

THE ORGANIZATIONAL FACTORS INFLUENCING THE PROFITABILITY OF INSURANCE COMPANIES IN SRI LANKA



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1440



Project Report
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2014

ABSTRACT

The study importance emerges from the fact that insurance sector plays a significant role in enhancing the country economy, and providing critical services for people in Sri Lanka, and then current study will empirically implement a comprehensive analytical framework of profitability in the case of Sri Lankan insurance sector. The study will also examine the impact of key determinants of firms' profitability.

In Sri Lanka, a few researches have been investigated organizational factors influencing Sri Lankan insurance companies' profitability, so the current study will be a base for other studies in the same field, and it will help in adding value to this subject. Most of the studies previously focused on banks not on insurance companies.

The general objective of the study is to identify the organizational factors of the profitability of insurance companies in Sri Lanka. This paper examined the effects of firm specific factors (company leverage, company liquidity, tangibility of company assets, age of company, and size of company) on profitability proxied by Return on Assets. Profitability is dependent variable while company leverage, company liquidity, tangibility of company assets, age of company, and size of company are independent variables. Secondary data obtained from the financial statements (Balance sheet and Profit/Loss account) of insurance companies, financial publications of Insurance Board of Sri Lanka were collected from fifteen insurance companies for the period 2009 to 2013.

From the regression results found that there is a positive significant effect between company's leverage and profitability of insurance companies in Sri Lanka, while company's age and profitability of insurance companies in Sri Lanka have positive insignificant effect. And also there is a negative insignificant effect between tangibility of company assets and profitability of insurance companies in Sri Lanka, and company's size and profitability of insurance companies in Sri Lanka also have negative insignificant effect, and company's liquidity negatively significant effect with profitability of insurance companies in Sri Lanka.

TABLE OF CONTENTS

	Page No.
Acknowledgement	I
Abstract	II
Abbreviations	III
Table of contents	IV-IV
List of Tables	VIII
List of Figures	IV
Chapter - 1: Introduction	
1.1. Background Of The Study	1-2
1.2. Problem Statement	2
1.3. Research Questions	2
1.4. Objective Of The Study	3
1.5. Significance Of The Study	3
1.6. Scope Of The Study	4
1.7. Summary	5
Chapter - 2: Literature Review	
2.1 Introduction	6
2.2 Insurance companies	6
2.3 Profitability	7
2.4 Independent Variables	
2.4.1 Company's Leverage	11
2.4.2 Company's Liquidity	13
2.4.3 Tangibility of Company Assets	14
2.4.4 Company's Size	15
2.4.5 Company's Age	16
2.5 Summary	22

Chapter - 3: Conceptualization and Operationalization

3.1 Introduction	23
3.2 Conceptualization	23-24
3.2.1 Profitability	24-26
3.2.2 Company's Leverage	26-27
3.2.3 Company's Liquidity	27-28
3.2.4 Tangibility of Company Assets	29-30
3.2.5 Company's Size	30-31
3.2.6 Company's Age	31-32
3.3 Operationalization	32-33
3.4 Summary	33-34

Chapter - 4: Methodology

4.1 Introduction	35
4.2 Study setting, Design, and Method of Survey	35-36
4.3 Sampling	36
4.4 Data Collection	37
4.5 Methods of Data Measurements	37
4.5.1 Method of Measuring the Profitability	37-38
4.5.2 Method of measuring the company's leverage	38
4.5.3 Method of measuring the company's liquidity	38
4.5.4 Method of measuring the company's tangibility of assets	39
4.5.5 Method of measuring the company's size	39
4.5.6 Method of measuring the company's age	39
4.6 Methods of Data Analysis and Evaluation	39
4.6.1 Univariate Analysis	39-40
4.6.2 Bivariate Analysis	40
4.6.2.1 Correlation Analysis	41
4.6.2.2 Simple regression Analysis	41-42
4.7 Summary	42

Chapter – 5: Data Presentation and Analysis

5.1 Introduction	43-44
5.2 Univariate Analysis	44
5.2.1 Profitability of Insurance Companies in Sri Lanka	44-45
5.2.2 Leverage of Insurance Companies in Sri Lanka	46
5.2.3 Liquidity of Insurance Companies in Sri Lanka	47
5.2.4 Tangibility of Assets of Insurance Companies in Sri Lanka	48
5.2.5 Size of Insurance Companies in Sri Lanka	48-49
5.2.6 Age of Insurance Companies in Sri Lanka	50
5.3 Bivariate Analysis	51
5.3.1 Correlation analysis	51-53
5.3.2 Regression analysis	54
5.3.2.1 Company's Leverage and Profitability	54
5.3.2.2 Company's Liquidity and Profitability	54
5.3.2.3 Tangibility of Company Assets and Profitability	55
5.3.2.4 Company's Size and Profitability	55
5.3.2.5 Company's Age and profitability	55
5.3.2.6 Organizational factors and profitability	56-57
5.4 Summary	57

Chapter 6: Discussion

6.1 Introduction	58
6.2 Discussion on the research variables	58
6.2.1 Discussion on impact of company's leverage and profitability in insurance companies in Sri Lanka	58-59
6.2.2 Discussion on impact of company's liquidity and profitability in insurance companies in Sri Lanka	59-60
6.2.3 Discussion on impact of tangibility of company assets and profitability in insurance companies in Sri Lanka	60-62
6.2.4 Discussion on impact of company's size and profitability in insurance companies in Sri Lanka	62
6.2.5 Discussion on impact of company's age and profitability in insurance companies in Sri Lanka	63

6.2.6 Discussion on impact of organizational factors and profitability in insurance companies in Sri Lanka	64-65
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6.3 Summary	65
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Chapter – 7: Conclusions and Recommendations

7.1 Introduction	66
7.2 Conclusions and recommendations on research variables	66-68
7.3 Limitations of the Study and the Suggestions for future studies	68
7.4 Implication of the Study	68-69

References

Appendices

Appendix - 1: Database

Appendix - 2: The Output of the Analyses

Appendix - 3: Index of Statistical Definitions