

THE IMPACT OF RISK MANAGEMENT ON THE PROFITABILITY OF INSURANCE COMPANIES IN NIGERIA

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ABSTRACT

Risk management should be at the core of all insurance companies' operations by integrating risk management practices into processes, systems and culture of the entire organization. The purpose of this study was to assess the impact of risk management on the profitability of insurance company. The study's specific objectives were: To study the extent insurance companies adopted risk management practices; "to examine the effect of risk management on the profitability of insurance companies"; "to critically determine challenges mitigating risk management practices in insurance firms" and "to study the extent insurance companies adopted risk management practices". The research adopted a descriptive survey design. A total of 60 respondents who were selected through simple random sampling techniques participated in the study. Null hypotheses were tested using Simple Linear Regression, and Pearson Correlation coefficient, with Statistical Analysis System (SAS 9.2). Findings revealed that the financial risk management practices have

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impact on the profitability of insurance firm. The study established that operational risk management practices have positive influence on the profitability of insurance firm. The study also revealed that there is a significant relationship between strategic risk management practices and the profitability of insurance company. The study recommended that the management of insurance companies should set up savvy measures for convenient risk identification and viable risk relief in order to guarantee that their financial related execution is not affected contrarily.

Key Words: Risk; Risk Management; Insurance; Insurance Companies and Profitability.

1.0 INTRODUCTION

The major reason of all established business is profit as they meet human demonstrable needs and want, and continue to dominate the market, but every economic activity is faced with both internal and external risks. At times, these risks involve noticeable losses that could deprive a profit-making company from surviving in the market if effective management is not established. Considering the increasing in risks in organizations, managing risk is a matter of necessity. Risk management is the total process of identifying, controlling and minimizing the influence of uncertain events. This days, businesses put great emphasis on hazard administration as this determines their survival and business performance. Insurance companies are in the risk business and as such cover various types of risks for individuals, businesses and companies. It is therefore, necessary that insurance companies manage their risk exposure and conduct proper analysis to avoid losses due to the compensation claims made by the insured. However, Kadi (2003) stated that “most insurance companies cover insurable risks without carrying out proper analysis of the expected claims from clients and without putting in place a mechanism of identifying appropriate risk reduction methods”.

Poor management of risk, by insurance companies, leads to accumulation of claims from the clients hence leading to increased losses and hence poor financial performance (Magezi, 2003). Risk management activities are affected by the risk behaviour of managers. A robust hazard administration framework can help organizations to reduce their exposure to risks, and enhance their financial performance (Iqbal and Mirakhor, 2007). Further; Mikes and Kaplan (2014) argued that “the selection of particular risk tools tends to be associated with the firm’s

calculative culture and the measurable attitudes that senior decision makers display towards the use of risk management models. While some risk functions focus on extensive risk measurement and risk based performance management, others focus instead on qualitative discourse and the mobilization of expert opinions about emerging risk issues.”Lately, insurance companies have increased their focus on hazard administration. Meredith (2014) advised that there should be careful judgment, by management of insurance companies, of insurable risks in order to avoid excessive losses in settling claims. It follows that administration of hazard is an important factor in improving financial performance (Okoth, 2003). Sanusi (2010) pointed out that “in recent years excessive credits and financial asset growth went unchecked. Risk, in insurance terms, is the possibility of a loss or other adverse event that has the potential to interfere with an organization’s ability to fulfill its mandate, and for which an insurance claim may be submitted”.

According to Christopher, and Peck (2004) “as risk-bearing institutions can, and do, fail if risks are not managed adequately”. The central function of an insurance company as observed by Merton (1995) is its’ ability to distribute risk across different participants. Saunders and Cornett (2008), also state that “modern insurance companies are in the administration of hazards’ business. They discuss that insurance companies undertake risk bearing and management functions on behalf of their customers through the pooling of risks and the sale of their services as risk specialists”. This indicates that management of risks should be focused on in the running of insurance companies. Management of various financial risks is the center stage of the insurance industry. Risk management, can be defined as risk pooling, transfer and indemnification in order to reduce the costly financial loss evolving from probabilistic occurrence and volatility. Skipper (1997) opined that “this fundamental aspect of insurance through the structured administration of hazard process involves identifying the exposures to accidental loss, evaluating alternative techniques for treating each loss exposure, choosing the best alternative and monitoring the results to refine the choices”. According to Curak and Loncar (2008), “in the process of making decision on underwriting risk, insurance companies gather relevant information on risk factors and assess risk which reflects in the price of risk (premium) and the policy conditions”.

