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Enterprise Risk Management and Insurance Company's Performance in Nigeria

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Abstract
Enterprise Risk Management (ERM) is a modern concept used by organisations to manage their risks holistically. The aim of the study was to access the impact of ERM on the performance of insurance companies in Nigeria. 210 copies of structured questionnaire were used to collect primary data from respondents from 14 participants each from 15 selected insurance companies. 150 of the administered copies of questionnaire were fully completed and analysed using frequency and percentages as part of the descriptive statistics. The research hypothesis was tested using regression analysis with SPSS 23. The results from the test shows that the insurance companies have adopted ERM in their operations and there is a positive correlation between the adoption of ERM and the performance of insurance companies in Nigeria. The findings also reveals that ERM adoption is essential to ensure that insurance companies comply with regulatory requirement. Finally, ERM enhances the performance of organisations, and also enhances the extent to which the organisational objectives are achieved and promises made to shareholders fulfilled. The recommendation is that the regulator should enforce its operational guidelines on ERM to ensure companies in the companies adopt ERM in their operations, as this will help them operate efficiently.
Keywords: *Enterprise Risk Management, Insurance Company, Performance*

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I. Introduction

In the past, talking of risk management from the insurance company's perspective used to be related to the application of risk management to the insured and not necessarily to the insurer; incidentally, things have changed as discussions on risk management could either be on the insured or insurer. This is as a result of the failure of corporate entities as a result of poor risk management, may also be unconnected to the growing relevance of risk management to the survival of firms. Insurance companies are not exempted from this situation. However, there have not been many studies on the application and benefits of enterprise risk management on the insurance industry unlike in the other sectors (Olusanmi, Uwuigbe and Uwuigbe, 2015). Nevertheless, Ray (2017) argued that risk management is a process of identifying, analysing and then responding to any risks that arises over the life cycle of an organisation. Risk Management is therefore not reactive only; it should be part of the planning process which would assist an organization in identifying its risks' exposures and how to control them (Ray, 2017).Thus, it is necessary for organisations to have an aggressive attitude to the management of their risks' exposures as well as growing a risk management culture as part of the operations.

At this juncture, it is important to note that the insurance industry like most other industries are faced with catalogues of risks that affect not just their profitability but also their survivals as business entities, such as perpetual perplexity and dynamics in social, political and economic environment (Yan, 2010), strong competition (Alhassan and Biekpe 2017) and rapid technological advancements (Edward, 2015). This means that insurance companies like other business organisations should put in place mechanism for the establishment of effective risk management systems in their operations, hence the need for ERM at their board level.

A review of the Annual Reports of the Insurance Companiesin Nigeria before 2013 shows that there was little or no mention of the words: "Risk Management". It was the intervention of the National Insurance Commission, the regulator of the sector in Nigeria, through the issuance of its operational guideline on Enterprise Risk Management in 2016 that broughtawareness on the concept among operators. The reason for this is not farfetched as the fall of giant companies like Enron and World.Com showed that operational risks could be as dangerous as that of pure risks which organizations are equally exposed to. With this development, some of the companies in the market are becoming risk conscious in their operations and paying a more conscious efforts in the establishment of ERM mechanism in their system. This has forced the managers in the sector to begin to focus on their operational risks unlike before. Nevertheless, managing risk is becoming a fundamental concern and the ability to identify risks and adapt to the ever-changing business environment are among the critical success factors for enterprises (Arena, Arnaboldi, &Azzone, 2010).

The poor implementation of ERM is one of the problems affecting the performances of these business entities leading to their fall as the case may be; and it is with this in mind that this study wants to find out the impact of the neglect of the operational risks on an organisation using data from the insurance industry. Moreover, literatures on enterprise risk management revealed that there is need for further research on the level of ERM framework adoption among firms in most sectors of the economy (Daud, Yazid, &Hussin, 2010 and Razali et al., 2011). Specifically, research on this issue in developing countries is scarce, which also is peculiar to the Nigeria situation hence this study.

The main objective of this study is to assess the impact of enterprise risk management on the performance of organisation in general while specific aim is on the impact of enterprise risk management on the performance of insurance companies in Nigeria.

