

**IDENTIFICATION OF INTERNAL FACTORAS
AFFECTING TO PROFITABILITY IN INSURANCE
INDUSTRY WITH REFERENCE TO COMPOSITE
INSURANCE COMPANIES IN SRI LANKA**

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ABSTRACT

Identification of internal factors affecting to Profitability in Insurance Industry in Sri Lanka

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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 paper investigated the determinants of profitability in composite insurance companies of Sri Lanka.

Specifically this examine the effects of firm specific factors are company age, size of company, volume of capital, leverage ratio and liquidity ratio and underwriting risk on profitability peroxide 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 dependent variable while firm specific factors consider as independent variable. The sample in this study includes 12 composite insurance company as ageing life and non-life insurance companies which cover the period of 2007- 2011. Secondary data obtained from the financial statements of insurance companies. Result show that Company age, size, volumes of capital, underwriting risk have positive relationship and leverage has negative relationship. Liquidity is not significant.

Key words: profitability, determinants, insurance