INSURANCE INDUSTRY AND RISK MANAGEMENT IN NIGERIA

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**ABSTRACT**

This research work looked at the insurance industry and risk management in Nigeria (A case study of NICON Insurance Corporation). It is aimed at X-raying the inherent problems associated with the adjustability and adaptability of risk management. The essence of risk management is to evaluate all pure risk exposures, insurable or uninsurable and develop the method for handling them.

**CHAPTER ONE**

**1.0 INTRODUCTION**

**1.1 GENERAL OVERVIEW OF THE STUDY**

The uncertainty which doubt the future is a significant that normally bring in the element of risk in any business arrangement. The existence of risk in any concern simply means that certain loss must arise if the risky event happens. A contract of insurance broadly happens. A contract of insurance, broadly speaking is a contract in which one party called the insurer agrees to pay a given sum of money upon the happening of a particular event insured against to the other party called the insured or assured for a consideration called premium.

In other words, insurance is a risk transfer mechanism by which an individual or corporate body shifts some or all the uncertainty encountered in daily activities into the shoulder of insurers in return for the payment of an agreed amount called premium which is usually very small compared to the potential loss. In the effect, what the insuring public and prospective buyers to be continuity in life without set back or normally occasioned by insurable risk or peril.

Insurance companies provide the service of financial sustenance to her participants in the economy. They do this by ensuring the financial rival of other business in the event of the unfortunate occurrence of insurable risk. Without such financial aid as offered by the insurance industry, many a business would have been out of existence. The economic development of any nation is closely related to the behaviour of individuals doing in the country as regard how much to save and how to consume with their earned income.

**1.2 STATEMTN OF PROBLEM**

The insurance industry is very relevant to the growth and development of very economy, it does not exist like every other insurance institutions without facing some constraints. Some of these problems include.

• Lack of awareness of the activities of the insurance industry.

• The reluctance or insurance companies to pay just claims.

• Unqualified salesman, agents and other insurance canvassers.

• The existence of fake, quack and mushroom insurance companies.

There are insurance companies in the country that are well require by the necessary organizations but still lack the desired technical, financial and management. To mention but a few.

**1.3 OBJECTIVE OF THE STUDY**

The study is channeled towards examining the roles of insurance companies play in the economy of Nigeria. It is therefore aimed at the following.

a. To access the performance towards the economic development of Nigeria.

b. To identify the possible factors militating against the effective pursuit of the objective of the insurance industry.

c. To proffer solutions to the identified problems e.t.c

**1.4 STATEMENT OF HYPOTHESIS**

Ho: It is possible for insurance industry to plan its subrogation

Hi: It is not possible for insurance industry to plan its subrogation

HYPOTHESIS II

Ho: Risk deregulation can ruin the insurance industry

Ho; Risk deregulation cannot ruin the insurance industry

**1.5 SIGNIFICANCE OF THE STUDY**

This study will be of utmost importance to the Nigerian population especially students studying insurance, in the sense that it will contribute to their understanding of the principles and practice of insurance and the need for it.

It will also help in clearing the mountain of bias, which is already pilled up in the mind of the public about insurance industry and its operation.

This research work highlights the gleaning problems affecting the operations of the insurance industry in Nigeria and goes further to explain how the problems can be solved. As the problems being stated, the insurance would be able to know the areas to improve on possible method(s) to apply in order to cope with them.

**1.6 THE SCOPE OF THE STUDY**

The scope of this research work covers the insurance and risk management in Nigeria, using NICON Insurance Corporation as a case study.

**1.7 LIMITATION OF THE STUDY**

The researcher in the course of carrying out the research work encountered few problems, such problems includes:

• Lack of adequate materials dealing on current events and dates. Most of the materials available were outdated.

• Lack of fund to finance the research almost hindered th work.

• Time factor: There was not enough time to carry out proper research on the work.

**1.8 DEFINITION OF TERMS**

In other to make the work easy for understanding for any user, some of the term used have bee extensively defined, such as:

• ASSURED: the person covered by the insurance contract.

• ASSURER: insurance company granting insurance protection to the insured.

• BROKER: A person who for consideration, solicit and negotiate, contact of insurance for he insured.

• CLAIM: A demand by the insured payment under his policy.

• COVER: Protection provided by insurance.

• CONTRACT: An agreement between the contracting parties which will rise to enforceable right and obligation.

• DECLARATION: Statements giving information about the insured risk.

• INSURANCE POLICY: A written contract between a person and the insurance.

• LOSS: A loss to an extent means the reduction or disappointment of value.

• RISK: A situation or event in which the probability o an outcome can be determine.

• RISK AVOIDANCE: To get out or escape from risk.

• WARRANTY: A stipulation in the policy relating to the nature of the contract policy.

# CHAPTER TWO

**LITERATURE REVIEW**

# Introduction

This chapter critically reviews the available literature on risk management and financial performance. It begins by reviewing financial theories related to risk management, then an overview of the empirical studies and literature on the risk management and financial performance.

# Theoretical Review

The concept of risk management theory involves studying the various ways by which businesses and individuals raise money, as well as how money is allocated to projects while considering the risk factors associated with them (Sarkis, 1998). The theories reviewed in this section are the agency theory, the stakeholders’ theory and the optimal capital structure theory.

# Agency Theory

Agency theory extends the analysis of the firm to include 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 (Smith and Stulz, 1985). 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 (Mayers and Smith, 1987).

Consequently, agency theory implies that defined hedging policies can have important influence on firm value (Fite and Pfleiderer, 1995).

Stulz (1984) first suggested a reason for the interest in risk management by managers of a firm. He asserts that managers are presumed to be working on behalf of firm owners and therefore, concern themselves with both expected profit and the distribution of firm returns around their expected value. They have an inclination to avoid risk in order to minimize the variability of firm returns and hence achieve the. For firm owners, risk management saves on agency costs since, by reducing the variability of returns of their firms, managers are working in line with the shareholder wealth maximization goal.

