

**INTERNAL DETERMINANTS OF PROFITABILITY:
CASE ON INSURANCE COMPANIES LISTED IN COLOMBO
STOCK EXCHANGE**

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ABSTRACT

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Key Words: Profitability, Firm Level Characteristics, Insurance Companies.

Insurance services are now being integrated into wider financial industry and the insurance sector plays an important role in service-based economy of Sri Lanka. Profitability is one of the most important objectives of financial management because one goal of financial management is to maximize the owner's wealth and profitability is very important determinants of performance. This research investigated the internal determinants of profitability in insurance companies of Sri Lanka. Specifically this examines the effects of firm specific factors (size, leverage, tangibility, risk, growth, liquidity and age) on profitability proxied by ROA. A key indicator of insurance companies profitability is return on assets (ROA), defined as the before tax profit divide by total assets (TA). Profitability is dependant variable while size, leverage, tangibility, risk, growth, liquidity and age are independent variables. The sample in this research includes seven listed life and non-life insurance companies, which cover the period of 2007-2011. Secondary data obtained from the financial statements (Balance sheet and Profit/Loss account) of insurance companies and annual report of Insurance Board of Sri Lanka. The finding show that there was a leverage, size and risk are most important determinant of performance of insurance sector whereas ROA has statistically insignificant relationship with profitability, growth, tangibility and liquidity.