According to Levine (2004), “few studies have shown that insurance activities, as a means of risk transfer and indemnification, contribute to economic growth by promoting

financial stability, allowing different risks to be managed more efficiently, encouraging the accumulation of new capital and helping to mitigate losses as well as the negative consequences that random shocks may have on capital investment in the economy”.Rejda (2003) stated that “risk management means to a process of identifying loss exposures faced by an organization and selecting the most appropriate techniques for treating these particular exposures effectively. There are many techniques available for insurance companies to manage risks including; loss financing, risk avoidance and loss prevention and control”. Ingram (2006) observed that ‘insurance refers to a form of risk transfer where one party (the insurer) undertakes to indemnify the other (insured) in the event of an insured risk taking place in consideration of a premium. Further, general insurance or simply non-life Insurance is the underwriting of a number of classes of insurance that is not long term in nature (usually one year) including automobile and homeowners policies. Payment or reimbursement is provided to the insured should an insured loss occur”.Managing risk is germane to insurance companies. Gollier (2003) described “insurance means that insurance companies take over risks from customers. Insurers consider every available quantifiable factor to develop profiles of high and low insurance risk. Level of risk determines insurance premiums”. As revealed by Dennis (2005), “generally, insurance policies involving factors with greater risk of claims are charged at a higher rate. With much information at hand, insurers can evaluate risk of insurance policies at much higher accuracy. To this end, insurers collect a vast amount of information about policy holders and insured objects”. Barlow (2000) concurred that “risk management is the human activity which integrates recognition of risk, risk assessment, developing strategies to manage it and mitigation of risk using managerial resources. Generally, a proper administration of hazard process enables a firm to reduce its risk exposure and prepare for survival after any unexpected crisis”.

1.1 Statement of the Problem

There are noticeable changes in insurance market and socio-economic environment recently, which implies that the risks that insurers are encountering have evolved; from volatile investment conditions, increases in longevity and mortality risks through to terrorism threats and climate change. On this account, stakeholders concentrate on these risks and the way in which they are managed. Insurance firms’ major economic activity is administration of hazard. The companies manage the risks of both their clients and their own risks. This requires an integration

of risk management into the companies' systems, processes and culture. Various stakeholders pressure their organizations to effectively manage their risks and to transparently report their performance across such hazard administration initiatives. Banks (2004) argued that some risks can and should be retained as part of the core business operations and actively managed to create value for stakeholders, while others should be transferred elsewhere, as long as it is cost effective to do so. According to Stulz (1996), some risks present opportunities through which the firm can acquire comparative advantage, and hence enable it to improve on financial performance. Therefore, the questions that this study seeks answer to are: does practicing better risk management improve financial performance and profitability of the firm? Is there any link between risk management and profitability?

1.2 Objective of the Study

The major objective of this study is to examine the impact of hazard administration on the profitability of insurance companies in Nigeria. The specific objectives of this study are;

- *To study the extent insurance companies adopted risk management practices
- *To examine the effect of risk management on the profitability of insurance companies
- *To critically determine challenges mitigating risk management practices in insurance firms
- *To proffer solution and policy recommendations to improve on risk management practices in insurance firms

1.3 Research Questions

In light of the objectives of the study; the following research questions will serve as guide for the study: *To what extent do insurance companies adopt risk management practices?

- *What is the effect of risk management on the profitability of insurance firms?
- *Can proper risk management practices have any impact on the performance of insurance companies?
- *What are the solutions and policy recommendations suggested to improve on risk management practices in insurance firms?

1.4 Research Hypotheses

H₀₁: Financial risk management practices do not have impact on the profitability of insurance firm.

H₀₂: Operational risk management practices do not have positive influence on the profitability of insurance firm.

H₀₃: Strategic risk management practices does not increase the profitability of insurance company

1.5 Scope of the Study

In view of the study, the research takes into consideration the insurance industry in Nigeria. The study is purposed to examine how the administration of hazard influences the profitability of insurance company in Nigeria. However the research will focus on a case study of Mutual Benefit Insurance Company in Nigeria critically discussing the causes of insurance risk and investigating the significance of risk management practices in insurance companies in Nigeria.

1.6 Significance of the Study

This study will be significant to insurance companies, general public, students and the insurance regulators as it will offer valuable contributions from both a theoretical and practical perspective. Theoretically, it will contribute to the general understanding of risk management practices and their effect on financial profitability. The study will enable Insurance companies in Nigeria to improve their risk management process and to adopt efficient strategies to improve firm profitability through the risk management processes. This will enable the insurance companies to perform better and to grow their businesses and maintain a competitive advantage. Apart from benefiting the insurance companies, the general public will benefit from the study through improved insurance services and better management of risks. This will result to affordable rates of insurance premiums and reduction in levels of non-payment and fraud.

The study will be helpful to the government in setting regulations on insurance practices in Nigeria and safeguarding the resources of the country. Embarking on this research aims at contributing to the body of knowledge by critically studying to what extent the risk management has influence the profitability of insurance company.

