Effect of Corporate Governance on Financial Performance of Listed Insurance Firms in Sri Lanka

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INTRODUCTION

This study provides the effect of corporate governance on the financial performance ofinsurance firmsin Sri Lanka. Corporate governance has become the most popular topic all over the world. The corporate governance (CG) practices have begun many accounting scandals and numerous corporate governance malpractices cases. Thus, the issue of corporate governance is seriously affected by economic growth and financial market steadiness. “Corporate governance is the system in which organizations directed and controlled”. (The Committee on the Financial Aspects of Corporate Governance, 1992). The most famous corporate scandals and collapses are world com, Enron, One Tel, HIH Insurance, Swiss Air, Northern Rock. The finance, ETI Finance, Golden Key, Sakwithi Group are examples of Sri Lankan corrupted companies because of corporate governance failures. Because of these corporate scandals and collapses, thecorporate governance is the most critical factor for business entities. The Insurance company provide unique financial services to the growth and development of the economy. So,people are also concerned about the performance of the companies where they invest their money.

Corporate governance determines long-term performance, and defending shareholders' interests has gotten more attention around the world. However, depending on the economic, social, and political situation, the organizations are directed and controlled differentlyeach country. Firms in industrialized countries have a diverse shareholder base and operate in an environment with a stable political and financial system, well-established regulatory frameworks, and sound corporate governance procedures.

Political and financial instability in developingcountries like Sri Lanka, on the other hand, may have an impact on firm performance. The open economy strategy was implemented in 1977, and the privatization system was implemented in Sri Lanka the following year. Following that, in the 1990s, corporate governance measures in Sri Lanka began with the introduction of a voluntary code of best practices on financial aspects of corporate governance.

In the late 1990s and early 2000s, the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission (SEC) issued a corporate governance code. The rule on corporate governance, the first corporate governance regulation, was incorporated as listing the Colombo Stock Exchange (CSE) rules in 2008. The SEC's listing rules further amended in 2010 to address related party transactions and better prevent market shocks. The rules determine the basis for determining the non-executives and independent directors in the company, setting the minimum requirement to determine the number of independent directors on both board and board committees, and disclosing minimum audit and remuneration requirements committee. After that, the Insurance Regulatory Commission of Sri Lanka (IRCSL) has also recommended insurers adhere to the Code of Best Practices on Corporate Governance 2017 issued jointly by the Securities and Exchange Commission (SEC) of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. On the 1st of January 2019, The IRCSL issued guidelines on Corporate Governance to the industry.

This study, on the other hand, looks at how corporate governance influences the financial performance of insurance companies in Sri Lanka. It assesses how the Insurance Regulatory Commission of Sri Lanka, in collaboration with the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka, responds to corporate governance guidelines set forth by the Insurance Regulatory Commission of Sri Lanka. The outcomes of this study, on the other hand, will provide information for building efficient corporate governance processes in Sri Lankan insurance companies.

This study examines whether the specific corporate governance arrangements influence insurance sector firms' financial performance in Sri Lanka. This study will benefit insurance sector companies in acquiring information on whether their current governance practices affect their overall financial performance. This research will also assist stakeholders in making ideas to improve the corporate governance processes of insurance companies, which may improve their performance. Furthermore, this research shows which components of corporate governance need to be strengthened and how they affect the financial performance of insurance companies in Sri Lanka. There are manyresearches conducted on corporate governance and financial performance in global and Sri Lanka.

Alimited number of international researches werefound relatedto the insurance industry in order to examine the effect of corporate governance onfinancial performances. There are few research articles conducted on corporate governance in the Sri Lankan context, which focus on the performance of insurance firmsin Sri Lanka.Those articles analyzethecorporate governance, and the financial performanceof insurance sector firmsprovide mixed results; the studies provide positive results. Some studies provide negative consequences (Datta, 2018). In the insurance business, there have been few studies on corporate governance characteristics in the Sri Lankan setting. As a result, this research adds to the body of information on the impact of corporate governance traits on thecompany’s

financial performance in Sri Lankan insurance enterprises. By studying the relationship between listed insurance firms' financial performance and corporate governance components, the research primarily explores how corporate governance practices influence thethefinancial performance of insurance firmsin Sri Lanka.

The following specific aims will contribute to the insurance industry through this concept paper.

- To examine the relationship between corporate governance elements and financial performance of listedInsurance Firms in Sri Lanka.
- To provide an overview of corporate governance elementavailable in the insurance sector in Sri Lanka.
- To identify what kind of corporate governanceelements havea significant impact on financial performance.

The corporate governance procedures and business performance in Sri Lanka's insurance sector are investigated in this study. To explore the linkages between corporate governance practices and business performance in Sri Lanka, this section offers a theoretical framework based on agency theory, stakeholder theory, stewardship theory, and stakeholder theories. Corporate governance factors (board size, board composition, board meetings, and audit committee size) appear to be used to keep an eye on the board in this framework. Accountability to shareholders and other stakeholders are measured by the firm's performance. The four variables related to corporate governance practices, which are very significant in the Sri Lankan context in affecting firm performance in this study, include board size, board composition, board meetings, and audit committee size. The four other controllable variables to supporting variables to corporate governance variable: are firm age, firm size, growth, and leverage.