II. Literature Review

In managing risk, the Georgetown University Office of Risk Management (2018) postulated that risk management is the process of analysing exposure to risk and determining how best to handle such exposure. This process is applicable to the insurance industry, including that of Nigeria. Hence, the Georgetown's risk management process undertakes the best practices approach and focuses on understanding the key risks and managing them within acceptable levels in the said organisation, including the insurance sub-sector. The University also notes that it is a collaborative process where risk response plans are developed in concert with the stakeholders who understand the risks and are best able to manage them which have the following steps:

I. Identify the most significant risks arising from operations on an on-going basis.
II. Prioritise risks based on the likelihood of occurrence and potential impact.
III. Implement strategies to mitigate risks
IV. Monitor effectiveness of risk management efforts.

Figure 1.1 Risk Management and Process (Georgetown University, 2018)

Traditional risk management or silo-based approach unlike enterprise risk management is derived from the concept of hedging with financial derivatives on firms' values (Bartram et al 2011), and the perspective of relationship between risk management with financial derivatives and firms' values (Panaretou 2014). However,Fauver and Naranjo (2010) and Bellghitar et al (2013) found that either there was no relation or only a conditional positive or negative relationship between derivatives usage and firm. This means that traditional risk management may not have much impact on operations of a firm's performance unlike the enterprise risk management. This was the approach to risk management in the Nigerian insurance industry until the National Insurance Commission the regulator of the market came up with a guidance that companies should adopt ERM in their operations.

The Nigerian insurance industry has been compelled by the National Insurance Commission to embark on ERM as provided in the Guideline on ERM issued by the Commission in 2015. A close review of the annual accounts of the companies has sections for reporting ERM activities carried in the reported year by the companies. This is a good development; however, at this juncture some of the empirical studies on the relevance of ERM on the performance of insurance companies will be looked at.

In an empirical study on the relationship between ERM and Performance of Selected listed Consumer Goods Companies in Nigeria, Salaudeen, Atoyebi and Oyegbile (2018) found that there is a positive relationship between enterprise risk management and performance of consumer goods sector of the Nigerian economy. The implication of their study is that by implementing ERM in its operation, a firm could effectively enhance its operations. Similarly, Kopia, Just, Geldmacher and Bubian (2017) had in an empirical study carried out on ERM with selected financial companies between 2011 and 2015 found that there was diversity in scientific literature of how to measure performance in the ERM practice. This means that the impact of the implementation of ERM may not be the same in some industries, hence the need for an empirical study on the Nigerian insurance industry using data collected from the practitioners as well as the reports in the annual accounts and reports of these companies.

In a study on the relationship between enterprise risk management and organisational performance: evidence from the Nigerian insurance industry, Obalola, Akpan and Abass (2014) found that there was significant relationship between the ERM variables and organisational performance. They also found that this might be as a result of the fact that shareholders' funds are regulatory risk which may have enough impact on the daily operations of the insurance company. However, in another study, Eikenhout (2015) found no significant evidence of a positive effect of Enterprise Risk Management on performance. This been the case, although the study of Salaudeenas well as that ofAtoyebi and Oyegbile (2018) carried out on the consumer goods sector, confirmed such positive relationship. A related study to the insurance industry in Nigeria is that of Obalola, Akpan and Abass(2014) which was on the financial ratios of the sector. Moreover, there had been some other works which have looked at the value of ERM to an industry, ERM sophistication and firm risk, the relationship between ERM and a firm value mediated through financial performance (Hoyt, Moore and Liebenberg, 2006; Barrese, Stephen, Pooser& Walker, 2015; Agustina &Niswah, 2016). All these had however confirmed the position of Kopia, et al (2017). There had also been diversity of results from all these empirical studies on the effect of ERM on organisations' performance.

This tends to pose a challenge on effectively carrying out a study of this nature. Nevertheless, because of the importance of the concept of ERM as earlier noted above, there is need for a more comprehensive study on it, using data collected from practitioners on the impact of ERM in the Nigerian insurance industry.

