

The financial performance of life insurance companies in Ghana



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Purpose

The aim of this research is to assess the financial performance of the life insurance industry of an emerging economy. In particular the study delves into the major determinants of the profitability of the life insurance industry of Ghana. The study also examines the relationship among the three measures of insurers' profitability, which are investment income, underwriting profit and the overall (total) net profit.

Design/methodology/approach

The annual financial statements of ten life insurance companies covering a period of 11 years (2000-2010) were sampled and analyzed through panel regression.

Findings

The findings indicate that whereas gross written premiums have a positive relationship with insurers' sales profitability, its relationship with investment income is a negative one. Also, the results showed that life insurers have been incurring large underwriting losses due to overtrading and price undercutting. The results further revealed a setting-off rather than a complementary relationship between underwriting profit and investment income towards the enhancement of the overall profitability of life insurers.

Practical implications

The policy implications of this study for the stakeholders of the life insurance industry are enormous. For instance, insurers must have well-resourced actuary departments to perform price validation of all policies in order to prevent over-trading and price undercutting by insurance marketing agents. In addition, the intention of the NIC to adopt a risk-based approach in its supervision is not only timely but a very significant move that will improve upon the accounting and records keeping standards of the industry as well as the governance and risk management structures of the sector.

Being too obsessed with premium growth without adequate price validation can lead to self-destruction such as huge underwriting losses. Large underwriting losses can lead to insurance insolvency during periods of cluster claims.

Originality/value

This study fulfills an urgent need to investigate the things that are crucial for the survival, growth and profitability of life insurers in an emerging economy.

Keywords: [Life insurance](#), [Financial performance](#), [Ghana](#)

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