Accounting and market-based measures are used to assess the firm's success.

Two financial business performance indicators are used in this study: return on equity (ROE) and return on assets (ROA). Return on equity (ROE) is a metric that has been used to quantify firm performance in prior research (Epps &Cereola, 2008;Leng, 2004). In previous research, the ROA, which is also an accounting measure, was utilized to examine the efficiency of assets used to measure business performance (Haniffa&Hudaib, 2006). However, this study involved several limitations, such as the data collection being carried out only through annual reports from 2014 to 2018.

REVIEW DISCUSSION OF LITERATURE

Corporate Governance

Because of its importance to corporations' economic health and its impact on society as a whole, corporate governance has gotten a lot of press (Rezaee, 2009). There is no universally agreed concept of corporate governance, which is often attributed to the enormous variances in corporate governance regulations among countries (Solomon, 2011). The definitions of corporate governance vary based on the country framework and cultural situation under consideration (Armstrong & Sweeney, 2002). Some researchers argue that a company's responsibility is primarily to maximize shareholder wealth (Friedman, 1970; Sundaram &Inkpen, 2004). Other scholarssaythat a company commits its shareholders and all stakeholders souldcontribute to its success (Donaldson, 1983;Freeman, 1984).

However, it has important ramifications for growth prospects of the economy; numerous recent business failures around the world, including in Sri Lanka, have reminded authorities of the need of effective corporate governance for capital market efficiency.This is due to the fact that good corporate governance reduces investor risk, attracts money, and improves corporate performance (Rezaee, 2009). Governments opened markets to foreign investors diversifying their portfolios to reduce risk due to the globalization of the equity market in the 1980s. As a result of these developments, businesses around the world, including those in Sri Lanka, began to restructure their operations in order to maximize shareholder returns. They restructured their management connections with international owners and adjusted management compensation to meet the demands of global investors. At the same time, company executives were mastering new leadership skills suitable for operating in environments where small numbers of large international stockholders existed. This internationalization has also led institutional investors to find higher returns and lower risks outside their housing market. As a result, increasing corporate investor oversight is now undermining global corporate governance standards in emerging markets. (Clarke, 2004). This is because good corporate governance has been identified as a critical factor influencing corporate investors' willingness to invest in emerging markets (Gibson, 2003).

Corporate governance comprises several government structure elements, including capital, labor, market, organization, and regulatory mechanisms. It also involves the processes that connect the structures with agents, including management control and accountability and rules, regulations, laws, and standardized procedures and norms (Alawattage&Wickramasinghe, 2004). However, control is more than just board proceedings and processes. Relationships involve management, boards, shareholders, and other stakeholders such as employees and the community. Bain & Band, 1996; Chowdary, 2002, andShleifer &Vishny, 1997view corporate governance as a set of mechanisms whichensure that potential external capital providers receive a fair return on their investment because firms' ownership separated from their control.

Corporate governance is not a static concept; it can be changed and transformed. The evolving nature of CG, revisions have been made to the code of best practice in Sri Lanka from 1997-2013. Corporate

governance codes first issued as voluntary codes in Sri Lanka. Recently, however, several mandatory principles of corporate governance have been introduced with these voluntary codes. Amendments to the Corporate Governance Code have been made based on developments in the UK in this regard. The model economy cannot see in isolation from the rest of its underlying institutional objectives. Institutional governance embedded in its unique history, culture, laws and economic environment (Senaratne, 2011).

Firm Performance

Financial performance, which assesses a company's economic goals, has long been a topic of interest in management research. The fixed financial performance involves various subjective steps on how a company can use its assets as a primary operating method to generate profit. Kothari, 2001 define the firm's value as the present value of the expected future cash flows after adjusting for risk at an appropriate return rate. Eyenubo (2013) said it is the success of achieving pre-defined goals, objectives, and objectives within a specific time frame. Qureshi, (2007) introduced four different approaches that have identified the value of a company in the corporate finance literature.

Before identifying and measuring the influence on the fixed value of financial resources, the financial management strategy focuses on examining cash flow and investment levels. The Capital Structure Approach investigates how the capital structure affects a company's value and how various factors affect a company's capital structure directly or indirectly. The Sustainable Growth Approach considers the company's operational performance, investment and financial needs, financial resources, financial and dividend policies for sustainable development, and maximization of its resources at a fixed value, and is a summary of the above three approaches to sustainable value.This study examines two primary accounting measures of a company's financial performance in insurance companies: returns on shares and returns on assets.