III. Research Methods

The quantitative method approach was used in the analysis of the collected data. For the quantitative approach in this study, longitudinal descriptive research design for aggregate industry data comprising of fifty-one (51) insurance companies was employed.In carrying out this research, we decided to adopt the survey research method as this is the most appropriate for a work of this nature. In this regard, we will use questionnaire, interview or both for the collection of data for the work.

The population of the study comprises of all the insurance companies in the country made up of 51 licensed composite, general and life insurance companies. For the quantitative method, the random sample method was used to select companies as sample for the study. The companies were grouped into two strata market leaders and market laggards. The market leaders are the top ranked non-life insurance companies based on the Gross Premium Written (GPW) while the laggards are the least ranked non-life insurance companies based on their GPW as documented by Nigerian Insurer's Association (NIA, 2017), a self- regulatory body in the industry. The target respondents were the staff of ERM or compliance unit in these sample companies. Atotal of 210 questionnaires were administered to respondents who were randomly selected from the 15 companies. However, 162 of the questionnaires were completed and returned but 12 were invalid while 150 were valid. The selection of the sample companies was based on purposive sampling techniques. It is important to note that purposive sampling technique is a non-probability sampling that is used in conducting selective research based on the respondents' knowledge of the phenomenon or event that is being investigated (Creswell, 2017, Greener, 2017 and Robson, 2014).

The research instruments for the collection of data for this study, that is, questionnaire. The questionnaire instrument was divided into two sections, with section A containing two questions which focused on the demographic variables including gender and age. While Section B contained a total of thirteen questions and it is divided into three parts that relates to the impact of ERM on the performance of the insurance companies, which is the focus of this study. In using the interview method, nine questions were drafted which were used in interviewing the officers as stated above. These questions were designed to reflect the aim of the study, as earlier stated. Data were randomly collected from the respondents in their respective offices.

The data for the study was collected through the administration of 210 questionnaires to respondents in the 15 randomly selected insurance companies in the market. The respondents were given a period of two weeks after which the researcher went back to them to collect the completed questionnaires.

IV. Data analysis and interpretation

This section presents the output of data analysis. Descriptive and inferential statistics were used to discuss results of the study which were presented in tabular forms,frequencies, percentages and regression analysis. The 150 questionnaires made the response rate to be 83.33% hence, satisfactory to make conclusions

for the study since according to Hidiroglou, (2003), a response rate is good representative of the opinion of whole population ifit is more than 30% of the total sample size.
The data collected from the respondents were analysed using regression analysis based on the SPSS 23 tools. However, ANOVA was further used in testing the hypothesis in some of the tables presented below.

Data Analysis
Descriptive analysis: Questionnaire

Table 2: Respondent's Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	81	54.0	54.0	54.0
	Female	69	46.0	46.0	100.0
	Total	150	100.0	100.0	

Source: Field Survey, 2019

From the results, it was found out that 54% of respondents were of male gender while 46% were of female gender. This shows that females have low representation in management than their male counter parts. This gender response rates are important in this study since they have shown that the issue of gender equality is still not taken seriously in organisations and hence females are the most affected lot whose rate of recruitment should be increased.

Table 3: Respondent's Age bracket

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	25-30	57	38.0	38.0	38.0
	31-40	51	34.0	34.0	72.0
	41-50	32	21.3	21.3	93.3
	50 and above	10	6.7	6.7	100.0
	Total	150	100.0	100.0	

Source: Field Survey, 2019

The Table above reveals that most of the respondents are young (38%), followed by respondents between the ages of 31-40 (34%) and 10 respondents are between the ages of 41-50 (21.3 %). This indicates that most of the respondents are young.

Data Analysis According to Research Questions
Section B of the questionnaire drawn in line with five-point Likert's ratio scales of Strongly Disagree (1), Disagree (2), Indifference (3), Agreed (4) and (5) Strongly Agreed will be analyzed using frequency tables and simple percentages and the test of hypotheses will be done using correlation analysis.

