

## ABSTRACT

Insurance sector plays a vital role in service based financial setting of Pakistan. Maximizing firm's profitability is one of the major financial decisions. Keeping in mind the performance of insurance sector this study investigates the determinants of profitability of KSE listed insurance companies of Pakistan. Specifically this study examines the effects of not only firm specific factors but also macro-economic factors on profitability made proxy by ROCE. Profitability is taken as the dependent variable whereas firm specific Independent variables include Input cost, firm growth, underwriting risk and Loss Ratio. On the other hand macroeconomic variables comprises of inflation & interest rates. A panel data of 14 KSE listed companies was constructed whose data was available for the time period 2005-2014. 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 Firm Growth (FG) have a positive impact on insurance companies' profitability. Whereas the impact of input cost (IC), Interest Rates (INT), Inflation (INFL) have negative impact on profitability of insurance sector.

**Keywords:** Profitability, Reinsurance, underwriting risk, Insurance sector