2.0 REVIEW OF LITERATURE

The center stage of risk management has described by Banks (2004) is mainly been on “controlling and for regulatory compliance, as opposed to enhancing profitability of insurance company. This risk management often leads to enhanced financial performance as regulatory compliance and control of risks enables the organization to save on costs”. Banks (2004) further suggests that “by managing risks, the managers are able to increase the value of the firm through ensuring continued profitability of the firm”. Christopher and Peck’s (2004) identifies “poor liquidity management, under-pricing and under-reserving, a high tolerance for investment risk, management and governance issues, difficulties related to rapid growth and/or expansion into non-core activities as main causes of financial distress and failure in insurance companies. It is important that these factors be managed efficiently by insurance companies, to avoid financial failure and bankruptcy to the firm”. Proper risk management is important in the daily operations of any insurance company to avoid financial losses and bankruptcy. This is in line with Jolly (1997) contribution that preventing losses through precautionary measures is a key element in reducing risks and consequently, a key driver of profitability. The efficiency of risk management by insurance companies will generally influence their financial performance. Gold (1999), asserts that insurance companies could not survive with increased loss and expense ratios. Meanwhile, risk management has been linked with shareholder value maximization proposition. Taghavi (2010), suggested that “a firm will only engage in risk management if it enhances shareholder value.” Banks (2004) contributed that “it is important for each firm to retain and actively manage some level of risk if it is to increase its market value or if the probability of financial distress is to be lowered” Pagano (2001), confirms that “risk management is an important function of insurance institutions in creating value for shareholders and customers”. Generally, company operations are prone to risks and if the risks are not managed the performance of insurance firms will be at stake. Insurance with efficient risk management structures outperform their peers as they are well prepared for periods after the occurrence of the related risks. This study hopes to come up with an expected positive relationship between “risk management (financial risk management practices, operational risk management practices, governance risk management practices, strategic risk management) and performance of insurance companies in Nigeria”.

Risk Management Theory

As described by Wenk (2005) “risk management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities”. Ranong&Phuenngam (2009) opined that “effective administration of hazard can bring far reaching benefits to all organizations, whether large or small, public or private sector”. “These benefits include, superior financial performance, better basis for strategy setting, improved service delivery, greater competitive advantage, less time spent firefighting and fewer unwelcome surprises, increased likelihood of change initiative being achieved, closer internal focus on doing the right things properly, more efficient use of resources, reduced waste and fraud, and better value for money, improved innovation and better management of contingent and maintenance activities” (Wenk, 2005). In the account of Dorfman (2007), “ensuring that an organization makes cost effective use of risk management first involves creating an approach built up of well-defined risk management practices and then embedding them. These risk management practices include financial risks management practices, operational risk management practices, governance risk management practices, and strategic risk management practices”.

Agency Theory

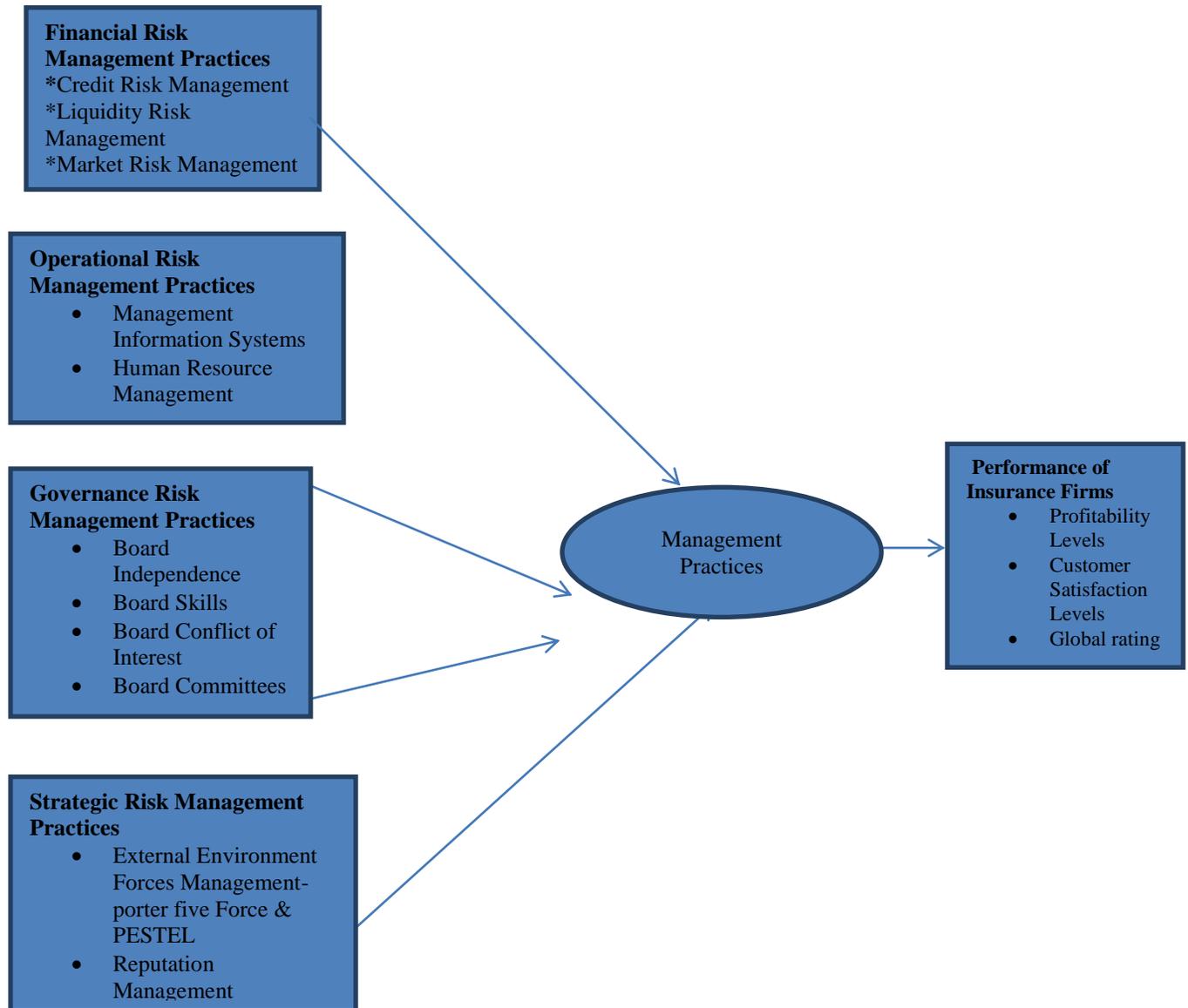
Stulz, (1985) affirmed that “the Agency theory extends the analysis of the firm to accommodate separation of ownership and control, and managerial motivation. In the field of corporate risk management agency issues have been shown to influence managerial attitudes toward risk taking and hedging. Theory also explains a possible mismatch of interest between shareholders, management and debt holders due to asymmetries in earning distribution, which can result in the firm taking too much risk or not engaging in positive net value projects”.

