IMPACT OF RISK ON THE FINANCIAL PERFORMANCE OF LISTED INSURANCE FIRMS IN NIGERIA

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ABSTRACT
This study examined risk and financial performance of listed insurance firms in Nigeria for the period of ten years from 2011-2020. The population of the study consists of 22 insurance firms listed on the floor of Nigerian Stock Exchange as at 31st December 2020. Secondary data was extracted from the audited financial reports of the sampled insurance firms. The data was analyzed using the regression model. The study findings revealed that underwriting risk is negatively and significantly influencing the financial performance of listed insurance firms in Nigeria. Conversely, liquidity risk revealed a statistical negative and insignificant impact on financial performance. The study concluded that underwriting risk has a strong relationship with the financial performance of the listed insurance firms for the period. Following this, the study recommends that insurance firms should continually develop and implement risk management policies and strategies that will help reduce their risk profile in order to improve their financial performance.
Keywords: Financial performance, liquidity risk, underwriting risk, insurance.
JEL Codes: M1, M4.

1. INTRODUCTION

Financial performance as a general degree of how well an enterprise earns from its resources. It also shows the overall financial strength of a company over a period of time, and at the same time helps to compare different insurance policies across the insurance industry. The performance of firms also reflects the main outcomes achieved by individuals or groups in an organization according to their responsibility and authority in achieving specific legal targets. According to Bala et al. (2022) defines financial performance as the degree to which business goals are being achieved. They further states that, it is the method of assessing the outcomes of firms' strategies and operations in monetary terms.

Insurance companies are always involved in taking risks. They deal with different categories of risks that directly affect their performance. These risks prove to be a major setback in the process of achieving growth in terms of size, asset and performance for the company, which is measured in terms of return. The insurance industry is based on the principle of trades in risk.Insurance plays very important role in the development of the economy, efficient allocation of resources, reduction of transaction costs, creating liquidity, promoting investments and distribution of financial losses.

In recent time, Nigerian insurance companies have been facing hardship which affected their financial performance.

However, it was not until the appearance of the traders of European origin on the West African coasts that insurance, as we know it today, really started. From that little beginning, insurance has grown to become one of the tools in the hands of the state to fight financial exclusion in Nigeria. Aduloju (2021). Organizations are face with risk that can threaten their existence if they are not properly managed. Risks management is now an essential component of the business world as well as the academia. Yohanna Jugu et al (2020) Standard Alliance insurance plc and Niger insurance plc whose operational licenses were revoked on June, 21st 2022 by National Insurance Commission (NAICOM) salaries 4th sept, 2023. The guardian 3.55 am...underwriting firm's licenses were revoked owing to huge unpaid claims

The Nigerian Bureau of Statistics assessment of the insurance firms revealed a 15.3% contraction in the general financial performance of the Nigerian insurance firms, (NBS, 2021). This forms the practical issue that the current study intends to investigate. The growing consumer confidence, enlightenment and regulatory redress mechanism has continued to catalyze Insurance Claims reportage in tandem with premium growth in the market. The industry statistics reveal gross claims reported as N536.5 billion, representing about 54% growth compared to the corresponding period in the previous year and, 46.7% compared to the preceding quarter in the current year. This experience however, underlines the need for more underwriting prudence and professionalism in addition to deeper regulatory measures towards a sustained development of the industry. National Insurance Commission (NAICOM) 2023

Furthermore, to the best of the researcher's knowledge, most of the studies conducted to measure risk and financial performance of insurance companies were carried out in developed economies; such studies include the works of Meher and Zewudu (2020), Toufaili (2021), and Attard, Caruana, Dalli, Galea, Girlando, Grech, Soar, Teuma,and Simon, (2021).The socio-cultural differences between developed and other developing countries limit the applicability of findings of these studies to developing countries as recommended by Li and Liu (2014) that, differences in economies is a significant gap in the literature. Therefore, this constitutes an environmental gap this study will address. Hence, this study will fill the literature gaps identified in the literatures. Furthermore, on methodological gap, some studies like Dabo et al (2018), Oyetayo and Abass (2020), Sisay (2017), Abass and Ojikutu (2019), had a different time scope to the current study. The current study seeks to cover a period gap of up to 2020. .

To find solution to the research problems, this study intends to answer the questions; does risk influence the financial performance of listed insurance firms in Nigeria? It is premised through liquidity risk and underwriting risk in Nigeria insurance firm's financial performance. The specific objectives are as follows:

i.. To determine the effect of liquidity risk on the financial performance of listed insurance firms in Nigeria.

ii. To investigate effect of underwriting risk on the financial performance of listed insurance firms in Nigeria. The study divided into five parts to achieve this analysis, namely: section one is the introduction, section two is the literature review, while section three is the methodology and model specification, section four is result and discussion and finally in section five we have conclusion and recommendation.