Managerial motivation factors in implementation of corporate risk management have been empirically investigated in a few studies with a negative effect (Faff and Nguyen, 2002; MacCrimmon and Wehrung, 1990; Geczy et al., 1997). Notably, positive evidence was found however by Tufano (1996) in his analysis of the gold mining industry in the US. Financial policy hypotheses were tested in studies of the financial theory, since both theories give similar predictions in this respect. However, the bulk of empirical evidence seems to be against agency theory hypotheses.

Agency theory provides strong support for risk management as a response to mismatch between managerial incentives and shareholder interests. Shareholders and managers have different interests to the firm and risk management objectives vary for the different stakeholders. While shareholders may require high risk – high return investments, management prefer low risk and

return investments. The agency theory emphasizes the need for risk management to align the interests of mangers and shareholders and to contribute to the financial performance of the firm.

# Stakeholder Theory

Stakeholder theory, developed originally by Freeman (1984) as a managerial instrument, 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 risk management is the extension of implicit contracts theory from employment to other contracts, including sales and financing (Cornell and Shapiro, 1987). 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.

Since corporate risk management practices lead to a decrease in these expected costs, company value rises (Klimczak, 2005). Therefore stakeholder theory provides a new insight into possible rationale for risk management. However, it has not yet been tested directly. Investigations of financial distress hypothesis (Smith and Stulz, 1995) provide only indirect evidence (Judge, 2006). This theory is useful to risk management research. It helps to address the importance of customer trust and financial distress costs to insurance companies. Finally the theory suggests that smaller firms are more prone to financial problems, which should increase their interest in risk management practices.

The stakeholder theory emphasizes the need for risk management in insurance companies and its importance in improving the value of the company. It however does not indicate the influence of risk management on the financial performance and the resulting relationship between the two variables apart from suggesting that risk management leads to growth in company value.

# Theory of Optimal Capital Structure

According to the optimal capital structure theory, there is an optimal, finite debt equity ratio, resulting from a trade-off between the expected value of bankruptcy costs and the tax savings associated with the deductibility of interest payments (Kim, 1976). Bankruptcy occurs when the fixed obligations to creditors cannot be met. There are direct and indirect costs related to bankruptcy. Direct costs include legal, accounting and trustee fees as well as the possible denial of income tax carryovers and carrybacks. Indirect costs relate to opportunity costs resulting from disruptions firm-supplier relationships that are associated with the transfer of ownership or control (Barker, 1976). Warner (1977) and Weiss (1990) give evidence of financial distress and state underline the significance of bankruptcy costs to a business.

Allen and Santomero (1996) suggest that the cost of bankruptcy is more important in regulated industries where large losses may lead to license or charter withdrawal and the loss of a monopoly position. This theory offers a significant rationale as to why firms would be engaged in risk management. Stulz (1996) provides further evidence by suggesting that the expected present value of bankruptcy costs will be reflected in a firm’s current market value if shareholders view bankruptcy as a real possibility. He further states that a risk management

program that costlessly eliminates the risk of bankruptcy effectively reduces such costs to zero, thereby increasing the value of the firm.

Bankruptcy costs are significant to insurance business in Nigeria. Once a company is not able to pay customer claims, the regulator declares it bankrupt and puts it under receivership. Recently, Blue Shield Insurance and Concord Insurance were put under receivership due to failure to meet the customer claims (KTN, 2014). This indicates that bankruptcy costs should be considered in the risk management of insurance companies. However, Standard and Poor’s (2013) observe that unlike corporate and bank failures caused by the incomplete or untimely payment on all or some financial obligations, including debt restructurings, an insurance company failure most often becomes apparent when the regulator takes action because the insurer's financial position has become untenable. They further contend that nonpayment of a debt obligation do not generally prompt a default. Anyway, insurers tend to have low debt burdens, but high policy obligations.

# Determinants of Financial Performance

* + 1. **Interest Rate**

An interest rate is the cost of borrowing money (Hoyt, 1994). Since insurance companies make their promises or commitments to the insured at the time of the sale of policies to the latter, they are not free to adjust the rates fixed or agreed in the sale subsequently depending on circumstance. This feature of insurance exposes them directly to the risks associated with changes in interest rates. Insurance companies invest much of the collected premiums, so the income generated through investing activities is highly dependent on interest rates. Declining interest rates usually equate to slower investment income growth impacting on the insurance

company‘s financial performance (Staking &Babbel, 1995). Another downside to interest rate fluctuations (not exclusive to insurance companies) is the cost of borrowing.

However, Schich (2008) contends that insurance companies may also benefit from rising interest rates, because much of their profit is earned on the float, the period between when premiums are collected and claims paid out. During this time, insurers invest the premium. Rising interest rates imply a higher return on bonds, one kind of investment, although higher rates lower the value of bonds currently in their portfolio. Large home insurers benefit more than do smaller auto insurers.

It is argued that a continuing decline in market interest rates tends to make it more difficult for insurance companies to provide high interest rates for their customers or the insured and-as a result-to maintain hence high levels of profitability. This proposition was tested in Taiwan over a period of declining market interest rates for insurance companies. Flannery's (1981) model (quoted in Yang, 2007) was used to examine the relations between changes in market interest rate and the profitability of 12 domestic insurance companies. The results suggest that the effects of changes in interest rates on insurance company profitability depend on how profits are measured, that it differs depending on the profit indicator that is employed.

This result is not apparent, with there being no obvious influence of interest rates on profitability, if the entire insurance sector is considered as a whole. Yang (2007) argues that the extent of the fluctuations in interest rates does not have an obvious impact on the income, cost, operating

profit, or the assets return rate, net return rate, operating profit margin, operating profit rate and

net profit rate of the 12 sample insurance companies, except in the case of the profitability indices for Cathay Life, Central Insurance and First Insurance. This may have something to do with the length of observation. When market interest rate fluctuations are taken into account, three of the effects examined, those for insurance companies' profits on new assets, and two of the effects, those for insurance companies' cost of liabilities, become significant, suggesting that in these cases at least market interest rates may have an influence on the profits on new assets of the insurance companies. Moreover, in the case of nine insurance companies in the sample profits on new assets were higher than the cost of new liabilities suggesting that in these companies at least profits on new assets increase relatively rapidly, bringing about a gradual increase on operating net profits to the insurance companies concerned.