Stakeholder Theory

Freeman (1984) originally developed the Stakeholder theory as “a managerial instrument, and has since evolved into a theory of the firm with high explanatory potential. Stakeholder theory focuses explicitly on equilibrium of stakeholder interests as the main determinant of corporate policy. The most promising contribution to administration of hazard is the extension of implicit contracts theory from employment to other contracts, including sales and financing. In certain

industries, particularly high-tech and services, consumer trust in the company being able to continue offering its services in the future can substantially contribute to company value. However, the value of these implicit claims is highly sensitive to expected costs of financial distress and bankruptcy”.

Figure 2.1: Researcher’s Conceptual Frame work



Empirical Evidence

A number of studies have been conducted on hazard administration. This section will review the empirical studies in view of the study. Craighead et al., (2007) concentrated on identifying “the level of awareness of risk management in their study on the risk management practices on

construction project companies in Klang Valley, Malaysia. They undertook to examine the policies undertaken when dealing with risks in a construction project and identifying the problems and challenges in risk management. For this study, they employed questionnaire survey and interviews to study 27 public and private companies operating in Klang Valley. The study found out that 44.4%, 29.6%, 14.8% and 11.1% had occasionally heard, heard and attended training, practiced risk management and never heard about risk management respectively. In addition, 51.9% of the respondents believed that risk management was capable of adding value to daily work, 33.4% believed that risk management was useful in times of crisis. Their studies concluded that risk management positively contributes to the productivity and financial performance”. Some empirical work (Tufano, 1996; Mikes, 2009; Mikes, 2011) “understands risk management as an organizational and social practice, and compiled sufficient evidence to suggest that risk management practices vary considerably across firms, even within an industry”. Tufano (1996) observed that “in some firms, risk management takes the form of complex financial transactions, and in others, it follows a more holistic assessment of financial and nonfinancial risks.” (Muli, 2003; 2014; Daukant, &Hirst, 2009) stated that “risk management in some firms consists only of policing the business for compliance with risk limits and risk policies while, in others, the function helps the organization learn about uncertainties in its strategy and in its external and competitive environment”. White (2005) conducted an investigative study on “the management of property risks in Nigeria using a case study of the insurance sector. Questionnaires were distributed to a sample of 18 insurance companies out of a total of 36. An interview was conducted with the Commissioner of Insurance and the Honorary Secretary to the Institute of Loss Adjusters and Risk Surveyors. Due to the exploratory nature of the study, a qualitative analysis of the available data was adopted. Data from questionnaires and interviews was coded and frequency tables in simple percentages used to analyze responses to each question. A descriptive approach was then adopted in communicating the results. In summary, the study found that although risk management is consciously present in Nigeria insurance business, there still lacks a clear understanding of the discipline in the industry. Where they were available, the involvement of risk surveyors/managers by insurers was found not comprehensive enough. They were not involved in risk control and evaluation even after they had recommended appropriate risk control measures. It was found that although insurers have adequate information for any risk management activity, there lacks an efficient means of

storage and retrieval of the same. The study recommended computerization and general improvement of their information systems”.