2 LITERATURE REVIEW

This section presents the definition and review of related studies of other authors in the related topic.

2.1 Conceptual Literature

Concept of Financial Performance: .Financial Performance is the ability of a firm to improve its profitability and create more wealth for the owners (Mustapha & Abdullahi, 2023). Primarily, financial performance is considered to be general performance (Agbim et al., 2023). Businesses usually measure their performance at regular interval, mostly at year end, to determine the extent to which their financial objective has been met. Financial performance is a measure of a business success that can be quantified in monetary terms. Most of the businesses in the private sector of the economy are established to achieve a level of financial performance Adebowale Ogunsola (2024). Globally, firm performance has become a phenomenon that attract the attention of academic researchers, strategic managers, investors, and regulators. This is mainly due to the important role it play in supporting individuals and corporate entities to overcome economic uncertainty, and attracting both local and international investment (Salim 2023)

Financial performance, measured by profitability, is the primary goal of all commercial banks. Nnamdi (2021). In recent years, developing countries have attached serious priority to improving the performance of the private sector. This commitment has been attributed to the fact that the private sector has remained a good source of economic growth and development in most emerging economies. The private sector is the driver of economic growth and development because it produces and distributes goods and services that meet the aggregate demand in the economy Abdullahi (2022). Financial performance as a general degree of how well an enterprise earns from its resources. It also shows the overall financial strength of a company over a period of time, and at the same time helps to compare different insurance policies across the insurance industry Duniya, Murtala and Miko (2023).

Concept of Risk. Risk is a possibility of actual event deviating from expected outcome. Business organizations are exposed to different forms of risk which may impair their profitability and finances, if those risks are not properly managed. There are certain risks which are peculiar to certain industry, and there are also other risks which are common to all forms of business. Financial risk is a component of business risk that is associated with financial market. It is also a type of business risk that is measurable in financial terms, that is, the effect of the risk can be quantified in monetary terms. Adebowale Ogunsola (2024. Risk management could be in form of operational risk or financial risk. Both of the mentioned forms of risk management are imperative for the survival and growth of any organization Yohanna Jugu et al (2020)

Concept of Liquidity Risk Bala et al, (2022) defined liquidity risk is the danger which arises when an entity will not have enough cash or liquid assets to meet its cash commitments. In order to remain into being and maintain its operations as a going concern, a business must keep liquid and meet its cash commitments as and when they become due. Liquidity is the ease with which current assets can be converted into cash without incurring any significant risk. Liquidity is also the capacity of a credit customer or short-term borrower to liquidate his/her debt when it becomes due. Liquidity is usually required for business daily activities, and to ensure smooth business running, organizations must have adequate liquid assets and maintain necessary balance in their mix. Adebowale Ogunsola (2024).

Concept of Underwriting Risk Elsayed (2020) refers to underwriting risk as the potential loss to an insurer as a result of inaccurate assessment of the risks associated with writing an insurance policies and changes in circumstances. Underwriting risk is one of the financial risks faced by insurance firms where the cost incurred to cover a claim may exceed total premium paid (Mukino, 2018).

2.2 Theoretical Literature This study is theoretically underpinned by Trade-off Theory developed by Myers (1984). The theory was developed to solve the problem observed in manager's quandary in liquidity management, and to address the strife encountered by managers in their quest to balance the desired liquidity level of the firm while increasing firm profitability. Under perfect capital market assumptions, holding cash neither creates nor destroys value. The firm can always raise funds from capital markets when funds are needed, because the capital market is assumed to be fully informed about the prospects of the firm. The tradeoff theory explains that firms target an optimal level of liquidity to balance the benefit and cost of holding cash which includes delay in payment to suppliers on one hand and allows company of discounts for prompt or early payment on other hand.

2.3. Empirical Literature

Duniya, Abdullahi and Miko (2023) examined risk and financial performance of listed insurance firms in Nigeria for the period of ten years from 2011-2020. The population of the study consists of 22 insurance firms listed on the floor of Nigerian Stock Exchange as at 31st December. Secondary data was extracted from the audited financial reports of the sampled insurance firms. The data was analyzed using the multiple regression models. The study findings revealed that underwriting risk is negatively and significantly influencing the financial performance of listed insurance firms in Nigeria. Conversely, liquidity risk revealed a statistical negative and insignificantly impact on financial performance. The study concluded that risk has a strong association with the financial performance of the firms for the period.