Table 4: Understanding Risk and Enterprise Risk Management

S/N	**Statement**	**1 (%)**	**2 (%)**	**3 (%)**	**4 (%)**	**5 (%)**	**Total (%)**
1	An insurance company carries out a comprehensive and systematic identification of its risks relating to each of its declared aims and objectives	16 (10.7)	11 (7.3)	19 (12.7)	25 (16.7)	79 (52.3)	150 (100)
2.	An insurance company find it easy to prioritise its main risks	7 (4.6)	8 (5.3)	9 (6)	25 (16.7)	101 (67.3)	150 (100)
3	Changes in risk are recognized and identified with the insurer's roles and responsibilities	25 (16.7)	14 (9.3)	16 (10.7)	26 (17.3)	69 (46)	150 (100)
4	The insurer is aware of the strengths and weaknesses of the risk management systems of other insurers	21 (14)	6 (4)	19 (12.7)	25 (16.7)	79 (52.3)	150 (100)
5	The insurer has developed and applied procedures for the systematic identification of opportunities	18 (12)	11 (7.3)	19 (12.7)	25 (16.7)	77 (51.3)	150 (100)

Source: Field Survey, 2019

Table 4 which isunderstanding risk and enterprise risk management shows that 25 of the respondents representing 16.7% agreed that an insurance company carries out a comprehensive and systematic identification of its risks relating to each of its declared aims and objectivesand 101 respondents representing 67.3% strongly agreed that insurance company find it easy to prioritise its main risks even though 19 respondents representing 12.7% are indifferent that the insurer is aware of the strengths and weaknesses of the risk management systems of other insurersand thatthe insurer has developed and applied procedures for the systematic identification of opportunities.

Table 5: Impact of enterprise risk management on insurance companies' performance

S/N	Statement	1 (%)	2 (%)	3 (%)	4 (%)	5 (%)	Total (%)
1	Your executive management regularly reviews the organisation's performance in managing its business risks	25 (16.7)	14 (9.3)	16 (10.7)	26 (17.3)	69 (46)	150 (100)
2.	The board of directors are not directly responsible for risk management	18 (12)	11 (7.3)	19 (12.7)	25 (16.7)	77 (51.3)	150 (100)
3	Your company's risk management procedures and processes are documented and provide guidance to staff about managing risks	7 (4.7)	8 (5.3)	9 (6)	25 (16.7)	101 (67.3)	150 (100)

Source: Field Survey, 2019

Table 5 shows the impact of enterprise risk management on insurance companies' performance, 69 respondents representing 46% strongly agreed with the fact that the executive management regularly reviews the organisation's performance in managing its business riskswhile 77 and 25 respondents representing 51.3% and 16.7% respectively strongly agreed and agreed with the that fact the board of directors are not directly responsible for risk management. However, 101 and 8 respondents representing 67.3% and 5.3% respectively strongly agreed and disagreed respectively that company's risk management procedures and processes are documented and provide guidance to staff about managing risks.

Table 6: Adoption of Enterprise Risk Management by insurance companies in Nigeria

S/N	Statement	1 (%)	2 (%)	3 (%)	4 (%)	5 (%)	Total (%)
1	There is high level awareness of insurance managers on the risks affecting their company's operation	18 (12)	11 (7.3)	19 (12.7)	25 (16.7)	77 (51.3)	150 (100)
2.	There is relationship between the adoption of ERM and the performance of insurance company	7 (4.6)	8 (5.3)	9 (6)	25 (16.7)	101 (67.3)	150 (100)
3	The level of adoption of ERM by insurance companies in Nigeria are high	7 (4.6)	8 (5.3)	9 (6)	25 (16.7)	101 (67.3)	150 (100)
4	There is need for stronger regulation on ERM by NAICOM	25 (16.7)	14 (9.3)	16 (10.7)	26 (17.3)	69 (46)	150 (100)
5	The trade associations in the industry should encourage their members to adopt ERM in their operations	7 (4.6)	8 (5.3)	9 (6)	25 (16.7)	101 (67.3)	150 (100)

Source: Field Survey, 2019

Table 6shows that the adoption of ERM by insurance companies in Nigeria which are supported by 77 and 25 respondents representing 51% and 16.7% respectively who strongly agreed and agreed to this fact that there is high level awareness of insurance managers on the risks affecting their company's operation however 25 respondents representing 16.8% agreed that there is relationship between the adoption of ERM and the performance of insurance company and the same number agreed that the level of adoption of ERM by insurance companies in Nigeria are highand 14 respondents representing 9.3% disagreed there is need for stronger regulation on ERM by NAICOM while 7 respondent representing 4.7% strongly disagreed that the trade associations in the industry should encourage their members to adopt ERM in their operations.