Return on Equity (ROE)

The return on equity is one accounting-based metric of success used in corporate governance studies (ROE)(Baysinger and Butler 1985; Dehaene et al.,2001). The primary goal of an organization's mission is to produce money for its shareholders. As a result, return on equity is a metric that shows investors the amount of profit made from the money invested by shareholders (Epps &Cereola, 2008). It measures the profitability of the shareholders investment and shows the net income as a percentage of shareholder’s equity (Datta, 2018). It was calculated as:

$$\text{ROE} = \frac{\text{Annual Net Income}}{\text{Stockholder' equity}}$$

Return on Assets (ROA)

The Return on Asset (ROA)

(Finkelstein &D'Aveni, 1994) is one of the most extensively used accounting-based indicators of corporate governance in the literature (Weir & Laing, 1999). It evaluates the efficiency of capital employed and provides a benchmark for investors to compare the profits generated by a company's investment in capital assets (Epps &Cereola, 2008). Return on Asset (ROA) is a metric for calculating the return on capital invested by shareholders (Epps &Cereola, 2008). It is an indication of the number of nets earned on each companies' worth of assets. Allows users, stakeholders, and supervisory agencies to assess how well a company's corporate governance mechanism is in place to secure and motivate its efficient management (Chagbadari, 2011). The ROA is the ratio of annual earnings before interest and tax to average business assets during a financial year. It is measured thus: (Farhanet al., 2017).

$$\text{ROA} = \frac{\text{Earnings before interest and tax}}{\text{Total Assets}}$$

Theoretical Framework

Corporate governance is becoming increasingly important, particularly in terms of the board of directors' monitoring responsibility. As a result, the theoretical viewpoints pertinent to this study are centered on governance structures and reporting methods that influence the value of enterprises. This section examines the theoretical perspectives on board responsibility that are pertinent to this research. All the theories; Agency Theory, Stewardship Theory, Stakeholder Theory, and Resource Dependency Theory wereused in this study.According to the agency theory primary responsibility of the board of directors is towards the shareholders to ensure maximization of shareholder value so in this research focuses according to the agency theory how board size affect the firm performance to maximize the share holders value and the Stewardship theory sees a strong link between managers and the successof the company, therefore, protects and maximizes the wealth of the shareholders,and also the stakeholder is any group of individuals who can affect or is affected by the activities of the firm so the firm size influence the performance of the company.Resource Dependency Theory supports the appointment of directors to boards because of their opportunities to gather information and network in various ways.

Empirical Review of Literature

The association between corporate governance procedures (board size, board composition, board meetings, and board audit committee) and the performance of the insurance company has been studied in various studies undertaken by worldwide and Sri Lankan scholars (Datta, 2018). This study's population was defined as DSE-listed insurance businesses. Ten publicly traded insurance firms make up the sample. Using IBM SPSS statistics software, several tests such as descriptive analysis, multiple linear regression, Pearson correlation, and collinearity statistics were performed. Mainly secondary sources of data were used from 2010 to 2016, and This study finds that corporate governance has an impact on the performance of the insurance sector in Bangladesh. There is a positive relationship between board sizes and ROE as well as board meetings. The theme further reveals a negative relationship between ROE and board composition. However, the study could not link the Insurance Company's performance (ROE) and the Board Audit Committee.

Significant positive relationships between board size and the number of male board members and between board size and the number of non-executive directors were found (Sathyamoorthi et al., 2017); significant positive relationships between the number of non-executive members and the number of male board members and with the number of sub-committees were found (Sathyamoorthi et al., 2017); significant positive relationships between female board representation and gender diversity and between the number of board sub. Male board representation and female board representation, as well as executives and gender diversity, were found to have negative significant associations. Return on assets, which measured the selected companies' performance, showed a strong negative relationship with the number of sub-committees. This study focused on the effect of listed companies' corporate governance in Botswana's consumer services sector for the period 2012-2016. Benefits depend on assets to measure profits and board size, gender, board male-female representation, the composition of executive and non-executive directors, number of subcommittees and frequency of board meetings as independent variables.

According to Shafie et al. (2016), board size has a weak negative association with ROA, with the ROE being minor. Another conclusion was that there was no link between board independence and company performance. As a result, the focus of this research directed towards corporate governance practices among Bursa Malaysia's Top 100 publicly traded companies, as well as the relationship between corporate governance practices and the firm performance. The corporate governance's indicators: board size and board independencewere chosen in testing the hypothesized relationship between corporate governance practices with firm performance, which was measured by return on asset (ROA) and return on equity (ROE). A detailed correlation analysiswas used to test the hypotheses in this study. According toOlweny, 2013, a strong relationship exists between the orporateovernance practices under study and the firms' financial performance. The board size was found negatively affect the financial performance of insurance companies listed at the NSE. There was a positive correlation the between board composition and fixed financial performance. However,

the most critical aspect of board composition was the board members' experience, skills, and expertiseinstead of whether they were executive or non-executive directors.

The major goal of this study was to look into the influence of corporate governance on the financial performance of Kenyan listed insurance businesses. This research looked at how board size, board composition, CEO duality, and leverage affect the financial performance of listed insurance businesses in Kenya. Asset return (ROA) and equity return were used to assess long-term performance (ROE). The research population included all insurance businesses listed on the Nairobi Securities Exchange as of December 2012. The secondary data weregathered by utilizing documentation from the company's annual accountsfrpm 2007 to 2011.