In a study of the relation between insurance market conditions and insolvencies, A. M. Best(1992) found that the number of insolvencies is correlated with the accident and health underwriting cycle (lagged one to three years). The increased number of insolvencies also is correlated with increases in interest rates and the life-health insurance industry‘s focus on investment-related products. The Best study did not examine the various economic factors in a multivariate framework, thus precluding the ability to identify the relative significance of the individual factors.

Changes in interest rates have a direct impact on the value of insurers. As interest rates decline, the value of bonds in an insurer‘s portfolio rises, and vice versa. Staking and Babbel (1995) note that one way insurers incur risk with their financial portfolio is by holding assets with a longer

duration than their liabilities. This mismatch creates an interest rate risk since the magnitude of

the change in the value of assets will be greater than that of liabilities when interest rates move. When interest rates decrease, insurers with this duration mismatch experience an increase in surplus. On the other hand, an increase in interest rates leads to a larger decline in the value of assets than liabilities, and thus a decrease in surplus. Young (1996) document a positive asset/liability maturity mismatch for the majority of life insurers in their sample. The asset/liability mismatch results in increased leverage and a greater risk of poor performance for the insurer (Carson and Hoyt, 1995). Changes in interest rates are expected to be negatively related to insurer performance.

# Profitability

As with any company, profitability is a key determinant for deciding whether to invest. For an insurance company, there are two components of profits that we must consider: premium/underwriting income and investment income (Santomero&Babbel, 1997).Underwriting income is just that: any revenue derived from issuing insurance policies. By averaging the premium's growth rates of several past years, you can determine the growth trends. Growing premium income is a "catch 22" for insurance companies. Ideally, you want the growth rate to exceed the industry average, but you want to be sure that this higher growth does not come at the expense of accepting higher risk clients. Conversely, a company whose premium income is growing at a slower rate might be too picky, looking for only the highest quality insurance opportunities. The one thing to remember is that higher premium collections do not equate to higher profits.

Lower numbers of claims (via low risk clients) contribute more to the bottom line.

Santomero and Babbel (1997) contend that the second area of profitability that should be included in the analysis is investment income. As mentioned earlier, a greater proportion of an insurer's income comes from investments. To evaluate this area, take a look at the company's asset allocation strategy (usually mentioned in the notes of the financial statements). A majority of the assets should be invested in low-risk bonds, equities or money market securities. Some insurers invest a substantial portion of their assets in real estate. If this is so, take a look at what type of property it is and where it is located. A building in Nairobi may be more liquid than one in Marsabit.

Return on Assets (ROA): Net Income + Interest Expense

Total Assets

ROA indicates the return a company is generating on the firm's investments/assets. In general, a life insurer should have an ROA that falls in the 0.5-1% range.

Return on Equity (ROE): Net Income

Shareholder's Equity

ROE indicates the return a company is generating on the owners' investments. In the policyholder owned case, you would use policy holders' surpluses as the denominator. As a general rule for insurance companies, ROE should lie between 10-15%.

Lapse Ratio: Lapsed Life Insurance Specified Period

Contracts in Force (in effect) at Start of Specified Period

This ratio compares the number of policies that have lapsed (expired) within a specified period of time to those in force at the start of that same period. It is a ratio used to measure the effectiveness of an insurer's marketing strategy. A lower lapse ratio is better, particularly because insurance companies pay high commissions to brokers and agents that refer new clients. ROA, ROE, and the lapse ratios (discussed above) are also useful for evaluating the profitability of the insurer. In order to determine whether management has been increasing return for shareholders, the ROA and ROE numbers over the past several years should be calculated. The lapse ratio will help to tell whether the company has managed to keep marketing expenses under control. The more policies remain in force (are not cancelled), the better.

These views are supported by Hagel, Brown and Davison (2010) who proposed that most economic analysts and investors tend to focus on return on equity as their primary measure of company performance. ROE focuses on return to the shareholders of the company. If you are a shareholder, this gives you a quick and easy to understand metric. However, they argued that ROE can obscure a lot of potential problems. If investors are not careful, it can divert attention from business fundamentals and lead to spiteful surprises. Companies can resort to financial strategies to artificially maintain a healthy ROE — for a while — and hide deteriorating performance in business fundamentals. Growing debt leverage and stock buybacks funded through accumulated cash can help to maintain a company's ROE even though operational profitability is eroding.

Mounting competitive pressure combined with artificially low interest rates, characteristic of the last couple of decades, creates a potent incentive to engage in these strategies to keep investors happy. Excessive debt leverage becomes a significant albatross for a company when market demand for its products heads south, as many companies discovered during the current economic downturn. It actually creates more risk for a company in hard times. These efforts can become addictive. If underlying profitability continues to deteriorate, more stock buybacks or debt leverage will be necessary to maintain return on equity, further increasing company exposure to unanticipated downturns in consumer demand or financial market crises. But letting ROE decline is often too painful to contemplate since the impact on stock performance hence financial performance can be immediate. The risks on the other side are less immediate and less quantifiable, so there is an understandable temptation to avoid immediate pain (Hagel, Brown & Davison, 2010).

# Competition

One of the most significant trends in the insurance industry is the prevalence of mergers and acquisitions among insurance carriers and agencies (Schich & Kikuchi, 2004). Due to strong investment returns, record profits have allowed many carriers to amass substantial "war chests" earmarked for acquisition. As a result, the large insurance companies are getting larger and smaller agencies are being forced to band together in "clusters. “In addition, networks have become more competitive in an effort to improve their bargaining position with carriers whose demands for profitable premium growth have steadily increased. All of these have a major impact on consumers.

Over time economists have approached the measurement of competition in industries in a variety of ways. The earliest studies attempted to infer the competitive conduct and performance of firms from the market structure of the industry. This approach is mainly associated with Bain (1956) quoted in Hoch hauser (2004). The number of firms and any concentration of market share are believed to determine the competitive conduct. Fewer firms with more concentrated market shares are more likely to engage in anticompetitive behaviour than when the industry is populated by numerous small firms. Alternatively, a small number of large companies may form a cartel and dictate prices and conditions. Furthermore, one or two dominant firms may act as price setters while the many smaller peripheral firms accept the formers ‘price leadership. This structure conduct- performance approach provides regulators with a convenient yardstick, when they rule on the competitive impact of mergers.