Generally, from the analysis of the research questions it was realized that most insurance companies understand Risk and Enterprise Management and believed thatthe impact of enterprise risk management on insurance companies' performance is high and applaudable. However, some of the respondents disagreed to this fact and believed that adoption of ERM by insurance companies in Nigeria does not really affect the industry performance.

TEST OF HYPOTHESIS

The adoption of Enterprise risk management does not impact on the performance of the Nigeria insurance companies.

Regression

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.675[a]	.0456	-.121	243457088.154	1.358

a. Predictors: (Constant), Enterprise risk management

b. Dependent Variable: company's performance

Source: Field Survey, 2019

The correlation co-efficient which is R (0.657) shows a strong relationship between the two variables. The Durbin-Watson value is 1.358 which is below 2, thus, the result indicated that the model is not free from serial autocorrelation problem. In other words, the null hypothesis has no co-integration among the variables as accepted in the linear regression equation. The test result shows the existence of a long-run equilibrium relationship in two co-integrating equations at 5% significance level.

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	269572657484724.000	2	1696726514484718.000	.072	.698[b]
	Residual	193665525982410768.000	10	17890690747811258.000		
	Total	311822252496999981.000	12			

a. Dependent Variable: company's performance

b. Predictors: (Constant), Enterprise risk management

Source: Field Survey, 2019

From the ANOVA table above the F-statistics is 0.072 which shows the acceptance null hypothesis at 5% level of significance and the 0.698 shows statistical significance of the variables since the p-value is above 0.05

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	51181543.200	91372802.385		.560	.591	-159524516.944	261887603.344
	company's performance	4535017.309	14726060.490	.108	.308	.766	-29423339.076	38493373.694

a. Dependent Variable: company's performance

Source: Field Survey, 2019

The t-statistics for the dependent variable which is also the constant shows 0.560 and a standard error of 91372802.385 while the t-statistics of the independent variable is 0.308 and a standard error of 14726060.490 which implies that if the tabulated value at 5% is tested against the t-test the null hypothesis will be rejected. This means that there is significant effect of the adoption of ERM on the performance of Nigeria insurance companies.

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	55716560.00	96531720.00	76124138.40	13730446.762	12
Residual	-82110888.000	342858816.000	.000	126106447.973	12
Std. Predicted Value	-1.486	1.486	.000	1.000	12
Std. Residual	-.614	2.563	.000	.943	12

a. Dependent Variable: company's performance

Source: Field Survey, 2019

The residual value shows the mean value, the standard deviation and the total number of firms involved which has been explained in previous tables.

The analysis of the result on the understandingof risk and ERM from the analysed questionnaire as shown in Table 4 revealed that 25 of the respondents representing 16.7% agreed that an insurance company should carry out a comprehensive and systematic identification of its risks relating to each of its declared aims and objectivesand 101 respondents representing 67.3% strongly agreed that insurance companies find it easy to prioritise its main risks even though 19 respondents representing 12.7% are indifferent that the insurer is aware of the strengths and weaknesses of the risk management systems of other insurers and that the insurer has developed and applied procedures for the systematic identification of opportunities. This shows that the level of awareness of ERM and its impact on the operations of insurance companies is adequate among the respondents which by extension to the employees. In triangulating this with the results from the interviews of the staff of the surveyed insurance, which revealed that 16.7% of the respondents believe that the level of ERM awareness in their organisation are high and that for the whole industry 52% of them believe is high. This means that there is an improved knowledge of ERM in the Nigerian insurance industry.

Similarly, an examination of the impact of enterprise risk management on insurance companies' performance, as shown in Table 5 revealed that 69 respondents representing 46.% strongly agreed with the fact that the executive management regularly reviews the organisation's performance in managing its business risks while 77 and 25 respondents representing 51.3% and 16.7% respectively strongly agreed and agreed with the fact thatthe board of directors are not directly responsible for risk management. However, 101 and 8 respondents representing 67.3% and 5.3% respectively strongly agreed and disagreed respectively that company's risk management procedures and processes are documented and provide guidance to staff about managing risks. The above revelation shows that there is no strong agreement between management and board on issues pertaining to ERM in the Nigerian insurance industry. This could create some conflicts in effective implementation of ERM in these companies.