METHODOLOGY

This study was conducted inthe selected insurance companies listed in the Colombo stock exchange and regulated by IRCSL. The data collected via the annual reports published in the CSE website and company's websites. The data is analyzed with SPSS and a statistical approach called multiple regression analysis, which is used to assess the association between corporate governance characteristics and the financial performance of publicly traded corporations.

Variable Identification

This study examines the effect of corporate governance on listed insurance firms' financial performance in Sri Lanka. When measuring financial performance, this study used two variables: Return on Assets (ROA) and Return on Equity (ROE).And Board size (BOD SIZE), Board Composition (BOD COMP), Board Meetings (BOD MEET)& Audit Committee Size (AC SIZE) used as Corporate Governance Variables for this study. To obtain the realistic output, this study used some company-specific variables such as Firm age (FA), Firm size (FS), Growth (G)&Leverage(L). Table 1 shows the variables used in this study.

Table: 01:Variables Related to study

Particulars	**Variables**	**Description or Measurement**
Return on Equity -ROE		(Net profit after tax /Shareholder's equity) × 100 (Datta, 2018) (Aberathna, et al., 2019)

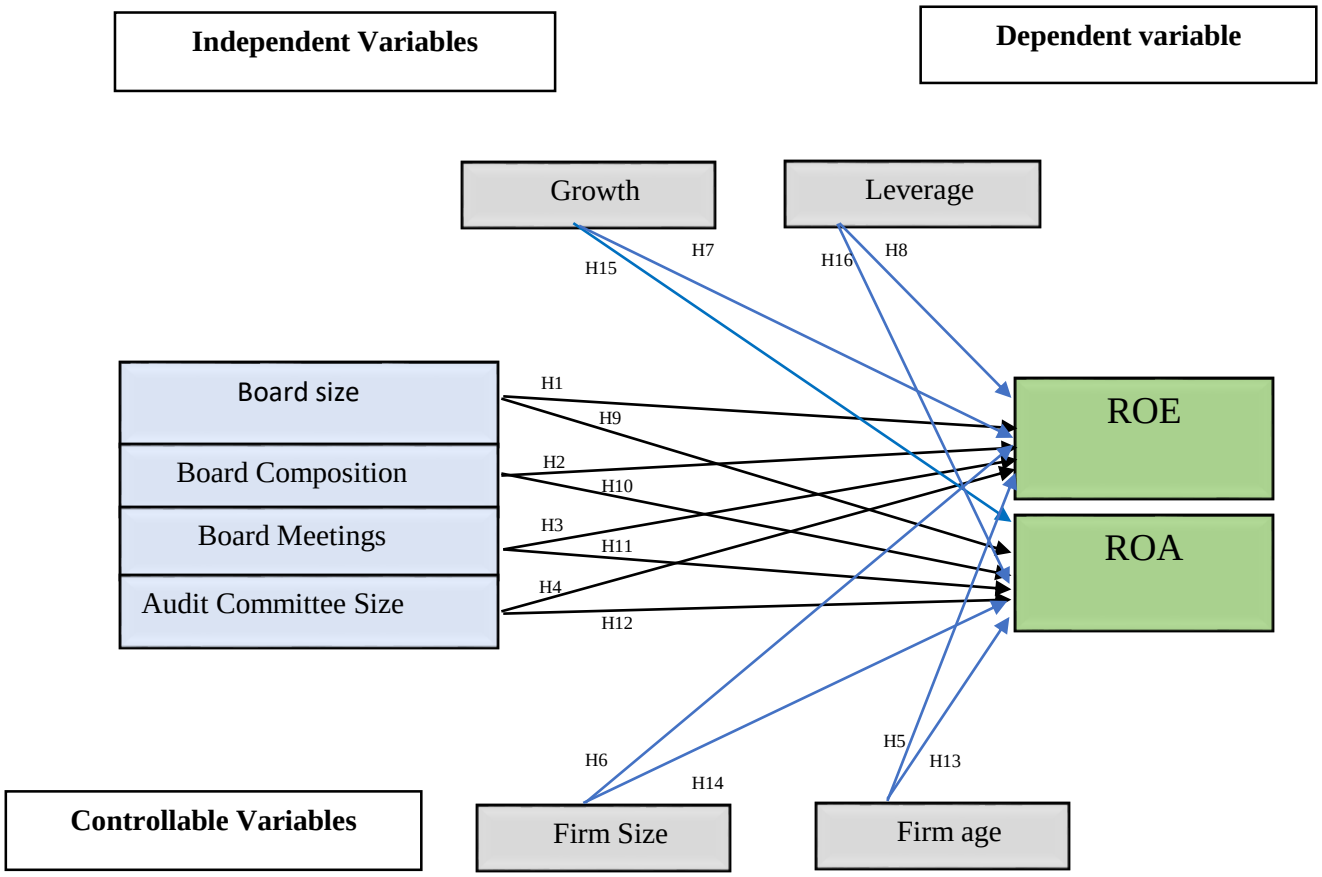
Return on Assets -ROA	Dependent	Earnings before interest and tax as a percentage of total assets (Aberathna, et al., 2019)
Board Size	Independent	Total no. of directors on the board (Datta, 2018)
Board Composition		No. of independent directors sitting on the board. (Datta, 2018)
Board Meetings		No. of meetings held. (Datta, 2018)
Audit Committee Size		Total members of an audit committee (Datta, 2018)
Firm Age	Controlling	Natural logarithm of years since incorporation (Aberathna, et al., 2019)
Firm Size		Natural logarithm of book value of total assets (Aberathna, et al., 2019)
Growth		Growth rate of sales (Aberathna, et al., 2019)
Leverage		Ratio of total debt to total assets (Aberathna, et al., 2019)