Elsayed (2020) did a study to determine the factors that affect the financial performance of insurance market in Egypt. The results revealed that underwriting risk has insignificant effect on ROA, on the other hand, underwriting risk has significant effect on ROE. Liquidity has a negative effect on leverage and solvency margin. Also, there is a positive relationship between company size and ROA. Solvency margin has a positive significant effect on the profitability for Egyptian insurance market.

Yahiaoui and Mahdi (2020) examined the determinants of financial performance of non-life insurance companies in Algeria for a period of nine years (2010- 2018). The analysis of the results is based on a multiple regression model. The findings of this study indicated that the company size, liquidity ratio and solvency ratio has a statistically significant impact on financial performance of non-life insurance companies measured by return on assets (ROA). In which company size and liquidity ratio showed a positive impact while, solvency ratio indicated a negative impact.

Al Omari (2020) explored the effect of liquidity and solvency on profitability of pharmaceutical sector of Jordan. Secondary data were collected from Amman Stock Exchange financial reports for the pharmaceutical sector. Linear regression was employed with the help of SPSS software in analyzing the data of the study. The study concluded that profitability calculated by ROA (Return on Assets), has a negative relationship with liquidity calculated by current ratio and a positive relationship with solvency calculated by debt/ equity ratio. The study recommended that companies in the pharmaceutical industries sector should follow policies of liquidity to achieve balance between the performance indicators.

Deyganto and Alemu (2019) analyzed the factors affecting the financial performance of insurance companies in Hawassa City Administration of Ethiopia. The sample of the study consisted of six general insurance companies out of a population of 17 insurance companies for 10 years, from 2008 to 2018. The result of the study showed that underwriting, premium growth rate, solvency ratio, GDP growth rate, and inflation rate, have a significant impact on the financial performance of the sample insurance companies. Whereas reinsurance dependency, company size and interest rate do not influence financial performance significantly.

Dabo, et al (2018) conducted a research on solvency risk and financial performance: Evidences from listed firms in Nigeria covering the period seven (7) years from 2010 to 2016. Census sampling design was used to determine the sample size and simple regression analysis was employed to analyze the data. The study found that solvency risk is significant and positively influence on the listed insurance firms performance (return on asset) in Nigeria. The study focused on all listed insurance firms using only solvency risk variable but the current study is on all the listed insurance companies using six variables. The seven years chosen for this study is not enough to give a generalize findings of the study and if they could have used ten years the result might have been better than that.

2.4. Gap in Literature Risk factors are very critical for attaining the financial performance of insurance as divulged by the empirical and theoretical analysis of the study. The impact of liquidity risk and underwriting risk respectively on financial performance from the empirical review are disposed towards numerous techniques and methods utilized by various institutions..Kyule (2019), Olulekan (2018), Mustapher et al (2017), Mburu (2015). While for geographical gaps we have the studies of Elsayed (2020), Yahiaoui and Alemu (2019), Li and Gu (2018), Burca and Batrinca (2014) This implies that the result may be inapplicable in Nigeria since the social economic environment of Nigeria and other countries differ. .In methodological gaps as in the studies of.. Some studies like Dabo et al (2018), Ameya and Memba (2015), Bala et al (2022), Kamau and njeru (2016), Oyatayo and Abass (2020) and Aduloju and Ajemunigbohun (2017) used weak methodologies ranging from techniques of analysis, fewer sample size and scanty period cover also in. literature gaps, the studies of Wani and Dar (2014), Abass and Ojikutu (2019) and Dansu and Obalola (2018). The purpose of this study is to investigate the role of liquidity risk, underwriting risk and financial performance of listed insurance firms in Nigeria. These above identified gaps in the literatures review requires the study

3. METHODOLOGY

The study adopted a correlation research design. This design are considered suitable for the study because of its ability to describe the statistical associations between two or more variables and allows for making predictions by testing of expected relationship between variables and the data used for the study are not meant solely for the study. The population of the study consists of the twenty two (22) insurance firms listed in Nigeria Stock Exchange as at 31st December, 2020. However, the study used certain filters to arrive at the adjusted population of the study. Thus, only insurance firms with a complete data were selected as adjusted population of the study to enable the researcher access to a balance panel data. Therefore, the adjusted population of the study is sixteen (16) insurance firms. The study used secondary data which was extracted from the audited financial reports of the sample insurance firms listed on the Nigerian Stock Exchange (NSE) for the periods of ten years (2011-2020). The data is extracted based on the parameters of the variables and the respective ratios taken from the sampled insurance firms in order to test the hypotheses of the study. The data cover liquidity risk, underwriting risk. The study employed a regression technique to analyze the data and to establish the relationship between the dependent and independent variables.