Table 6 shows that 77 and 25 respondents representing 51% and 16.7% respectively who extremely agreed and agreed that most companies have adopted ERM in their operations however 25 respondents representing 16.7% agreed that there is relationship between the adoption of ERM and the performance of insurance company and the same number agreed that the level of adoption of ERM by insurance companies in Nigeria are highand 14 respondents representing 9.3% disagreed thatthere is need for stronger regulation on ERM by NAICOM while 7 respondent representing 4.7% strongly disagreed that the trade associations in the industry should encourage their members to adopt ERM in their operations. This shows that not all the companies have adopted ERM in their operations; which is contrary to the position of the NAICOM Guidelines on ERM. Notwithstanding the low level of adoption of ERM, majority of the respondents agreed that adoption of ERM will impact positively to the operations of insurance companies in Nigeria.

Similarly, the analysed data from the interview showed that 50% of the interviewees believe that ERM has impacted on the performance of their respective companies and 25% of them believed that there is a positive relationship between the financial performance of an insurance company and its adoption of ERM. The interviewees also revealed that 58.3% of the sampled companies have adopted ERM in their operation while it was only 16.6% of the companies that did so before the issuance of the Guidelines on ERM by NAICOM and they also believed with 75% that there is need for a stronger regulation on the implementation of ERM in the Nigerian insurance industry and 25% of the interviewee agreed that the trade association should also play roles in the implementation of ERM in the industry.

The test of the hypothesis revealed that the correlation analysis between the predicator and the dependent variable which the R value of 0.675 shows positive relationship between the two variables which are the adoption of ERM (independent) and effect on the operations of Nigeria insurance companies (dependent). The R squared which is minus 12.1% shows that there is need to enhance the adoption of ERM by these companies

Finally, the test of the hypothesis also revealed that the correlation analysis between the predictor and the dependent variable which the R value of 0.710 shows a strong positive relationship between the two variables which are enterprise risk management (independent variable) and performance in insurance companies in Nigeria (dependent variable). The R squared which is 0.504 shows that 50.4% of performance of insurance companies in Nigeria is as a result of adoption of enterprise risk management while the remaining 49.6% of insurance companies performance is as a result of other factors. This confirms the fact that the adoption of ERM will go a long way in enhancing the performance of the insurance companies in the country.

With the implementation of ERM by these companies as shown in the audited accounts of the selected sample for this study, it could be deduced that all the insurance companies in Nigeria have put in place machinery for implementation of ERM in line with the NAICOM requirement.

V. Summary, Conclusion and Recommendation

The above findings have shown the importance of ERM in the Nigerian insurance industry and its adoption will go a long way in enhancing the performance of insurance institution. This is in line with an earlier study by Salaudeen, Atoyebi and Oyegbile (2018) whose findings showed that the implementation of enterprise risk management could enhance the performance of organisations, adding that this could also enhance the extent to which the organisational objectives are achieved and promises made to shareholders fulfilled. This means that the position of Salaudeen et al is equally applicable to the operations in the insurance industry.

Similarly, the empirical evidence from this study has also shown that the National Insurance Commission should enforce its operational Guidelines on ERM among the operators so as to ensure that all the companies in the industry adopt ERM in their operations since we have seen that ERM will help them to operate efficiently. This is also in line with the findings of Erin, Eriki, Arumona and Ame (2017) that the regulatory authorities of the different sectors in the country should endeavour to ensure that all firms in the financial sector adopt ERM as a matter of urgency. Without this regulatory enforcement most of the companies may not want to adopt ERM.

This study will create more awareness on the subject and will therefore enhance the knowledge of practitioners in particular on the essence of adopting Enterprise Risk Management as a strategic tool for the improvement of their organisational performance. The study will also lead to other new studies on the same subject. In this way, practitioners, researchers, regulators and other interested stakeholders will find the study useful.

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