3.0 METHODOLOGY

Sixty (60) questionnaires were administered, however only fifty three (53) were properly filled and good enough for data analysis. Descriptive as well as the inferential statistics are both presented. In order to obtain these results, “SPSS (IBM Corp. Released 2010. IBM SPSS Statistics for Windows, Version 20.0) and SAS (SAS v. 9.3, SAS Institute Inc., Cary NC) software” were utilized.

Table 3.1: Financial Risk Management Practices

	Strongly Agree		Agree		Undecided		Disagree		Strongly Disagree	
	Freq .	Perce nt	Freq .	Perce nt	Freq .	Perce nt	Freq .	Perce nt	Freq .	Perce nt
Financial statement analysis enhances risk identification	13	24.53	34	64.15	2	3.77	3	5.66	1	1.89
Market risk management is of great value to this insurance company	19	35.85	28	52.83	1	1.89	4	7.55	1	1.89
The company has a mechanism for transferring certain risks to third parties e.g. through reinsurance/hedging.	11	20.75	20	37.74	15	28.30	5	9.43	2	3.77
Financial risk management is crucial for success of insurance firm.	12	22.64	25	47.17	2	3.77	11	20.75	3	5.66

Liquidity risk management helps in reduction of financial lost	18	33.96	27	50.94	5	9.43	3	5.66	0	0.00
Credit risk management enhance the customers' satisfaction	15	28.30	33	62.26	3	5.66	2	3.77	0	0.00
Effective financial risk management practices minimize, monitor and control the probability of unfortunate events and maximize the realization of opportunities.	12	22.64	25	47.17	10	18.87	6	11.32	0	0.00

Source: Computed by Author

Evaluating the financial risk management practices as observed by the 53 staff of Mutual Benefit Assurance PLC took part in this study, financial risk management practices was described as; 88.68% of the 53 staff of Mutual Benefit Assurance PLC concurred (Strongly Agree and Agree) that “financial statement analysis enhances risk identification”, 88.68% concurred (Strongly Agree and Agree) that “market risk management is of great value to this insurance company”, 58.49% concurred (Strongly Agree and Agree) that “their insurance company has a mechanism for transferring certain risks to third parties e.g. through reinsurance/hedging”, 69.81% agreed (Agree and Strongly Agree) that “financial risk management is crucial for success of insurance firm”, 84.9% agreed (Agree and Strongly Agree) that “liquidity risk management helps in reduction of financial lost”, 90.56% concurred (Strongly Agree and Agree) that “credit risk management enhance the customers' satisfaction” and 69.81% agreed (Strongly Agree and Agree) that “effective financial risk management practices minimize, monitor and control the probability of unfortunate events and maximize the realization of opportunities”.

Table 3.2: Operational Risk Management Practices

	Strongly Agree		Agree		Undecided		Disagree		Strongly Disagree	
	<i>Fre q.</i>	<i>Perce nt</i>	<i>Fre q.</i>	<i>Perce nt</i>	<i>Fre q.</i>	<i>Perce nt</i>	<i>Fre q.</i>	<i>Perce nt</i>	<i>Fre q.</i>	<i>Perce nt</i>
Operational risk is the risk of loss resulting from inadequate operation processes	13	24.53	28	52.83	6	11.32	4	7.55	2	3.77
The operational risk management system of this insurance capture the interrelations between the various risks identified	5	9.43	31	58.49	9	16.98	7	13.21	1	1.89
Effective management information system is important to the achievement of insurance company's objectives.	21	39.62	30	56.60	2	3.77	0	0.00	0	0.00
Our undertaking quantifies and keeps a record of the operational risk events and near misses that have occurred	17	32.08	28	52.83	5	9.43	3	5.66	0	0.00

Employees are properly trained on risk management policies of the firm	9	16.98	22	41.51	11	20.75	7	13.21	4	7.55
Internal loss data is one fundamental method of the data source used to measure operational risk	9	16.98	25	47.17	15	28.30	4	7.55	0	0.00

Source: Computed by Author

Table 3.2 reflects the opinion of the staffs of Mutual Benefit Assurance PLC that partook of this study about Operational Risk Management Practices; 96.22% of the 53 respondents agreed (Strongly agree and agree) that ‘effective management information system is important to the achievement of insurance company’s objectives’, 84.91% of the respondents affirmed (Strongly agree and agree) that “our undertaking quantifies and keeps a record of the operational risk events and near misses that have occurred”, 77.36 % of the 53 respondents concurred (Strongly Agree and Agree) that “operational risk is the risk of loss resulting from inadequate operation processes”, 67.92% concurred (Strongly Agree and Agree) that “the operational risk management system of this insurance capture the interrelations between the various risks identified”, 64.15% concurred (Strongly Agree and Agree) that “internal loss data is one fundamental method of the data source used to measure operational risk” and 58.49% agreed (Strongly Agree and Agree) that “employees are properly trained on risk management policies of the firm”.

