IMPACT OF REINSURANCE ON THE FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN SRI LANKA

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1. Introduction

Reinsurance is the process through which insurance companies transfer a portion of their risk portfolio to another entity, known as a reinsurer. This study aims to examine the impact of reinsurance on the financial performance of general insurance companies in Sri Lanka.

2. Research Methodology

The study has taken seven general insurance companies regulated by the Sri Lanka Insurance Regulatory Commission (IRCSL) from 2014 to 2023 as the sample. A quantitative research approach and descriptive research design were employed. Using secondary data from annual reports and IRCSL publications, panel data regression was conducted in STATA. Both fixed effect and random effect models were applied, with the Hausman test confirming the fixed effect model as the best fit for the research.

3. Findings and Discussion

The study's findings indicate that only the Reinsurance Dependence Cede Premium (RDC) and the Net Retention Ratio (NRR) statistically impact the Return on Assets (ROA) of general insurance companies in Sri Lanka. Conversely, the Premium Cession Ratio (PCR), Combine Ratio (CR), and FS do not statistically affect ROA in these companies.

4. Conclusion and Implications

The study finds that Reinsurance Dependence Cede Premium (RDC) and Net Retention Ratio (NRR) significantly boost the financial performance of general insurance companies in Sri Lanka, while Premium Cession Ratio (PCR), combined ratio (CR), and Firm Size (FS) do not. This indicates that market conditions may play a larger role, highlighting the need to optimize reinsurance strategies to meet regulatory and market demands.

Keywords: Reinsurance, Financial performance, Insurance sector