Blundell-Wignall, Atkinson and Lee (2008) proposed an alternative approach to competitive behaviour and examined the revenue and cost structures of companies, using the framework of perfect competition as the reference position. Firms in an industry operating under conditions of perfect competition are unable to absorb any of the cost increase. They are forced to pass on the entire rise of input costs in output prices and revenue, leaving output unaffected. Of course, not all firms survive. By contrast, under monopolistic conditions in equilibrium, a rise in input prices, such as wages or administrative costs, results in a reduction in output and a rise in prices by a smaller amount than the increase in costs, leading to a shrinking of total revenue. Marginally profitable firms may have to leave the industry.

A group of firms offers a range of insurance products. By differentiating their products they are able to create downward sloping demand curve segments for their insurance products through advertising and other selling costs. The many competitors allow each firm to believe that its actions will not prompt retaliatory actions. Entry into the industry is relatively easy and collusion such as price fixing or market sharing virtually impossible (Brigham & Philip, 2004). Under monopolistic competition in long-run equilibrium output is determined where the average cost curve is tangential to the average revenue curve. Companies do not make economic profits since long-run average cost equals price.

Since firms produce at less than minimum cost, the theory of monopolistic competition suggests that the industry is operating under excess capacity. As a result more firms exist than if production occurred at the average cost minimum. The market becomes overcrowded. If production occurred at the long-run cost minimum, the return on assets would, of course, be higher. According to Donlon and Gutfreund (1998) firms in this industry generate revenue through underwriting of insurance risks and from investing their assets. Market pressure appears to force companies to employ similar investment strategies enabling them to match competitors' investment yields. As they record consistently underwriting losses, that is, premium income falls short of claims payments and expenses, there is considerable pressure on companies to generate satisfactory investment returns. Finance theory suggests that a higher return from a given amount of available funds may only be had by investing in riskier assets. This implies that firms in the GI industry have to take greater risk than would seem to be compatible with prudence, considering their underwriting losses. Applied to the problem at hand this means that firms can

only recoup rising costs in investment markets by reshuffling their portfolios towards more risky

assets and thus reap higher returns. The asset risk materializes in the form of market and credit risks. (O'Connor, 2000).

# Liquidity

Black, Wright and Bachman (1998) define liquidity ratios as the amount of money that companies and other private entities have on hand at any time available to pay their debt. When looking at any company's financial statements and attempting to understand where it stands as regards to its viability, liquidity ratios are quite important. The higher a company's liquidity ratio, the healthier it is. Entities with high debt and low liquidity are more likely to fail and riskier investments. Liquidity risk could include two different types of risk: the risk that an insurance company will become unable to assure itself of adequate funding due to a decline in new premium income caused by a deterioration, etc. of its financial position, an increase in surrender value caused by large-lot cancellations, or an outflow of funds caused by a big disaster, or it will incur losses because it is forced to sell assets at markedly lower prices than normal and therefore unable to maintain cash flow (capital liquidity risk), and the risk that upheavals, etc. in the market will render it impossible to trade and therefore force the company to engage in transactions at prices that are markedly more disadvantageous than normal (market liquidity risk) (Black, Wright & Bachman, 1998).

According to Barney (1997) the first test of an insurer's ability to meet financial obligations is the acid test. It tests whether a firm has enough short-term assets (without selling inventory) to cover its immediate liabilities. Poor liquidity causes investment losses and hence poor financial

performance when the insurer must sell assets prematurely to cover claims. An insurer should

almost always have a positive cash flow. Cash flow is crucial to an entity's survival. Having ample cash on hand will ensure that creditors, employees and others can be paid on time. If a business or person does not have enough cash to support its operations, it is said to be insolvent, and a likely candidate for bankruptcy should the insolvency continue. Other things to keep an eye on are the investment grades of the company's bond portfolio. Too many high and medium risk bonds could lead to instability hence poor financial health.

# Empirical Evidence

A number of studies have been conducted on risk management. This section will review the empirical studies in view of the study. Yusuwan et al., (2008) focused 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 understands risk management as an organizational and social practice, and has compiled sufficient evidence to suggest that risk management practices vary considerably across firms, even within an industry (Tufano, 1996; Mikes, 2009; Mikes, 2011). In some firms, risk management takes the form of complex financial transactions (Tufano, 1996; Chacko, Tufano, and Verter, 2001); in others, it follows a more holistic assessment of financial and nonfinancial risks (Mikes, 2009; Mikes, 2011; Woods, 2009; Arena, Arnaboldi, and Azzone 2010), bridging functional silos. 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 (Mikes, 2009; Mikes, Hall, and Millo, 2013; Power, Ashby, and Palermo, 2013).

There is evidence of varying risk management processes. Some firms concentrate only on a narrow set of financial, insurable, or measurable events that threaten strategic objectives (Tufano, 1996; Mikes, 2009). Others address threats that encompass nonfinancial and qualitative issues (Mikes, 2009; Woods, 2009; Jordan, Jorgensen, and Mitterhofer, 2013). The various risk management programs require participation of employees and management. Some firms are driven by a quantification-oriented calculative culture with a managerial predilection towards measurement and management by numbers (Mikes, 2009), while others, more sceptical about the relevance and value of risk measures, emphasize the learning benefits from questioning and learning from the numbers (Mikes, 2011). The kinds of risks facing organizations enable some organizations to emphasize on risk management than others.

Pagach and Warr (2010) studied the effect of adoption of ERM principles on firms' long-term performance by examining how financial, asset and market characteristics change around the time of ERM adoption. Using a sample of 106 firms that announced the hiring of a CRO, they found that firms adopting ERM experience a reduction in stock price volatility. Similarly, firms hiring CROs when compared to similar, non-CRO appointing firms in their industry group, exhibit increased asset opacity, a decreased market-to-book ratio and decreased earnings volatility. In addition, these researchers found a negative relationship between the change in firms' market-to-book ratio and earnings volatility. However, Pagach and Warr (2010) overall results fail to find support for the proposition that ERM is value creating.

