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EFFECTS OF RISK MANAGEMENT ON THE PERFORMANCE OF INSURANCE COMPANIES IN PLATEAU STATE

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ABSTRACTS

Risk management has occupied an important place on the agenda of practitioners, academics and the business community which has been on the rise because it enhances performance. The main objective of this study is to examine the effects of risk management on organizational performance in the Nigerian insurance industry. The study sample was made up of selected staff of the insurance industry in plateau state. Structured questionnaire designed was used to collect data from the 250 respondents from the insurance industry in plateau state through purposive sampling technique method. Inferential statistics used were correlation and multiple regression analysis with aid of SPSS version 23-0. The findings revealed that there was a strong linear relationship between governance risk management, strategic risk management and operational risk management with organizational performance. The study thus concluded that by applying governance risk management, strategic risk management and operational risk management, the performance of insurance industry will significantly increase. The study gives recommendations that insurance industries should apply governance risk management, strategic risk management and operational risk management to increase productivity. Therefore, risk management should be adopted by the Insurance Industries for effective performance.

***Keywords**: Risk Management, Governance, Strategic, Operational, Organizational Performance*

Background of the study

Considering the persistent increase in risks in organizations, managing risk is a matter of necessity. Recently, there has been growing interest in risk management across the world due to a number of parallel events. The impact of the global financial crisis has highlighted the importance of risk management (Coskun, 2012). Risk management importance is also attributed to the changing business environment characterized by threats from political, economic, natural, and technical resources (Wu & Olson, 2010). 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, (Donwa & Garuba, 2011) posit that most insurance companies cover insurable risks without carrying out proper analysis governance risk management, strategic risk management and operational risk management for effective organizational performance. Risk management is a systematic approach that aligns strategy, people, technology, processes and knowledge with the purpose of assessing, evaluating and managing the risk that an organization faces.

Despite the growing importance of risk management, there is still a lack of evidence on risk management implementation in the insurance industry. Lamentably, very few firms have implemented risk management in Nigeria which has expose the insurance industry to low productivity (CBN, 2012)

These challenges include poor knowledge of governance risk management, strategic risk management and operational risk management which enhances companies' performance. Therefore, the study will determine the effects of governance risk management, strategic risk management and operational risk management to see if has it promotes organizational performance.

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, increase in longevity and mortality risks due to terrorism threats and climate change. On this account,

stakeholders concentrate on these risks and the way in which they are managed. Insurance firm's major economic activity is administration of hazard. Despite the growing importance of risk management, there is still a lack of evidence on risk management in the insurance industry which has led to poor performance in Nigeria. Furthermore, the study on risk management is scarce as there are only few studies on risk management in Nigeria. Examples are (Donwa & Garuba, 2011; Owojori, Akintoye & Adidu, 2011; Njogo, 2012; Fadun, 2013). Some of the challenges include poor knowledge of risk management by members of the board of insurance industry, poor strategy in risk management and poor operational management which has negatively affected organizational performance. Thus, the study of the effects of risk management is expected to boost the performance of insurance in Nigeria

Objectives of the Study

The major objectives of the study are;

1. To examine the relationship between governance risk management and performance of insurance organization
2. To examine the relationship between strategic risk management and performance of insurance organization
3. To examine the relationship between operational risk management and performance of insurance organization

Research Hypotheses

H01: There is no significant relationship between governance risk management and organizational performance

H02: There is no significant relationship between Strategic Risk Management and organizational performance

H03: There is no significant relationship between Strategic Risk Management and organizational performance.

SCOPE OF THE STUDY

This study considered the relationship between risk management and organizational performance in the insurance industry in Nigeria. The research focus group is drawn from a pool of shareholders, auditors, directors and staff of insurance companies in plateau state. Primary data was collected in 2021.

Conceptual Review.

Governance Risk Management

Risk governance exists on how company's activities are directed and control. It also looks at how the activities of companies are executed by the board and management of an organization in risk control and designing internal control systems for the identification, measurement and management (Cavezzali & Gardenal, 2015). Similarly, Viscelli, Beasley, and Hermanson (2015) looks at risk governance as the corporate governance mechanism that facilitates board of directors to arrange corporate goals with risk management in order to satisfy all stakeholders. Shad Lai (2015) defines risk governance as the principles of good governance applied to the identification, management and communication of risk. It encompasses values of accountability, involvement and transparency in establishment of structures and policies so as to create and implement risk-related decisions. Therefore, risk governance principles are based on transparency, responsibility, fairness and accountability.