3.1. **Model Specification**

This study adopted Mwangi and Iraya (2014) model with little adjustment. The model is adopted because it is a description of a given system and a strategy used to approach a problem in Nigeria context and the adjustment done to the researchers' model is in the variables used for the study. The model is specified in function form as follows:

$ROE = ß0 + ß1LRij + ß2URij + Ut$

Where:

ROE = Return on Equity
LR = Liquidity Risk
UR = Underwriting Risk
β_0 = Constant term,
Et = Error term.

Table 1. Variable Measurement, Model Specification and Sources

S/N	Variables	Measurements	Sources
Dependent Variable			
1	Return on Equity**(ROE)**	Measured as Profit After Tax /Total Equity	Bilal Toufaili (2021)
Independent Variables			
1	Liquidity Risk**(LR)**	Measured by ratio of current assets to current liabilities.	Fali et al (2020); Mukino (2018) and Arif & Showket (2015).
2	Underwriting Risk**(UR)**	Measure as ratio of claims incurred to premium earned	Opeyemi et al (2020) & Mukino (2018).

Source: Researchers Compilation 2024

4. RESULT AND DISCUSSION

This section analyzes and presents the data of the study. It begins with descriptive statistics analysis, correlation matrix, diagnostic test of the study and presentation and discussion of the regression result.

Descriptive Statistics

The summary of the descriptive statistics of the variables are presented in table 1 where the minimum, maximum, mean, and standard deviation described.

. **Table 2: Descriptive Statistics Result**

Variables	Obs.	Min.	Max.	Mean	Std. Dev.
ROE	160	-13.1857	1.3498	-0.0818	1.2384
LR	160	1.0049	60.3270	4.6071	7.5790
UR	160	0.0005	3.6658	0.4065	0.4400

Source: STATA Output, 2024

The Table (3) revealed return on equity of listed insurance firms in Nigeria has a mean value of -0.0818with standard deviation value of 1.2384 and minimum and maximum values stood at -13.1857 and 1.3498respectively. This implies that the average alteration of listed insurance firms in Nigeria by managers is -0.0818and the standard deviation from both sides of the mean is 1.2384. The minimum value of return on equity is -13.1857 which indicate that the least return on equity by the management of listed insurance firms in Nigeria will not cause significant distortion in the financial statement. However, the maximum return on equity value of 1.3498entails a condition where the financial performance is covered by the distortion in the financial statement of listed insurance firms in Nigeria.). The minimum ROE observed is -13.1857, indicating some instances of significant losses. The maximum ROE observed is 1.3498, suggesting some instances of relatively high returns. On average, the ROE is slightly negative (-0.0818), implying that, overall, the insurance firms may not be performing very well in terms of generating returns on equity.

However, liquidity risk has an average value of 4.6070 with minimum and maximum value of 1.0049 and 5.3271respectively. This also implies that the data is not normally distributed as indicated by the wide dispersion from the mean. The table also revealed a standard deviation of7.5790 for liquidity risk. This variable represents the liquidity ratio, which measures a company's ability to meet its short-term obligations with its short-term assets. The mean liquidity ratio is 4.6071, indicating that, on average; companies have a reasonable ability to meet short-term obligations. However, the wide range between the minimum (1.0049) and maximum (60.3270) values suggests significant variation in liquidity among the insurance firms.

The underwriting risk on the other hand has a mean value of 0.4065with minimum and maximum values of 0.0005 and 3.6658 respectively. This implies that there is dispersion of data from the mean as revealed by the standard deviation value of 0.4400which could indicate how effectively resources are being utilized. The mean underwriting risk is 0.4065, suggesting moderate underwriting efficiency on average. The standard deviation is relatively low (0.4400), indicating limited variability around the mean.

Correlation Matrix

The correlation matrix explains the degree of relationship between the dependent and independent variables of the study as well as the independent variables among themselves. The summary of the associations among the variables of the study is presented in table 2.

Table 3: Correlation Matrix

VARS	ROE	SR	LR	UR	RIR	RMC
ROE	1.0000					
LR	-0.0026	0.1157	1.0000			
	0.9741	0.1452				
UR	-0.1992*	-0.3440*	-0.1097	1.0000		
	0.0116	0.0000	0.1673			

Source: STATA Output, 2021

The result in Table 2 shows Liquidity Risk (LR) is negatively associated with ROE. The table shows a coefficient of -0.0026 with an insignificant p-value of 0.9741 implying no association between ROE and LR of listed insurance firms in Nigeria.