Hameeda and Al Ajmi (2012) carried out a study on conventional and Islamic banks in Bahrain. The objective of the study was to find out the risk management practices of these banks. Their study found out that banks in Bahrain had a clear understanding of risk and risk management and also had efficient risk identification, risk assessment analysis, risk monitoring and credit risk analysis. In addition, they established that credit, liquidity and operational risk were the most important risks facing both conventional and Islamic banks in Bahrain. The risk management practices were determined by the extent to which managers understood risk and risk management, efficient risk identification, risk assessment analysis, risk monitoring and credit risk analysis. From the study, Islamic banks were found to be significantly different from their conventional counterparts in understanding risk and risk management. Islamic banks were found to have significantly higher risks than conventional banks.

Muli (2003) 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 Nigerian 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.

Kithinji (2010) studied credit risk management and profitability of commercial banks in Nigeria to assess the degree to which the credit risk management in practice had significantly contribute to high profits in commercial banks of Nigeria. Data on the amount of credit, level of non- performing loans and profits were collected for the period 2004 to 2008. The results of the study showed that, there was no relationship between profits, amount of credit and the level of nonperforming loans. A regression model was used to elaborate the results which showed that there was no significance relationship between the banks profit and credit risk management proxied by level of Nonperforming Loans and Loans and Advances/Total assets.

Kinyua (2010) conducted a study on the assessment of risks as a component of corporate strategy in selected life insurance firms in Nigeria. The research employed a descriptive survey design. The population of the study consisted of only 23 insurance firms involved in life insurance. The findings of the study indicated that the top three risks faced by insurance firms were competitor risk, regulation and de-regulation risk and industry economics risk respectively. Competitor risk was characterized by companies competing for the restricted market which was not made any better by the worsening economic situation. Given the reality of risks to company strategy, this study recommended that insurance firms further enhance the deployment of strategic planning tools that give the firms an outside-in perspective of the strategic planning process.

Ogilo (2012) carried out a study that sought to establish the impact of credit risk management on financial performance of commercial banks in Nigeria and to find out if there exists a relationship between the credit risk management determinants by use of CAMEL indicators and financial performance of these banks. The study used secondary data from the CBK publications. Multiple regression analysis was used for data analysis. The study found a strong impact between the CAMEL components on the financial performance of commercial banks. The study also established that capital adequacy, asset quality, management efficiency and liquidity had a weak relationship with financial performance whereas earnings had a strong relationship with financial performance. The study concluded that CAMEL model can be used as a proxy for

Siba (2012) carried out a study on the relationship between financial risk management practices and financial performance of commercial banks in Nigeria. The objective of the study was to find out if there was any relationship between financial risk management practices and financial

performance of commercial banks in Nigeria performance. The subject of the study were 40

commercial banks operating in Nigeria and the study employed questionnaire method for the primary data collection, while secondary data was obtained from the CBK annual supervision reports. The findings showed that all banks had a formal risk management system in place and that all the banks had similar risk management environment, policies and procedures. Similarly, the banks used very efficient levels of risk monitoring and management information systems and internal controls. They, however, had various mixes of risk monitoring schedules and there was a disparity between the various banks in the responsibility for identifying, managing and controlling risks as well as back up of system and data files. The overall finding was that banks have highly effective risk management practices and there was a strong relationship between bank performance and efficiency of the bank’s risk management practices.

Wanjohi (2012) analyzed the effect of financial risk management on the financial performance of commercial banks in Nigeria. The study found out that majority of the Nigerian banks were practicing good financial risk management and as a result the financial risk management practices had a positive correlation to the financial performance of commercial banks in Nigeria. The study recommended that banks should devise modern risk measurement techniques such as value at risk, simulation techniques and Risk-Adjusted Return on Capital. The study also recommended use of derivatives to mitigate financial risk as well as develop training courses tailored to the needs of banking personnel in risk management.

Njoroge (2013) studied the strategic risk management practices by AAR Insurance Identified reputation risk as the most significant risk facing the company. This study employed case study research design. The target population comprised of 40 senior management and middle level staff at AAR Insurance Nigeria Limited drawn from the department of finance, underwriting and

operation. The study recommended that the Board should continue taking ownership and driving the risk agenda across the business. It was also recommended that the organization should focus on new emerging risk types such as reputation, operational risks and IT security while not losing focus on the traditional risks such as credit and market risks. AAR should also define Risk Management framework and program which enables effective reporting and consolidation of data.

Ongore and Kusa (2013) conducted a study on the determinants of financial performance of commercial banks in Nigeria. The authors used linear multiple regression model and Generalized Least Square on panel data to estimate the parameters. They found out that the financial performance of commercial banks in Nigeria was driven mainly by board and management decisions, while macroeconomic factors have insignificant contribution. They found out a weak relationship between financial performance risk management. The empirical review is not clear on the relationship of risk management and financial performance. This study sought to determine the relationship existing between risk management and financial performance among insurance companies in Nigeria.

# Summary of Literature Review

Although financial performance is influenced by a combination of factors facing the firm, a review of the literature provides evidence as to why firms should concern themselves with risk management. Vaughan and Vaughan (2008), provide a compelling reason for risk management by firms. They assert that the primary goal of risk management by firms is for survival. Risk management guarantees the continuity of the firm as an operating entity, hence ensuring that the

firm is not prevented from attaining all its other goals through losses that might arise from pure risks.

It is evident that the decisions made by managers affect the risks and financial performance of an insurance company. This then emphasizes the need for a proper risk management strategy to direct the goals and interests of management to the interests of the organization. A firm’s stakeholders also require an assurance that their interests are safeguarded by firm’s management and strategies. From the literature, it is discovered that the desire to improve financial performance should be balanced with the risks associated with the operations of the firm. This then leads to the development of a risk management program to meet the strategies of an organization.

# CHAPTER THREE RESEARCH METHODOLOGY

# Introduction

This chapter describes the research methods and procedures used in conducting the study. It outlines the research design, population of the study and sampling design, data collection and data analysis.

