

The Effect of Reinsurance on Performance of General Insurance Companies in Sri Lanka

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The intense, risky climate tightens the Sri Lankan insurers to make less performance and lack confidence in their future existence. So, the insurance companies have to use a risk transferring mechanism to another capable insurer to get protection against their financial complications when in their business routine. Some insurance companies suspend and amalgamate with other insurance companies due to unexpected catastrophes and growing their liability in the current scenario. Thus, Government rules also are imposed to increase their reinsurance portion. By considering this situation, the researcher intended to examine the effect of reinsurance on the performance of the general insurance sector using evidence from Sri Lanka. The researcher used secondary data from 07 general insurance companies in Sri Lanka from 2010 to 2019 to carry out this study. ROA and Underwriting profit/loss ratio used as the proxies for the performance of the general insurance companies. The explanatory variable of the study was reinsurance measured by retention ratio, net claims ratio, net commission ratio, and ceded reinsurance ratio. Findings were obtained through the panel data regression, revealing that the net claims ratio has a significantly negative effect on the performance of general insurance companies. In contrast, Ceded reinsurance ratio has a significantly positive effect on the performance of general insurance companies. Further, net commission ratio carries the positive effect, while the retention ratio carries negative effect on the performance of general insurance companies. Although the effect is statistically insignificant in the Sri Lanka context. So, this study concludes that general insurance companies should effectively manage their quality of the underwriting procedures and claim cost to increase their performance.

Keywords: Reinsurance; Performance of general insurance companies; Net claims ratio; Ceded reinsurance ratio; Underwriting profit/loss ratio; ROA