Source: Owner Created

Conceptual Framework

The purpose of this study is to identify the way that affects the board size, board composition, board meetings and audit committee size to the Return on Asset(ROA) and Return on Equity (ROE) with the controllable variables of firm age, firm size, growth, and leverage. Figure 1 showstheBasic Structure of a Corporate Governance Model.

Figure 01. Basic Structure of a Corporate Governance Model



Under the Insurance Industry Act 43 of 2000, the Insurance Regulatory Commission of Sri Lanka regulates twenty-seven insurance businesses. The National Insurance Trust Fund (NITF), a twenty-seven-member registered insurance firm, and the Sri Lanka insurance company do not provide insurance to the general population. In this, thirteen are life insurance firms, eleven are general insurance firms, and both are doing one firm. (as per the2019 Insurance Industry handbook).Accordingly, there are only 11 insurance companies that are listed on CSE and therefore those listed insurance firms wereused for the evaluation.

As far as insurance companies are not highly dealing with public funds, the remaining subcategory was financial institutions showing the necessity of close monitoring and high corporate governance level according to lessons learnt from previous Sri Lankan collapses.This study uses the entire population as the sample, and insurance companies have been selected based on the availability of data on the corporate governance practices and insurance performance(Mardnly et al., 2018). This study uses four general and seven life insurance firms from the five-year (2015 to 2019) data analysis.The sample was selected from the llistedinsurance firms on Colombo Stock Exchange in Sri Lanka, according to the registedinsurance companies in IRCSL only the 11 insurance companies are listed so this study used all the listed insurance firms for the analysis and time period selected as availably of the data.

Hypotheses Development

Based on the objective and model mentioned in Figure 01, of this study following hypotheses can be developed.

H1: There is a positive relationship between board size and ROE.

H2: There is a positive relationship between the Board Composition size and ROE.

H3: There is a positiverelationship between Board Meetings and ROE

H4: There is a positiverelationship between Audit Committee Size and ROE

H5: There is a positiverelationship between Firm Age and ROE

H6: There is a positiverelationship between Firm Size and ROE

H7: There is a positiverelationship between Growth and ROE.

H8: There is a positiverelationship between Leverage and ROE.

H9: There is a positiverelationship between Board size and ROA.

H10: There is a positiverelationship Board Composition size and ROA.

H11: There is a positiverelationship between Board Meetings and ROA

H12: There is a positiverelationship between Audit Committee Size and ROA

H13: There is a positiverelationship between Firm Age and ROA

H14: There is a positiverelationship between Firm Size and ROA

H15: There is a positiverelationship between Growth and ROA.

H16: There is a positiverelationship between Leverage and ROA.

It is expected to analyze data using a multiple regression model. To assess each dependent variable's impact from independent variables, it is needed to build two regression lines. In this model, firm age, firm size,leverage, andgrowth considered are control variables. The two regression models as follows,

Equation Number 01 -

$$ROE\ it = \alpha 0 + \beta 1.\ Board\_size_{it} + \beta 2.\ Board\_Composition_{it} + \beta 3.Board\_Meetings_{it} + \beta 4.Audit\_Committee\_Size_{it} + \beta 5.\ Firm\_Age_{it} + \beta 6.\ Firm\_Size_{it} + \beta 7.\ Growth_{it} + \beta 8.\ Leverage_{it} + \varepsilon_{it}$$

Equation Number 02 -

$$ROA\ it = \alpha 0 + \beta 1.\ Board\_size_{it} + \beta 2.\ Board\_Composition_{it} + \beta 3.Board\_Meetings_{it} + \beta 4.Audit\_Committee\_Size_{it} + \beta 5.\ Firm\_Age_{it} + \beta 6.\ Firm\_Size_{it} + \beta 7.\ Growth_{it} + \beta 8.\ Leverage_{it} + \varepsilon_{it}$$

Apart from the regression analysis, descriptive statistics, multiple regression analysis, correlation, and collinearity statistics have been performed using SPSS to investigate the impact of corporate governance on insurance companies' financial performance (Zabria et al., 2016).Descriptive statistics are shown to measure the central tendency and dispersion of variables. Moreover, a correlation matrix presented to identify multicollinearity among independent variables. the data used for this study are panel data (these data include both time series and cross-sectional data).