Table 3.3: Strategic Risk Management Practices

	Strongly Agree		Agree		Undecided		Disagree		Strongly Disagree	
	<i>Freq.</i>	<i>Percent</i>	<i>Freq.</i>	<i>Percent</i>	<i>Freq.</i>	<i>Percent</i>	<i>Freq.</i>	<i>Percent</i>	<i>Freq.</i>	<i>Percent</i>
The roles and responsibilities of each employee in the risk management efforts of the firm are well communicated to them	22	41.51	24	45.28	5	9.43	1	1.89	1	1.89
Insurer becomes scared when they think the risk frameworks and processes that are in place in insurance company are no longer giving them the level of protection they need	7	13.21	26	49.06	16	30.19	2	3.77	2	3.77
A risk with a large potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood of occurring	9	16.98	21	39.62	13	24.53	8	15.09	2	3.77
Insurance firm are concerned about the escalating impact of 'catastrophic' risks, which can threaten an organisation's very existence and even undermine entire industries	23	43.40	26	49.06	1	1.89	3	5.66	0	0.00
There is increases both in the speed with which risk events take place and the contagion with which they spread across different categories of risk due to effective strategic risk management practices	20	37.74	22	41.51	6	11.32	5	9.43	0	0.00
Boards become skeptical about the ability of insurance companies when they feel that current approaches to strategic risk management are no longer fit for purpose	10	18.87	19	35.85	10	18.87	8	15.09	6	11.32

Source: *Computed by Author*

Table 3.3 elicits information about strategic risk management practices from the 53 of the staffs of Mutual Benefit Assurance PLC that participated in this study. 86.79% of the 53 of the staffs of Mutual Benefit Assurance PLC affirmed (Strongly Agree and Agree) that “the roles and responsibilities of each employee in the risk management efforts of the firm are well communicated to them”, 62.27% concurred (Strongly Agree and Agree) that “insurer becomes scared when they think the risk frameworks and processes that are in place in insurance company are no longer giving them the level of protection they need”, 56.6% concurred (Strongly Agree and Agree) that “a risk with a large potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood of occurring”, 92.46% agreed (Strongly Agree and Agree) that “insurance firm are concerned about the escalating impact of ‘catastrophic’ risks, which can threaten an organisation’s very existence and even undermine entire industries”, 79.25% agreed (Strongly Agree and Agree) that “There is increases both in the speed with which risk events take place and the contagion with which they spread across different categories of risk due to effective strategic risk management practices”, and 54.72% concurred (Strongly Agree and Agree) that “boards become skeptical about the ability of insurance companies when they feel that current approaches to strategic risk management are no longer fit for purpose.”

Table 3.4: Performance of Insurance Company

	Strongly Agree		Agree		Undecided		Disagree		Strongly Disagree	
	<i>Freq.</i>	<i>Percent</i>	<i>Freq.</i>	<i>Percent</i>	<i>Freq.</i>	<i>Percent</i>	<i>Freq.</i>	<i>Percent</i>	<i>Freq.</i>	<i>Percent</i>
Insurance company performance can be improved by effective risk management	26	49.06	27	50.94	0	0.00	0	0.00	0	0.00
Insurance company loses when their boards feel they are spending too much time and money on running their current risk management processes, rather than moving quickly and flexibly to identify and tackle new risks	13	24.53	25	47.17	10	18.87	5	9.43	0	0.00
The less the payout in claims the less the premiums charged to the	15	28.30	23	43.40	15	28.30	0	0.00	0	0.00

clients and lead to increasing customer loyalty and profitability of the firm.										
Insurer satisfaction level can be greatly improved through prudent risk management.	34	64.15	13	24.53	2	3.77	3	5.66	1	1.89
There is a significant relationship between risk management practices and profitability of insurance companies	19	35.85	24	45.28	5	9.43	4	7.55	1	1.89

Source: *Computed by Author*

In describing the performance of insurance company, the employees of Mutual Benefit Assurance PLC that participated in this study reveals the performance of insurance company; All (100%) the respondents concurred (Strongly Agree and Agree) that “insurance company performance can be improved by effective risk management”, 71.7% concurred (Strongly Agree and Agree) that “insurance company loses when their boards feel they are spending too much time and money on running their current risk management processes, rather than moving quickly and flexibly to identify and tackle new risks”, 71.7% concurred (Strongly Agree and Agree) that “the less the payout in claims the less the premiums charged to the clients and lead to increasing customer loyalty and profitability of the firm.”, 88.68% concurred (Strongly Agree and Agree) that “insurer satisfaction level can be greatly improved through prudent risk management”, and 81.13% concurred (Strongly Agree and Agree) that “there is a significant relationship between risk management practices and profitability of insurance companies” as reflected in Table 3.4.