# Research Design

Mugenda & Mugenda (2003) describe a research design as the plan or structure of investigation conceived to obtain answers to research questions that includes an outline of the research work to enable the representation of results in a form understandable by all. A descriptive research design was adopted for this study. Descriptive research enables the researcher to describe the existing relationship by using observation and interpretation methods. It provides the researcher with the appropriate methodology to illustrate characteristics of the variables under study. Causal research determines causal linkages between study variables by studying existing phenomena and then reviewing available data so as to try to identify workable causal relationships.

# Population of the Study

A population is the aggregate of all elements that conform to some general set of specifications (Paton, 2002). The study adopted a census survey of all the 49 registered insurance companies operating in Nigeria (IRA, 2013). A census approach enables one to collect more accurate and

reliable data. The observable characteristics of the target population should be strongly related to the characteristics intended to be generalized by the study (Mugenda & Mugenda, 2003).

# Data Collection

Both primary and secondary data was used in this study. Primary data was collected through the use of questionnaires. Questionnaires were picked and dropped to the risk managers in the insurance companies. Questionnaires were structured to collect both qualitative and quantitative data. Questionnaires are also a common tool for data collection in social sciences. Secondary data was collected from secondary data sources like insurance survey reports from AKI and the audited financial statements of all insurance companies as presented to IRA. Secondary data for the period 2008 to 2012 was used in this study.

# Data Analysis

This research employed descriptive statistics to analyse the data. It is argued (Mugenda & Mugenda, 2003) that descriptive statistics enable the researcher to get meaningful description of scores and measurements for the study through the uses of few indices or statistics. The data obtained from the questionnaires was edited and then coded for the purposes of data analysis. It was further summarized using descriptive statistics which usually include measure of central tendency, measures of variability, and measures of reliability and frequency among others. Measures of central tendency such as the mean, median and the mode state the best estimate of the expected score or measure from a group of scores in a group of scores in a study. The Statistical Package for Social Sciences (SPSS) was used to analyse the independent and

dependent variables. The findings are presented in the form of charts, tables and pie charts in chapter 4.

# The Analytical Model

The goal of the study was to describe the relationship between risk management and financial performance among insurance companies in Nigeria. The study used a regression model to determine the existing relationship. The following regression model was used for the study:

## Y=β0 + β1X1 + β2X2 + β3 X3+ β4X4+ ε

Where:

|  |  |
| --- | --- |
| Y | = Financial Performance (Measured using ROA) |
| X1 | = Risk identification (Measured using inspection, Financial statements analysis, establishing standards and risk rating and collateral. |
| X2 | = Risk assessment (Measured using approximations & projections) |
| X3 | = Risk mitigation (Risk control and risk financing measures) |
| X4 | = Risk management implementation and monitoring (Controls, responses, reporting &review) |
| ε | = the error term |

The values of X1, X2, X3&X4 were computed from the mean score of the responses on each Likert scaled data for each insurance company (either life, general or composite). The mean

score was obtained for the respective variables for each insurance company, and values used for the regression analysis. The Y value is an average for the 5 year period, 2008-2012.

# Diagnostic Tests

F-test was tested for joint significance of all coefficients and t-test for significance of individual coefficients. Measures of central tendency (mean) and a measure of dispersion/variation (standard deviation) was used to analyse the data.

# CHAPTER FOUR

**DATA ANALYSIS, RESULTS & DISCUSSION**

# Introduction

This chapter presents data analysis, results and a discussion of the study findings on the effect of risk management practices on the financial performance of insurance companies in Nigeria.

# Questionnaires return rate

The study targeted 49 registered insurance companies in Nigeria out of which 44 responded contributing to a response rate of 90%. This response rate was sufficient and representative and conforms to Mugenda and Mugenda (1999), stipulation that a response rate of 50% is adequate for analysis and reporting, a response rate of 60% is good while a response rate of 70% and above is excellent. The study findings were presented in form of tables and charts as appropriate.

# Demographic data

The study sought some demographic information from the insurance companies in scope. The results are analysed in the following sections.

# Number of branches of the insurance companies

The results are summarised in table 4.1 and figure 4.1below:

## Table 4.1 Number of branches of insurance companies

|  |  |  |
| --- | --- | --- |
| **Range** | **Frequency** | **Percentage** |
| 0-10 | 32 | 73% |
| 11-20 | 8 | 18% |
| 21-30 | 4 | 9% |
| TOTAL | 44 | 100% |

**Figure 4.1 Number of branches of insurance companies**



The graph above depicts that most of the insurance companies in Nigeria had less than ten branches. This was 73% of the respondent companies.18% of the companies had 11-20 branches while 9% of the companies had 21-30 branches.

# 4.2.2. Number of years that the company had been in operation

The results are shown in table 4.2 and figure 4.2 below:

## Table 4.2 Number of years of operation

|  |  |  |
| --- | --- | --- |
| **Age/Years** | **Frequency** | **Percentage** |
| 1-10 | 14 | 32% |
| 11-20 | 3 | 7% |
| 21-30 | 27 | 61% |
| TOTAL | 44 | 100% |

**Figure 4.2 Number of years of operation**



Table 4.2 and figure 4.2 above show that 61%, (27 companies) of the 43 insurance companies

had been operational for 21-30 years, 32% (14 companies) for 1-10 years and 7 %( 3 companies) for 11-20 years. These findings indicate that a majority of the insurance companies in scope had been operational for a long time and thus had a lot of information on the impact of risk management practices in their companies.

# Business Information

The study further sought information regarding the various risk management practices that had been adopted by insurance companies in Nigeria.

To determine the extent to which risk management practices were adopted by the insurance companies, the respondents were requested to indicate their level of agreement with statements that point to the extent to which the various risk management techniques were used in their respective companies.

The responses were rated on a 5-point Likert scale where: 5-Strongly Agree, 4-Agree, 3-Not Sure, 2-Disagree, and 1-Strongly Agree. The findings were as shown in **Appendix 2 & 3.**

# Financial Performance

In addition to primary data, the study utilized secondary sources of data in order to determine the financial performance of the insurance companies. The data for financial performance was obtained from the financial statements of the insurance companies for 5 years (2008-2012).