This study significantly contributed to the Sri Lankan insurance industry; it analysesthe corporate governance establishment in the Sri Lankan context. There are limited studies on the insurance industry's corporate governance whereas more studies on other respective industries. However, this study fiils the theoretical and research gap related to the insurance industry contributing to its growth.

FINDINGS AND DISCUSSION

Model 1. Measure Correlation ROE with the Independent variables +Controllable variables

The correlation between the independent and controllable variables and the dependent variable is summarized in the table below. It depicts the relationship between the ROE and the independent and controlled variables.

The Table 02displays that board size, board composition, board meetings, firm age, firm size, growth andleverage variables are positively related to the financial performance, ROE of insurance companies. However, audit committee size (Total member of an audit committee) is not associated with the insurance company performance,and, this table also showsa negative relationship. Furthermore, this table also represents the correlation between the independent variable to each other.

It also reveals that the size of the audit committee is inversely associated to board meetings and growth. Board size, on the other hand, is positively related to board composition, audit committee, firm age, firm size, and leverage. However, board size was negatively connected with board meeting and growth, implying that the number of independent directors is mostly determined by the board of directors.The table 02 shows the board composition positively correlated with audit committee, firm age, firm size and leverage. Still, the board composition negatively associated with board meeting and growth.

Table 02 - Correlation of Variable

Variables		**ROE**	**Board size**	**Board Composition**	**Board Meetings**	**Audit Committee Size**	**Firm age**	**Firm size**	**Growth**	**Leverage**
Pearson Correlation	ROE	1.00	.025	.070	.009	-.176	.103	.405	.256	.181
	Board size	.025	1.00	.743	-.208	.498	.640	.626	-.436	.063
	Board Comp	.070	.743	1.000	-.485	.488	.539	.358	-.366	.042
	Board Meet.	.009	-.208	-.485	1.000	-.174	-.249	.019	-.093	.104
	Audit Comm.	-.176	.498	.488	-.174	1.000	.516	.121	-.418	.106
	Firm age	.103	.640	.539	-.249	.516	1.0	.675	-.507	.35

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	Firm size	.405	.626	.358	.019	.121	.675	1.000	-.219	.409
	Growth	.256	-.436	-.366	-.093	-.418	-.507	-.219	1.000	-.176
	Leverage	.181	.063	.042	.104	.106	.359	.409	-.176	1.00
Sig(1-tailed)	ROE	.	.429	.305	.474	.099	.228	.001	.030	.093
	Board size	.429	.	.000	.063	.000	.000	.000	.000	.325
	Board Comp.	.305	.000	.	.000	.000	.000	.004	.003	.381
	Board Meet.	.474	.063	.000	.	.102	.033	.446	.250	.225
	Audit Comm.	.099	.000	.000	.102	.	.000	.190	.001	.221
	Firm age	.228	.000	.000	.033	.000	.	.000	.000	.004
	Firm size	.001	.000	.004	.446	.190	.000	.	.054	.001
	Growth	.030	.000	.003	.250	.001	.000	.054	.	.100
	Leverage	.093	.325	.381	.225	.221	.004	.001	.100	.
N	ROE	55	55	55	55	55	55	55	55	55
	Board size	55	55	55	55	55	55	55	55	55
	Board	55	55	55	55	55	55	55	55	55

	Comp.									
	Board Meet.	55	55	55	55	55	55	55	55	55
	Audit Comm.	55	55	55	55	55	55	55	55	55
	Firm age	55	55	55	55	55	55	55	55	55
	Firm size	55	55	55	55	55	55	55	55	55
	Growth	55	55	55	55	55	55	55	55	55
	Leverage	55	55	55	55	55	55	55	55	55

Source: SPSS Output

Model 2. Measure Correlation ROA with the Independent variables + Controllable variable

Table03 summarizes the correlation among the independent variable and controllable variable with the dependent variable. It shows the ROA correlated with the independent variables and controllable variables.In this regression analysis, the insurance company's financial performance represents the Return on Assets and its measure of the relationship with the independent variables.

Table 03depictsthat board size, board composition, board meetings, firm size, and growth variables have appositive relationship with the financial performance ROA of insurance companies. The relationship between audit committee size (total member of an audit committee), firm age (natural logarithm of years since incorporation) and leverage (total debt, assets ratio) variables are negatively related to firm performance, and the table show the negative relationship. Furthermore, this table also represents the correlation between the independent variable to each other. It shows that the board meetings and the growth are also negatively related to the audit committee size. However, board size has a positive relationship with the board composition, audit committee, firm age, firm size and leverage. However, thboard size negatively correlates with the board meeting and growth, which means the board of directors plays a significant role in determining the number of independent directors.

This table shows the board composition positively correlated with the audit committee, firm age, firm size and leverage. Still, the board composition negatively correlates with board the meeting and growth.