Strategic Risk Management

Risk involves the possibility of hazards such as system failure due to human attitude like fraud inspired by corruption or lack of financial control that could cause financial loss to the organization. The process of identifying, prioritizing and treating risks has been a common practice among organizations. Stonehouse & Pemberton (2002) revealed that the most useful tools in strategic management are Business Financial Analysis and SWOT analysis. Aldehayyat & Anchor (2009) and Kalkan & Bozkurt (2013) and posits that the most common strategic risk management tools were PEST analysis, Porter's 5 force analysis, Analysis of key (critical) success factors, Core capability competence analysis and SWOT analysis (2013).

Operational Risk Management

This definition includes legal risk, but excludes strategic and reputation risk. According to the British Bankers´ Association (BBA), "Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. The Basel Accord (2007) defined operational risk as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Malfunctions of the information systems, reporting systems, internal monitoring rules and internal procedures designed to take timely corrective actions, or the compliance with the internal risk policy rules result in

operational risks (Jussi 2016 & Moosa, 2007). Operational risks, therefore, appear at different levels, such as human errors, processes, and technical and information technology. Because operational risk is an event risk, in the absence of an efficient tracking and reporting of risks, some important risks will be ignored, there will be no trigger for corrective action and this can result in disastrous consequences.

Organizational Performance

Organisational performance is a set of financial and nonfinancial indicators which offer information on the degree of achievement of objectives and results (Lebans & Euske, (2006). In this study, the following five items are used as an index of organizational performance. A self-recognized, Financial indicator of organizational performance, ▪ income and expenditure for latest three years (2) Non-financial indicator of organization performance market share of the main products and services, the frequency of the development of new products, turnover rate of regular employees is lower than the industry average.

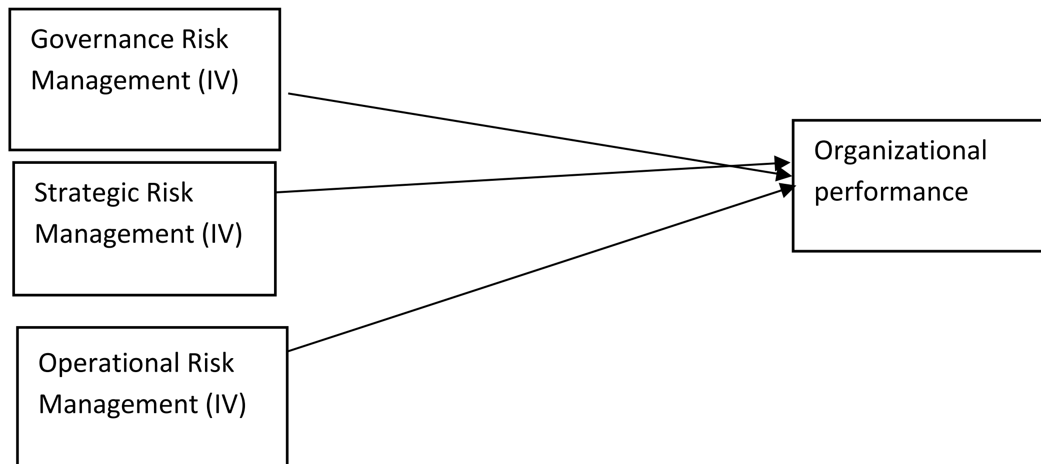

Figure 1. Conceptual framework

EMPIRICAL REVIEW

Chong and Ismail, (2013) examined the relationship between risk management committee characteristics and risk taking ability of the Malaysian insurance companies. The researcher finds that size and committee independence seemed to be negatively associated with risk underwriting while the number of meetings of the risk management committee is insignificant. Recent literature indicates

that board size may play a significant role in the directors' ability to monitor and control the actions of managers (Daud, Haron & Ibrahim, 2011). Beasley, (1996) postulates that independent directors are more effective monitors because of reputation concerns and their aspiration to obtain additional tenure ship. There is a positive relationship between board characteristics and the level of ERM implementation.

Current trends in the application of human resource management places great importance on the human resource competency, particularly its role in improving effective job performance, which enhances organizational competitiveness (Cardy & Selvarajan, 2006; Badara & Saidin, 2014). In order to meet up with the new challenges of the global economy, it is necessary to evaluate the type of knowledge, attitudes and skills which the professionals require to have a successful career. Increasing the competitiveness of an organization`s workforce enhances higher opportunities of being successful. There is a positive relationship between human resource competency and the level of ERM implementation.

The importance of top management support has been supported by these scholars (Barton et al., 2002; Kleffner et al., 2003). The board of directors who have the primary responsibility for risk management activities initiates ERM program in order to protect the company's asset. The top management support is also required, especially towards effective provision of resources, structure and creation of a risk management culture which enhances implementation. Beasley et al., (2005) assert that top management support is crucial for the effective implementation of risk management. There is a positive relationship between top management.

