ISSN: 3088 - 4390
Volume 9, Number 1, 2022
Accounting and Management Research Journal

RISK COMMITTEE AND CORPORATE PERFORMANCE OF QUOTED INSURANCE FIRMS IN NIGERIA

Ogiriki, Tonye (Ph.D) and Empere Pabraebiowei
Department of Accountancy, Niger Delta University, Wilberforce Island, Bayelsa State, Nigeria

ABSTRACT
the risk management committee are required to have the necessary knowledge, experience, and skills to effectively oversee firm-wide risks. A risk committee will also encourage procedures like as risk identification, risk reporting, and risk monitoring, as well as give a push to enhance risk management's overall quality. The study investigated risk committee and corporate performance of quoted insurance firms in Nigeria. The study espoused the ex-post facto design. The data were obtained from the financial report of quoted insurance firms in Nigeria. The study population encompasses twenty two (22) insurance firms quoted on the Nigerian Stock Market which spans across (2011-2020). The study used the purposive random sampling to select fifteen (15) insurance firms for the study. Therefore, the study adopted descriptive statistics to measure the means and standard deviation and the ordinary least square was utilize for the econometrics analysis. The study found that risk committee a characteristic (RCI and RCS) has positive and statistically significant on return on asset; RCM has a negative and non-statistically significant with return on asset. The study concludes that a risk committee characteristic has significant impact on financial performance. Hence, the study recommended that the risk committee size of the insurance firms should not be too large in other to enhance effective communication and oversight function.

Keywords: Risk Committee Size, Financial Performance, Insurance, Nigeria

INTRODUCTION

Risk management issues in large businesses have dominated the news for years, primarily in the insurance sector but also in other industries, and they are not always the result of faults in financial risk-taking. Environmental disasters such as the Deepwater Horizon or Fukushima (or, more recently, Bhopal and Seveso) come to mind, as do non-insurance instances of accounting fraud (e.g., Olympus, Enron, WorldCom, Satyam, Parmalat) or foreign bribery (e.g., Siemens). Corporate governance issues, such as boards that did not fully understand the risks that the businesses were taking (assuming they were not personally participating in reckless risk-taking), and/or insufficient risk management systems, were frequently facilitated by these flaws.

For decades, the Securities and Exchange Commission and major stock exchanges have kept a careful eye on three key board committees, including the audit, pay, and nominating committees. The SEC, for example, requires corporations to organize all three committees and to regularly publish the membership of board committees and the number of annual meetings (Tonello, 2012). According to the Nigerian Stock Exchange, all three committees of publicly traded insurance businesses must be made up completely of independent directors. Individual firms established risk committees at their own discretion, and shareholder services organizations (such as the RiskMetrics Group) do not publish data on risk committees. As a result, the relevance of a risk committee in corporate governance has been largely overlooked in the insurance literature (Ellul & Yerramilli, 2013). Members of the risk management committee are required to have the necessary knowledge, experience, and skills to effectively oversee firm-wide risks. A risk committee will also encourage procedures like as risk identification, risk reporting, and risk monitoring, as well as give a push to enhance risk management's overall quality (Tonello, 2012).

In this regard, the creation of a distinct risk committee inside the board is intended to improve board risk management and performance by enhancing board level monitoring.
The impact of the current global financial crisis on insurance companies and economies throughout the world has been felt in a variety of ways and to varying degrees (Atik, 2009). While some of the businesses were forced to file for bankruptcy, others were plagued by poor performance and, in certain cases, the necessity to reduce their workforce. In terms of the economic consequences, some governments were forced to intervene with several rescue packages, while others were forced to deal with lower exports, foreign direct investment, and increased unemployment (Khoon & Mah-Hui, 2010). The financial crisis has highlighted the need of excellent corporate governance standards in finance firms. Many financial institutions in the west went bankrupt as a result of the crisis that began in 2007. (Becht, Bolton, & Roell, 2011). To save the troubled companies, the authorities had to intervene with a variety of rescue packages. As a result, public funds were injected into such institutions in order to prevent the system from completely collapsing. Governments in some countries had to nationalize finance corporations and demand a change in the board of directors. Furthermore, authorities established committees to investigate the remote and immediate variables that started the situation, as well as to provide solutions for resolving the issue and preventing future occurrence. These committees have made suggestions such as improving internal risk control and aligning compensation with risk. The dismal performance of most insurance companies has been attributed to a variety of factors. The complicated nature of financial technologies, insurance firms' shifting emphasis, government policy on providing homes for its residents, deposit insurance, government guarantee, excessive risk-taking, and a reward scheme based on short-term corporate performance (Moosa, 2008)
The insurance sector contributes considerably to GDP, ranking second only to manufacturing, commerce, and services, and the government has made major investments in the sector. Furthermore, the financial sector acts as a conduit for the execution of government macroeconomic policies and other economic programs, such as the National Economic Policy 1971. (Kim & Rasiah, 2010). This underscores the government's emphasis on excellent governance of financial businesses. As a result, the research of the link between risk management committee qualities and financial company performance is essential because it has highlighted the features of the subcommittees that improve the efficient monitoring of the many components of the committee's activities. Furthermore, the study demonstrated how different types of interaction between the risk management subcommittee and other subcommittees will improve performance.
Similarly, scholars have centered their study on banks in Nigeria, few studies have been carried out on risk committee see (Ahmed, et al., 2018; Olubunmi & Oluwaseye, 2018; Ugwu, et al., 2021; Abiola, et al., 2021) their studies centered on motives for the establishment on risk committee of banking sector. Therefore, the scanty empirical work on the risk committee and corporate performance of insurance firms in Nigeria.

