

## DETERMINANTS OF INSURANCE COMPANIES PROFITABILITY: AN ANALYSIS OF INSURANCE SECTOR OF PAKISTAN

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### ABSTRACT

*Insurance services are now being integrated into wider financial industry and the insurance sector plays an important role in service based economy of Pakistan. 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 insurance companies of Pakistan. Specifically this examine the effects of firm specific factors (age of company, size of company, volume of capital, leverage ratio and loss ratio) 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 age of company, size of company, volume of capital, leverage and loss ratio) are independent variables. The sample in this study includes 35 listed life and non-life insurance companies which cover the period of 2005-2009. Secondary data obtained from the financial statements (Balance sheet and Profit/Loss account) of insurance companies, financial publications of State Bank of Pakistan and Insurance Year Book that is published by Insurance association of Pakistan (IAP). The findings show that there is no relationship between profitability and age of the company and there is significantly positive association between size of the company and profitability. The result also shows that the volume of capital is significantly and positively related to profitability. Loss ratio and leverage ratio showed negative but significant relationship with profitability.*

*Keywords: profitability, determinants, insurance.*