Furthermore, there is a positive significant correlation between underwriting risk (UR) and Return on equity ROE with a coefficient of -0.1992 and a value of 0.0116.Thus, there is a moderate correlation between UR and ROE of the listed insurance firms in Nigeria for the period.

Table 4: Regression Results

Variables	Coef.	T - Value	P –value
Constant	0.0292	0.12	0.906
LR	-0.0066	-0.52	0.611
UR	-0.4230	-1.79	0.081
R^2	-	-	**0.1461**
Wald chi^2	-	-	**11.22**
Prob. chi^2	-	-	**0.04**

Source: STATA Output, 2024

Table 3shows that R^2 which is the combined coefficient of determination indicates the extent to which the independent variables jointly explain the total variation in the dependent variable. Thus, it signifies that 14.61% (0.1461)of the total variation in return on equity of listed insurance firms Nigeria is caused by liquidity risk and underwriting risk while the remaining

85.39% is explain by other factors not captured in this model. This indicates that the explanatory variables are well selected and combined because the R^2satisfies the minimum rule of thumb. Similarly, liquidity risk revealed a statistical insignificant impact on financial performance of listed insurance firms in Nigeria with coefficient value of -0.0066 and a p-value of 0.611 respectively. This signifies that liquidity risk has no impact on the financial performance of listed insurance firms in Nigeria.
The study finding is only in tandem with study of (Al Omari (2020), Tsvekova, Bugaev, Belousova and Zhukova (2021), Ukpong and Folarin (2020), Bekhet, Alhyari and Yusuf (2020), Risal (2020), Kioko et al (2019). But a contrary result was found in the study of Azmi, Irawan and Sasongko (2020, Kyule (2019), Olalekan (2018), Arif and Showket (2015), Meher and Zewudu (2020).

However, underwriting risk revealed a negative and statistical significant impact with financial performance of listed insurance firms in Nigeria. The underwriting risk has a coefficient value of -0.4230 and p-value of 0.081 significant at one percent.This finding agreed with the studies of (Obalola and Abass (2016), Deyganto and Alemu (2019), Meyer and Zewudu (2020), Azmi, Irawan and Sasongko (2020).But a contrary result was found with that of (Elsayed (2020), Burcaand Batrinca (2014), Bekhet, Alhyari and Yusuf (2020), Opeyemi, Popoola and Yahya (2020), Wani and Dar (2014).

Policy Implication of the Findings
The findings of this study have policy implications particularly for the management and stakeholders of the listed insurance firms in Nigeria. The findings of the study have shed more light on the explanatory variables that have important effect in explaining the explained variable (financial performance) of listed insurance firms in Nigeria. Underwriting risk was found to be doing enough in curbing underwriting of the listed insurance firms in Nigeria. The implication of this finding is that having adequate risk management mechanisms will lessen underwriting risk.

5. CONCLUSION AND RECOMMENDATIONS
The study empirically tested how risks management (liquidity risk, underwriting risk) affect financial performance (return on equity) among listed insurance firms in Nigeria. The study used secondary data which was extracted from the audited financial reports of the sample insurance firms listed on the Nigerian Stock Exchange (NSE) for the periods of ten years (2011-2020). The study employed a regression technique to analyze the data and to establish the relationship between the dependent and independent variables. The result obtained from the Housman specification test conducted indicates a p-value of 0.9436and 0.8434 respectively suggesting that the random effect model should be used in favor of the fixed effect model. Based on the results of the regression analysis, it is concluded that liquidity risk have insignificant negative effect on return on equity, while underwriting risk significantly and negatively affects return on equity.

Following this, the study recommends that insurance firms should continually develop and implement risk management policies and strategies that will help reduce their risk profile in order to improve their financial performance. The Government is interested in knowing which companies operate successfully or failed to take the necessary measures to avoid crises of the bankruptcy in these companies and to act appropriately. Also empirical findings are useful for policy making by government on setting policies that will conform to risk management practices. Additionally, the findings of the study will help the tax authority in determining the right tax liability of each firm. The findings will help the management of the insurance firms in Nigeria to take corrective measures in the recommended areas. It will enable insurance firms in Nigeria to improve their risk management process and adopt efficient strategies to improve firm financial performance through the risk management process. Finally, for academicians and researcher it will help in filling the existing gaps in knowledge regarding factors affecting financial performance of insurance firms in Nigeria. It will also serve as a secondary material for further researches on similar subject matter. They can use the recommendation for further study to conduct future studies to broaden the knowledge on risk management. They can consider the method and result of this research and possibly extend it in various directions of the findings. It will also add up the existing literatures on risk management and financial performance and serve as reference to other researchers.

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