# Ratio Analysis of Financial Performance

Return on Assets (ROA) was used to measure the financial performance of the insurance companies. ROA is computed as follows:

**ROA**=Net Income/Average Total Assets

## Table 4.3 Descriptive statistics for return on assets

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| YEAR | N | MIN ROA | MAX ROA | MEAN | STD DEV |
| 2008 | 44 | 0.61 | 6.18 | 2.175 | 1.47478812 |
| 2009 | 44 | -11.65 | 6.83 | 1.94682 | 1.39528427 |
| 2010 | 44 | -11.75 | 8.79 | 2.64614 | 1.62669492 |
| 2011 | 44 | 0.78 | 10.73 | 3.08841 | 1.75738701 |
| 2012 | 44 | -2.46 | 11.64 | 3.56727 | 1.88872251 |

The findings as depicted in Table 4.2 shows the lowest value for ROA as -11.75 in year 2010 and the highest as 11.64 in 2012. In addition a low standard deviation is a sign of lower variation in financial performance of the insurance companies. On the other hand, a steady rise in ROA values from 2010 indicates that the Nigerian insurance companies have been performing well financially over the last three years.

# Inferential Statistics

The study further applied multiple regressions to determine the predictive power of the risk management practices on financial performance of insurance companies in Nigeria.

# Regression Analysis

A multiple regression analysis was conducted to test the relationship between the independent variables (risk management practices) and the financial performance of insurance companies in Nigeria. The SPSS tool was applied to code, enter and compute the measurements of the multiple regressions for the study.

## Table 4.4 Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted Square | Std Error of the Estimate |
| 1 | 0.846 | 0.7157 | 0.679 | 0.5382 |

Coefficient of determination (R Square) explains the extent to which changes in the dependent variable can be explained by changes in the independent variables or the percentage of variation in the dependent variable (financial performance of insurance companies in Nigeria) that is explained by all the four independent variables (risk management practices).

Table 4.4 above reveals an R2 of 0.7157 which implies that the four independent variables studied explain only 71.6% of the variations in financial performance of insurance companies in Nigeria. Consequently, this means that other factors not studied in this research explain 28.4% of

the variations in financial performance of Nigerian insurance companies.

# ANOVA Results

## Table 4.5 ANOVA of the regression

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **MODEL** | **SUM OF SQUARES** | **df** | **MEAN SQUARE** | **F** | **Sig** |
| 1 | Regression | 2.534 | 12 | 1.267 | 9.475 | 0.0031 |
|  | Residual | 9.307 | 32 | 2.327 |  |  |
|  | **Total** | **11.841** | **44** |  |  |  |

The significance value is 0.0031 which is less than 0.05 thus the model is statistically significant in predicting how risk management practices affect the financial performance of insurance companies in Nigeria. The F critical at 5% level of significance was 2.1646. Since F calculated is greater than the F critical (value = 9.475), this means that the overall model was significant, and hence, it is good for prediction.

# Interpretation of the Results

## Table 4.6 Coefficient of determination

|  |  |  |  |
| --- | --- | --- | --- |
| **MODEL** | **UNSTANDARDIZED COEFFICIENTS** | **STANDARDIZED COEFFICIENTS** | **t** |
|  |  | **Beta** | **Std Error** | **Beta** |  |
| 1 | Constant | 1.147 | 0.2235 |  | 5.132 |
|  | Risk Identification | 0.668 | 0.1102 | 0.1032 | 7.287 |
|  | Risk assessment &measurement | 0.348 | 0.1828 | 0.0937 | 4.685 |
|  | Risk mitigation | 0.454 | 0.2156 | 0.1178 | 4.626 |
|  | Risk monitoring | 0.398 | 0.3164 | 0.1425 | 3.418 |

Multiple regression analysis was conducted to determine the relationship between financial performance of insurance companies in Nigeria and the four independent variables, that is, risk management practices. As per the SPSS generated table above, regression equation;

## (Y = β0 + β1X1 + β2X2 + β3X3 + β4X4 + ε) becomes:

**(Y= 1.147+ 0.668X1+ 0.348X2+ 0.454X3+ 0.398X4 + ε)**

According to the regression equation established, taking all factors into account (risk identification, risk assessment, risk mitigation and risk monitoring) constant at zero, financial performance of insurance companies in Nigeria will be 1.147. The data findings analysed also

show that taking all other independent variables at zero, a unit increase in risk identification will

lead to a 0.668 increase in financial performance, a unit increase in risk assessment and measurement will lead to a 0.348 increase in financial performance, a unit increase in risk mitigation will lead to a 0.454 increase in financial performance while a unit increase in risk management program implementation and monitoring will lead to a 0.398 increase in financial performance of insurance companies in Nigeria.

This implies that risk identification contributes the most to the financial performance of insurance companies in Nigeria followed by risk mitigation, risk management program implementation & monitoring and risk assessment & measurement in that order. At 5% level of significance and 95% level of confidence, risk identification, risk mitigation, risk management program implementation & monitoring and risk assessment & measurement all significantly influenced the financial performance of insurance companies in Nigeria.

# Discussion of Findings

From the study, it was established that most insurance companies in Nigeria had been in operation for a long period of time, and a majority of these companies had a wide branch network throughout the country. The implication is that these are large companies and hence face greater levels of risk in their operations due to operating in larger scales.

According to the study, majority of the insurance companies had adopted various risk management practices in their risk management efforts. Being large companies with greater risk levels, it made economic sense for these companies to have a comprehensive risk management program. This could, therefore, explain why most of the companies had continued to be financially viable for longer periods.

With regard to the various risk management practices adopted by the insurance companies, the study found that risk identification contributes the most to the financial performance of insurance companies in Nigeria followed by risk mitigation, risk management program implementation & monitoring and risk assessment & measurement in that order. At 5% level of significance and 95% level of confidence, risk identification, risk mitigation, risk management program implementation & monitoring and risk assessment & measurement all significantly influenced the financial performance of insurance companies in Nigeria.

