest and to regulatory agencies.

Keywords: Diversification, Financial sector, Risk, Return