From the above empirical studies, reduction in financial crimes can only be achieved only when a study is conducted on deterrence and regulatory influence. Despite the empirical study above, poor deterrence measures and regulatory influence have continued to promote the persistent increase in financial crimes. It can be seen that there is gaps in the laws of immunity clause, plea bargain and executive pardon. This is why the study examined deterrence and regulatory influence as a panacea to reduction in economic and financial crimes.

METHODOLOGY

The study used Cross-sectional design as data were collected at a single point

in time. This research study adopted quantitative method because it tests causal theories with statistics, and believes in the importance of replicating studies. The research respondents were asked the extent of their agreement with 9 items of governance risk management, 4 items of strategic risk management, 4 items of operational risk management and 6 items of organizational performance. The agreement ratings were made on a 5-point Likert scale ranging from 1 (Strongly disagree) to 5 (Strongly agree). Data was subjected to descriptive and Multiple Regression was adopted to test the hypotheses using the Statistical Package for Social Science (SPSS Version 23.0) software. Preliminary analyses were performed to ensure no violation of the assumptions of normality, multicollinearity, homoscedasticity and linearity using the (SPSS Version 23.0) software. The population of the study consists of 250 respondents randomly selected from auditors, board members and senior staff of the insurance organizations in plateau state The study employs a purposive simple random sampling technique because with 203 and Sekaran (2003) suggested that a sample of 200 respondents and above is okay for analysis.

Table 3: model summary

Model	**R**	**R Square**	**Adjusted R Squared**	**Std. Error of the Estimate**	**Durbin-Watson**
1	.798[a]	.637	.621	.312	1.622

a. Predictors: (Constant), governance risk management, strategic risk management, operational risk management.
b. Dependent Variable: Organizational performance

Source: Author's Fieldwork Computation (2021).

The result of regression as contained in table of model summary, shows that the R Square gave a value of 63.7 per cent. The value of R-square indicates a strong relationship between the criterion and predicted values of the variables. This means that the model which includes the independent variables (governance risk management, strategic risk management and operational risk management) and the dependent variable (organizational performance) has a strong relationship. The Durbin-Watson Statistic gives 1.622 coefficient which indicates that there is absence of serial correlation in the error terms of the model as such ruling out problems associated with spurious regressions.

TABLE 4: Results of the regression analysis (Coefficients)

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
	B	Std. Error	Beta		
1 (constant)	.961	.155		6.200	.000
Governance Risk Management	.240	.066	.261	3.636	.009
Strategic Risk Management	.131	.054	.159	2.425	.030
Operational Risk Management	.125	.054	.163	2.315	.010

a. Dependent Variable: Organizational Performance.

Source: Author's Fieldwork Computation (2021)

The results of the regression coefficient in H1 has the value 0.240 and a critical value of t=3.636, p-value (0.009) < 0.05. This shows that for every increase in the predictor, reduction in financial crimes increases by 24.0%. with p-value value of less than 0.05. Based on the result, the null hypothesis is rejected; thus, Governance Risk Management has significant effect on organizational Performance.

The result of the regression coefficient in H2 has the value of 0.131 and a critical value of t=2.425, p-value (0.030) <0.05. This shows that for every increase in the predictor, organizational Performance by 13.1% with p-value value of less than 0.05. Based on the result, the null hypothesis is rejected; thus, Strategic Risk Management has significant effect on organizational performance.

The result of the regression coefficients in H3 has the value of 0.125 and a critical value of t=2.315, p-value (0.010) <0.05. This shows that for every increase in the predictor, organizational Performance by 12.5% with p-value value of less than 0.05. Based on the result, the null hypothesis is rejected; thus, Operational Risk Management has significant effect on organizational Performance.

CONCLUSION AND RECOMMENDATION

In view of the findings, this study established that Governance risk management, strategic risk management, operational risk management have influenced organizational performance. The results of this study showed that Governance Risk Management has direct and strong relationship with organizational performance. This finding supports H1 because it consistent with

the findings of Cavezzali & Gardenal (2015), Viscelli, Beasley, and Hermanson (2015). For H2, the results indicate that strategic risk management has a positive and significant link with organizational performance. Therefore, this hypothesis is supported, and the result is consistent with the findings of Stonehouse & Pemberton (2002) and Kalkan & Bozkurt (2013). For H3, the results indicate that operational risk management have a positive and significant relationship with organizational performance. Therefore, H3 is supported and the result is consistent with the findings of *Lebans & Euske, (2006)*.

Based on the research results, we now conclude that governance risk management, strategic risk management and operational risk management significantly affects organizational performance. Therefore, the following recommendations are forwarded;

1. Board members, auditors and top management should be should be very efficient and effective in risk management decision making in order to enhance productivity in insurance industry.
2. Internal and external environmental factors should be considered in risk management by insurance industries.
3. Auditors should be free and fair in their opinion to assist the company in effective risk management implementation
4. Risk management should consider the operations of insurance activities to enhance organizational performance.

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