3.5 Hypothesis One

H₀₁: Financial risk management practices do not have impact on the profitability of insurance firm.

Table 3.5: Summary of Regression Analysis of Financial Risk Management Practices on Profitability of Insurance Firm ^a						Model Summary ^b	
Variable	Label	Parameter Estimate	Standard Error	t Value	Pr > t		
Intercept	Intercept	0.16061	0.11274	1.42	0.1603	R-Square	0.8653
	Financial risk management practices	0.87380	0.04828	18.10	<.0001	Adj R-Square	0.8626

a. Predictors: (Constant), Financial Risk Management Practices.

b. Dependent Variable: Profitability of Insurance Firm.

Table 3.5 reveals the extent to which financial risk management practices have influenced the profitability of insurance firms in Nigeria; financial risk management practices have impacted the profitability of insurance firms in Nigeria to the tune of 86.53 percent, and the remaining 13.47 percent is explained by other things that have also contributed to the profitability of insurance firms in Nigeria but not included in this particular model.

As depicted in Table 3.5, the estimates of the model coefficients for β_0 (Intercept) is 0.1606, and β_1 (Financial Risk Management Practices) is 0.87380. Therefore, the estimated model between financial risk management practices and profitability of insurance firm is presented thus: Profitability of Insurance Firm = 0.16061 + 0.87380 Financial Risk Management Practices. This regression equation shows that financial risk management practices have a positive relationship with the profitability of insurance firm in Nigeria. It means to increase the profitability of insurance firm in Nigeria by 0.87380 unit, the financial risk management practices should be improved by a unit.

DECISION RULE

“Reject the null hypothesis if the value of t-calculated is greater than the value of t-tabulated ($t_{cal} > t_{tab}$), otherwise accept it. At 95% level of significance ($\alpha = 0.05$)”.

The t-calculated is given as 18.10

The t-tabulated is given as: $t_{0.05, (51)} = 2.00758377$.

DECISION

Since $t\text{-calculated} = 18.10 > t\text{-tabulated} = 2.00758377$. We reject the null hypothesis.

In conclusion, the results of the regression confirm with 95% confidence that the financial risk management practices have impact on the profitability of insurance firm.

Hypothesis Two

H_{02} : Operational risk management practices do not have positive influence on the profitability of insurance firm.

Table 3.6: Summary of Regression Analysis of Operational Risk Management practices on Profitability of Insurance Firm ^a						Model Summary ^b	
Variable	Label	Parameter Estimate	Standard Error	t Value	Pr > t		
Intercept	Intercept	0.67880	0.14632	4.64	<.0001	R-Square	0.6935
	Operational Risk Management practices	0.97399	0.09068	10.74	<.0001	Adj R-Square	0.6874

a. Predictors: (Constant), Operational Risk Management practices.

b. Dependent Variable: Profitability of Insurance Firm.

Table 3.6 reveals the type of relationship between Operational risk management practices and the profitability of insurance firms in Nigeria, also reveals the degree of influence of Operational risk management practices on the profitability of insurance firms; Operational risk management practices have 69.35 influence on the profitability of insurance firms in Nigeria, and the remaining 30.65 percent is explained by other things that have also contributed to the profitability of insurance firms in Nigeria but not included in this particular model. As depicted in

Table 4.12, the estimates of the model coefficients for β_0 (Intercept) is 0.67880, and β_1 (Operational Risk Management practices) is 0.97399. Therefore, the estimated model between operational risk management practices and profitability of insurance firm is presented thus:

Profitability of Insurance Firm = 0.67880+0.97399 Operational Risk Management practices.

This regression equation shows that operational risk management practices have a positive relationship with the profitability of insurance firm in Nigeria. It means to increase the profitability of insurance firm in Nigeria by 0.97399 unit, the operational risk management practices should be improved by a unit.

DECISION RULE

“Reject the null hypothesis if the value of t-calculated is greater than the value of t-tabulated ($t_{cal} > t_{tab}$), otherwise accept it. At 95% level of significance ($\alpha = 0.05$)”.

The t-calculated is given as 10.74

The t-tabulated is given as: $t_{0.05, (51)} = 22.00758377$.

DECISION

Since t-calculated = 10.74 > t-tabulated = 2.00758377. We reject the null hypothesis.

In conclusion, the results of the regression confirm with 95% confidence that operational risk management practices have positive influence on the profitability of insurance firm.

