

**SYLVESTER SENYO HORVEY**

University of the Witwatersrand, South Africa

**JONES ODEI-MENSAH**

University of the Witwatersrand, South Africa

**ALBERT MUSHAI**

University of the Witwatersrand, South Africa

**THE DETERMINANTS OF LIFE INSURANCE PROFITABILITY IN  
SOUTH AFRICA: NEW EVIDENCE FROM A DYNAMIC PANEL  
THRESHOLD ESTIMATION TECHNIQUE**

**Abstract:**

Insurance companies play a significant role in every economy; hence it is essential to investigate and understand the factors that propel their profitability. This study contributes to research by investigating the determinants of profitability for life insurance companies. Unlike previous studies which present a linear relationship, this study provides initial evidence by exploring the non-linear impacts of the determinants of profitability using a panel dataset of 62 life insurers in South Africa, covering the years 2013 to 2019. The generalised method of moments was used to estimate the relationship. The findings suggest that investment income and solvency are significant predictors of life insurance profitability. On the other hand, the study revealed that underwriting risk, reinsurance, and size reduce profitability. The evidence from the dynamic panel threshold analysis confirm non-linearities in the relationships. The study shows that there is a threshold level at which the determining factors drive profitability. Specifically, the results show that firm size, investment income, and solvency promote profitability beyond the threshold level, implying a propelling effect on life insurance profitability at higher levels. Below the threshold, these factors have an adverse effect. The study further points to underwriting risk, reinsurance, and leverage having a reduction effect on life insurers' profitability when they fall above the threshold level. The findings suggest that insurers interested in boosting their profit position must commit more resources to maintain their solvency and manage their assets and returns on investment. The study further recommends that effective control of underwriting risk is very critical to the profitability of the life insurance industry.

**Keywords:**

Life insurance, Profitability, Solvency, Underwriting Risk, Threshold

**JEL Classification:** G22, C24, L25