Table 03- Correlation of Variable

Variables		ROA	Board size	Board Composition	Board Meetings	Audit Committee Size	Firm age	Firm size	Growth	Leverage
Pearson Correlation	ROA	1.00	.026	.072	.076	-.169	-.026	.259	.201	-.084
	Board size	.026	1.00	.743	-.208	.498	.640	.626	-.436	.063
	Board Comp	.072	.743	1.00	-.485	.488	.539	.358	-.366	.042
	Board Meet.	.076	-.208	-.485	1.00	-.174	-.249	.019	-.093	.104
	Audit Comm.	-.169	.498	.488	-.174	1.00	.516	.121	-.418	.106
	Firm age	-.026	.640	.539	-.249	.516	1.00	.675	-.507	.359
	Firm size	.259	.626	.358	.019	.121	.675	1.00	-.219	.409
	Growth	.201	-.436	-.366	-.093	-.418	-.507	-.219	1.00	-.176
	Leverage	-.084	.063	.042	.104	.106	.359	.409	-.176	1.00
Sig(1-tailed)	ROA	.	.426	.301	.291	.109	.425	.028	.071	.271
	Board size	.426	.	.000	.063	.000	.000	.000	.000	.325
	Board Comp.	.301	.000	.	.000	.000	.000	.004	.003	.381

	Board Meet.	.291	.063	.000	.	.102	.033	.446	.250	.225
	Audit Comm.	.109	.000	.000	.102	.	.000	.190	.001	.221
	Firm age	.425	.000	.000	.033	.000	.	.000	.000	.004
	Firm size	.028	.000	.004	.446	.190	.000	.	.054	.001
	Growth	.071	.000	.003	.250	.001	.000	.054	.	.100
	Leverage	.271	.325	.381	.225	.221	.004	.001	.100	.
N	ROA	55	55	55	55	55	55	55	55	55
	Board size	55	55	55	55	55	55	55	55	55
	Board Comp.	55	55	55	55	55	55	55	55	55
	Board Meet.	55	55	55	55	55	55	55	55	55
	Audit Comm.	55	55	55	55	55	55	55	55	55
	Firm age	55	55	55	55	55	55	55	55	55
	Firm size	55	55	55	55	55	55	55	55	55
	Growth	55	55	55	55	55	55	55	55	55
	Leverage	55	55	55	55	55	55	55	55	55

Source: SPSS Output

Table 04- Summary of Regression Model 1

Model	**R**	**R**	**Adjusted**	**Std. Error**	**Change Statistics**	**Durbin**

		Square	R Square	of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	- Watson
1	.606	.367	.257	20.034	.367	3.341	8	46	.004	2.043

Source: SPSS Output

a. *Predictors: (Constant), Leverage, Board Composition, Growth, Firm size, Audit Committee Size, Board Meetings, Firm age, Board size*

b. *Dependent Variable: ROE*

Table04shows multiple linear regression, which is related to ROE as the dependent variable. The table shows how to influence independent variable (board size,board composition,board meetings, audit committee size,firm age,firm size,growth, and leverage) to the dependent variable ROE. R's value is estimated as 60.60 %, R2 is 36.70 %, and adjusted R2 is 25.70 % from the multiple regressions. This indicates that the independent variable determines 36.70 % of the ROE variance. The regression model results are denoting that the ROE is affected by the other variables at 60.60 %. Furthermore, in this result, the adjusted R square is 25.70 %. It suggests that the independent variables' quality explains the variation in sampled insurance companies' dependent variable.

Table 05- Summary of Regression Model 2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin - Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
2	.518	.268	.141	7.180	.268	2.108	8	46	.054	2.039

Source: SPSS Output

a. Predictors: (Constant), Leverage, Board Composition, Growth, Firm size, Audit Committee Size, Board Meetings, Firm age, Board size

b. Dependent Variable: ROA

Above table 05shows multiple linear regression, which related to ROA, as the dependent variable. The table shows how to influence the independent variable to the dependent variable ROA. From the multiple regressions, the value of R, R^2 and adjusted R^2estimated as 51.80 %, 26.80 % and 14.10%, respectively. This manifests that the independent variable determines 26.80 % of the ROA variance. The regression model results denote that the ROA is affected by the other variables at 51.80%.

Furthermore, in this result, the adjusted R square is 14.10 %, which suggests that the independent variables' quality explains variation in the dependent variable of sampled insurance companies.

Discussion of the Study

There is a link between the board size and firm performance-ROE, according to the theory proposed in this study. According to the findings, board size has a marginally positive link with firm performance and ROE. However, a study by Datta, 2018 shows a similar outcome. This study looked at the impact of corporate governance on financial performanceduring the period from 2010 to 2016 in Bangladesh's listed insurance companies, using a sample size of ten. The firm's performance; ROE is positively influenced by board size, although the effect is not considerable.