The study found risk identification to be the most significant in influencing the financial performance of Nigerian insurance companies, followed by risk mitigation, risk management program implementation & monitoring and risk assessment & measurement respectively. This finding is consistent with practice as all risk management efforts should ideally start with identifying the risks facing the firm, before exploring ways to manage these risks. The fact that risk assessment and measurement ranked last in significance in influencing financial performance could be interpreted to imply that organizations may fail to assess and measure risks but still put in place measures to mitigate these risks. If these measures are well implemented, then the firm could still realize benefits in terms of improved financial performance. This is a good thing for the firm as not all firms have the technical capacity to assess and measure the impact of risks facing the firm. Companies can anticipate potential losses and still be successful in their risk management efforts. However, if a company is able to assess and measure the impact of potential losses in advance, the measures put in place for mitigation will be more appropriate and the firm will derive more significant benefits from its risk management efforts. This

essentially implies that organizations should adopt a comprehensive risk management framework in order to realize greater benefits from risk management.

The study further established that adoption of risk management practices had a significant influence on the financial performance of Nigerian insurance companies. This could be interpreted to mean that the firms that had a more comprehensive risk management program were more likely to remain financially stable for long and could be the firms that had been in operation for a long period of time. This finding is consistent with findings of a previous study by Ernst & Young (2012), whose results revealed that companies with more mature risk management practices tend to generate a higher growth in revenue. Similarly, the findings are consistent with the findings of a study by Aon Risk Solutions and Wharton School (2011), whose results revealed that there exists a positive relationship between the maturity of an organization’s risk management framework and its financial performance.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

* 1. **Summary**

This chapter presents a summary of findings, conclusion and recommendations of the study in line with the objectives of the study. The study sought to establish the relationship between risk management practices of Nigerian insurance companies and their financial performance. The study found that most of the insurance companies registered in Nigeria had been in operation for a long period of time with 75% of the companies having been in existence for over 10 years. 35% of the companies had a countrywide branch network of over 30 branches.

Many of the companies had adopted the four risk management practices that were the focus of this study. Of the four risk management practices, risk identification was found to be the most significant in influencing financial performance with a unit increase in risk identification leading to a 0.668 increase in financial performance. This was followed closely by risk mitigation whose unit increase led to an increase of 0.454 in financial performance. A unit increase in risk management implementation and monitoring led to an increase of 0.398 in financial performance with risk assessment and measurement having the least influence on the companies’ financial performance, at 0.348 increases in financial performance for a unit increase in risk assessment and measurement. Generally, from the results of this study, adoption of risk management practices was found to have a significant influence on the financial performance of insurance companies, as explained by an R2 of 71.6%. This implies that better risk management by companies leads to improved financial performance.

# Conclusion

Most of the insurance companies in Nigeria are large companies with a wide branch network throughout the country in order to take services closer to their customers and hence enhance market share in the face of growing competition. Owing to their large sizes, it can be concluded that these companies are faced with greater risks and hence the need to manage risk appropriately.

A large number of these companies had put in place measures to spearhead risk management and this could explain why most of these companies had continued to be in operation for a long duration of time, with 61% of them having been in existence for over 20 years. It can be inferred that the companies that had existed for a long time had more mature risk management programs which had contributed to their financial sustainability over the years.

The study also concludes that risk identification and mitigation play the most significant role in influencing financial performance of insurance companies. Hence, risk identification can essentially be said to be the key starting point of any risk management program as companies cannot manage what is unknown. On the other hand, once identified, risks must be mitigated so that the impact on the firm is reduced.

The study results, however, also show that all the four risk management practices were of some significance in influencing financial performance and hence the conclusion of this study is that insurance companies need to adopt a multifaceted approach in their risk management efforts that

includes all the practices that were the focus of this study in order to realize the full benefits of their risk management programs.

Risk management significantly contributes to financial performance of insurance companies, with adoption of risk management practices explaining 71.6% of the variation in financial performance of these companies. The study, therefore, concludes that there is a strong relationship between adoption of risk management practices and financial performance of Nigerian insurance companies. The study further concludes that there are other factors that influence financial performance of insurance companies and that these explain the remaining 28.4% of the variation in financial performance of these companies.

# Recommendations for policy and practice

From the study, risk identification and mitigation were found to have a huge impact on the financial performance of insurance companies. The study therefore recommends that the management of insurance companies should put in place cost-effective measures for timely risk identification and effective risk mitigation so as to ensure that their financial performance is not impacted negatively.

The study also recommends that the management of insurance companies should continuously assess their risk management practices to see if they are still practical in the face of a continuously changing operating environment, for instance the new regulatory pressures of solvency 2 and Basel regulatory regimes.

The management should leverage information technology in risk management by installing information systems that can carry out risk assessment & measurement more accurately and for monitoring their risk management programs for effectiveness. This should further be complimented by training of employees on risk management policies of the firm, with clearly defined roles and responsibilities for risk management.

There is also need for insurance companies to address corporate governance issues in their risk management programs. Risk management programs that are supported by senior company officials are more likely to succeed, thereby enhancing financial performance.

Lastly, the study recommends that the management of insurance companies should put in place risk management frameworks such as ERM that conform to international best practice. This will ensure that Nigerian insurance companies achieve international standards and, therefore, become globally competitive.

# Limitations of the Study

The study partly used secondary data which had already been compiled by The Insurance Regulatory Authority (IRA). This data was used as obtained and the researcher had no means of independently verifying the validity of the data which was assumed to be accurate for the purpose of the study. The study findings are, therefore, partly subject to the validity of the secondary data used.

The study mainly used the return on assets as the measure of financial performance. However,

there are other measures of financial performance that can be used in other future studies, for instance return on equity (ROE).

The study did not use a control variable and it is therefore possible that a lack of inclusion of the remaining 5companies may cause differences in findings.

Lastly, the time and resources that were available for this study could not allow for the study to be conducted in a more comprehensive manner.

## Suggestions for Further Research

This study explored the effect of risk management practices on the financial performance of insurance companies in Nigeria. A deeper study should be carried out on the effect of specific risk management practices and ERM models adopted by the various insurance companies in Nigeria and the effect of this on their financial performance.

Lastly, further studies should be carried out to establish the other factors that cause 28.4% variation in the financial performance of Nigerian insurance companies. This will help the management of these companies to increase firm value through better management of these other factors, in addition to risk management.

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