Hypothesis Three

H_{03} : Strategic risk management practices do not increase the profitability of insurance company

Table 3.7: Simple Statistics							
Variable	N	Mean	StdDev	Sum	Minimum	Maximum	Label
Strategic risk management practices	53	2.11321	0.77609	112.00000	1.00000	4.00000	Lack of effective strategic risk management practices increases the speed at which risk events take place

Table 3.7: Simple Statistics

Variable	N	Mean	StdDev	Sum	Minimum	Maximum	Label
The profitability of insurance company	53	2.03774	0.67830	108.00000	1.00000	3.00000	The less the payout in claims the less the premiums charged to the clients and lead to increasing customer loyalty and profitability of the firm.

In testing whether there is any relationship between customer's attitude and insurance product this study makes use of Pearson product-moment correlation. "The sign and the absolute value of a correlation coefficient describe the direction and magnitude of the relationship between two variables. The correlation r value requires both a magnitude and a direction of either positive or negative. It may take on a range of values from -1 to 0 to +1, where the values are absolute and nondimensional with no units involved. A correlation coefficient of zero indicates that no association exists between the measured variables. The closer the r coefficient approaches ± 1 , regardless of the direction, the stronger is the existing association indicating a more linear relationship between the two variables. The strength of the correlation is not dependent on the direction or the sign". The result of this correlation analysis is presented in Table 3.8

Table 3.8: Pearson Correlation Coefficients, N = 53		
Prob > r under H0: Rho=0		
	Strategic risk management practices	The profitability of insurance company
Strategic risk management practices	1.00000	0.94154 <.0001
The profitability of insurance company	0.94154 <.0001	1.00000

DECISION RULE

"The relationship is significant when the P-value is less than Alpha value ($\alpha = 0.01$). Reject the null hypothesis". "A positive correlation coefficient indicates that an increase in the first variable would correspond to an increase in the second variable, thus implying a direct relationship

between the variables”.“A negative correlation indicates an inverse relationship whereas one variable increases the second variable decreases”.“The higher the absolute value of the correlation coefficient, the stronger the relationship”.

DECISION

According to the data presented in Table 3.14, the correlation between customer’s attitude and insurance product is a positive and moderately strong relationship ($r = 0.94154$). The analysis presented in Table 3.14 reveals that the relationship between strategic risk management practices and the profitability of insurance company is significant since the P-value is $<.0001$. It could be inferred that there is a significant relationship between strategic risk management practices and the profitability of insurance company. The relationship is such that, as insurance companies improves in strategic risk management practices, there will be an increase in the profitability of the insurance company.

CONCLUSION AND RECOMMENDATION

Conclusion: In view of the findings, this study established that “financial risk management practices have impact on the profitability of insurance firm”. Risk management has assumed a noteworthy part in insurance companies despite the fact that it has its’ ruins and in this manner the study brought into light a portion of the fundamental effect of risk management on profitability of risk insurance companies. The study uncovered that “strategic risk management practices increases the profitability of insurance company”. Greater part of the respondents affirmed that insurance activities are extensively isolated into life and non-life insurance, and firms having some expertise in either classification face distinctive risks. In particular, these two sorts of activities oblige firms to hold distinctive specialized procurements, by excellence of both reasonable practices and regulatory mandates. The study ascertained that “operational risk management practices have positive influence on the profitability of insurance firm”. Insurance companies will build their benefit in the event that they gather operational risk information appropriately (connect losses resulting from a unique event) and stay to the full range of their business exercises.

Recommendations

In line with the findings and conclusions of the study the researcher made the following recommendations for policy and practice:

*The study likewise suggests that the management of insurance companies should persistently assess their risk management practices to check whether they are still handy notwithstanding a ceaselessly changing working environment, for case the new regulatory pressures of dissolvability and Basel regulatory regimes. An open gathering for talking about organization's risk capabilities, for example, where it stands regarding methodology, people, procedures, innovation and information should be organized regularly. The management of insurance companies should set up savvy measures for convenient risk identification and viable risk relief in order to guarantee that their financial related execution is not affected contrarily.

*The administration ought to influence information technology in risk management by introducing information systems that can carry out risk assessment and estimation more precisely and for checking their risk management programs for adequacy. This should further be complimented via training of workers on risk management strategies of the firm, with obviously characterized parts and obligations regarding risk management.

*The usage and embedding of risk management practice should be a developmental procedure not a revolutionary one. Insurance companies could confront various issues all through the usage process since individuals over the organization require more opportunity to process the progressions connected with risk management practice execution. Implementing risk management practice revolutionarily could keep the effective inserting and comprehension of its procedures.

*The users of risk information, including the board, should likewise secure no less than an essential risk background. This could help them comprehend the significance of risk management and what is going on in an everyday premises. Just along these lines they will be in a position to give proper backing.

*External training should be sorted out for staff individually; it will likewise increase risk management capacity. The presence of a well-trained internal risk management team is essential for better installing and use of risk management in insurance firms. Education and training are fundamental, keeping in mind the end goal to effectively actualize, implant and practice of risk management, especially in the early stages, as education and training advance the risk management culture and give information on the advantages offered by risk management practices.

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