The second hypothesis states that there is a relationship between board composition and firm performance of ROE. The third hypothesis states that there is a relationship between board meetings and the firm performance of ROE. The analysis further revealed a positive relationship among variables. The fourth hypothesis depictsthat there is a relationship between audit committee size and firm performance- ROE. The result indicates that there is a negative relationship among variables.Dtta, 2018 also presents anegative relationship between audit committee size and firm performance - ROE; theaudit committee size negatively affects financial performance.

This study also examined the relationship between a controllable variable and the company performance to improve the study's efficiency. This fifth hypothesis states that there is a relationship between the firm age and ROE. The result indicates a positive relationship, the sixth and seventh hypothesis showthat the firm age and growth has a positiverelationship withROE. The eighth hypothesis states that there is a positive relationship between leverage and the firm performance-ROE. The result of this study finds that all the controllable variables positively affect the firm performance- ROE.

Table 06 indicated that the financial performance is measured using the return on asset and measure the relationship of corporate governance variables (Board size, Board Composition, Board Meetings & Audit Committee Size) and the controllable variables withthe performance (ROA). The nine hypotheses state that there is a significant relationship between board size and ROA. The analysis exhibits the board size positively relateswiththe ROA, and the nine hypotheses are accepted. The tenth hypothesis also states that there is a significant relationship between the board composition and firm performance- ROA, that positively affects the company's performance. The eleventh hypothesis indicatesthat there is a significant relationship between board meetings and the firm performance-ROA. The study findsa positive relationship with the variables. Audit committee size and firm age are negatively related to ROA, therefore,the hypotheses twelve and thirteen are not accepted. The fourteenth and the fifteenth hypothesis show thatthe here is a significant relationship between firm size and growth, respectively, for the firm performance- ROA. The study's result denotes a significant

positive relationship among variables. The final hypothesis shows thatthere is a significant relationship between the leverage and firm performance- ROA;thus,the study negatively related to ROA.

Table 06. Summary of the Analysis

Hypothesises	**Relationship**	**Findings**
H1	Between board size and ROE	Positive Relationship
H2	Between Board Composition and ROE	Positive Relationship
H3	Between Board Meetings and ROE	Positive Relationship
H4	Between Audit Committee Size and ROE	Negative Relationship
H5	Between Firm age and ROE	Positive Relationship
H6	Between Firm size and ROE	Positive and Significant
H7	Between Growth and ROE	Positive and Significant
H8	Between Leverage and ROE	Positive Relationship
H9	Between Board size and ROA	Positive Relationship
H10	Between Board Composition and ROA	Positive Relationship
H11	Between Board Meetings and ROA	Positive Relationship
H12	Between Audit Committee Size and ROA	Negative Relationship
H13	Between Firm age and ROA	Negative Relationship
H14	Between Firm size and ROA	Positive and significant
H15	Between Growth and ROA	Positive and significant
H16	Between Leverage and ROA	Negative Relationship

CONCLUSION AND RECOMMENDATIONS

Relating to corporate governance, there are worldwide studies available. But fewer studies are conducted for the insurance firms. Nevertheless, there are few gaps between them. In the Sri Lankan context, there is lesser research available focusing on insurance firms. Therefore, this study contributedto fill that research gap.

The goal of this study was to determine the impact of corporate governance on the financial performance of Sri Lankan listed insurance companies. The relationship between corporate governance variables (board size, board composition, board meetings, and audit committee size) and controllable variables (firm age, firm size, growth, and leverage) used to improve the study's efficiency performance of insurance firms wasinvestigated in this study. According to the findings of this study, the corporate governance has an impact on the financial performance of Sri Lanka's publicly traded insurance businesses. A36.70%of relationship between firm performance ROE and the corporate governace, and a26.80%of relationship between firm performance ROA and the corporate governancewere respectively determined by the independent variables of corporate governance (board size, board composition, board meetings, and board audit committee size) as well as controllable variables (firm age, firm size, growth, and leverage).

The study found that, using the Pearson correlation, there is a positive relationship between board size, board composition, board meetings, firm age, firm size growth, and ROE leverage. Only the audit committee size is negatively related to the ROE. The ROA board size, board composition, board meetings, firm size, growth arepositively related, and audit committee size, firm age and leverage variables have a negative relationship.

Suggestions for Further Research

The study based on a five-year study period from 2015 to 2019 with the 11 listed insurance firms that are small in sample size with data availability. However, if the study had been conducted over a longer period of time with a larger sample size, it would have covered times of economic significance such as booms and recessions. This would have likely resulted in a longer temporal emphasis and, as a result, a greater dimension to the problem. A re-examination of the same case using primary data sources and insurance industry specialists could yield different results. This study used secondary data because the information can collect without hard commitments compared to primary models. For data analysis purposes, this study applied multiple linear regression models. Due to the shortcomings of using regression models, such as erroneous and misleading results, the researcher is unable togeneralize the findings with certainty when the variable values change.This study wasconductedpurely on quantitative methods. However, it is siggestedto go with quantitative and qualitative mixed methods of analysis if captured in many areas in corporate governance practices.

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