As a result, this study investigates the characteristics of risk committees that have an impact on the performance of insurance businesses in Nigeria.

Objectives of the Study

Therefore, the main objective of this paper is to investigate risk committee and corporate performance of insurance firms in Nigeria.

1. Determine the impact of risk committee size and corporate performance of quoted insurance firms in Nigeria
2. Determine the effect of risk committee meeting and corporate performance of quoted insurance firms in Nigeria

3. Evaluate the influence of risk committee independence and corporate performance of quoted insurance firms in Nigeria
4. Investigate the effect of risk committee diversity and corporate performance of quoted insurance firms in Nigeria

Research Questions

To achieve the objective of this paper, the following research questions were answered in the study:

1. What is the effect of risk committee size on the corporate performance of quoted insurance firms in Nigeria?
2. What is the effect of risk committee meeting on the corporate performance of quoted insurance firms in Nigeria?
3. What is the effect of risk committee independence on the corporate performance of quoted insurance firms in Nigeria?
4. What is the effect of risk committee diversity on the corporate performance of quoted insurance firms in Nigeria?

Research Hypotheses

Based on the above arguments, the following hypotheses were proposed:

H_1: There is no significant relationship between risk committee size and corporate performance of quoted insurance firms in Nigeria

H_2: There is no significant relationship between risk committee meeting and corporate performance of quoted insurance firms in Nigeria

H_3: There is no significant relationship between risk committee independence and corporate performance of quoted insurance firms in Nigeria

H_4: There is no significant relationship between risk committee diversity and corporate performance of quoted insurance firms in Nigeria

LITERATURE REVIEW

Theoretical Framework

The theory is guided on agency theory

Agency theory is best suited to combine the characteristics and profitability of risk committees. Agency theory addresses conflicts of interest between shareholders and board / management level, allowing organization to strive to achieve the company's goals. The Agency theory provides a framework in which actions are carried out- divergence profits between shareholders and board / management resolution.

Empirical Review

Abiola, Uwuigbe, Olajide & Faith (2021) posited that, the highlight of this research is on the examination of corporate governance, risk control in deposit money banks and how operational problems within commercial banks and information on them in Nigeria has been hoarded to a great extent.A negative but a significant impact on banks financial performance tends to be the result shown in this study. The stability of banks and profitability of loans can be realized, if there is a sound corporate governance system. In addition, the research discovers that, board size, board independence, directors' shareholdings and board meetings are negative while the coefficient number of board committee is positive on Tobin Q. It, therefore, means that there exists between the corporate governance a significant relationship with financial performance. Shareholders, board meetings & members of the board does have negative relationship to performance. In contrast, the coefficient for the number of board sizes, board independence & board committees are positive on ROE-Return on Equity. This shows that any increase in

shareholding of directors, the directors of the board and board of directors would result in decreased ROE of deposit money banks (DMB) in the economy of Nigeria. This research then recommends proper corporate risk management practices should be encouraged with financial institutions carrying out frequent quality control checks to ensure compliance.
Elamer and Benyazid (2018) in their study, in relation to the recent financial crisis investigated risk committee and financial performance of all listed UK financial institutions in FTSE-100 index which covers from 2010-2014. The study gathered data from the annual financial statement of the listed financial institutions. The data were regressed using the econometrics analysis and their study found that risk committee (existence, size, independence and meeting frequency) all showed negative relationship with financial performance. The study recommended that strong risk committee are likely to constrains management ability to make excessive risk taking behavior which might affect financial performance.

Ahmed, Abdullahi, Mohamed &Umar (2018), under their scholarly template, emphasizes the essentiality of corporate governance and financial performance in relation to the banking sector. It was also established that the combination of good corporate governance and RMC reduces the un certainty (risk)for investors and improving performances. The data that were utilized in this research are all secondary data originated from the annual reports of fourteen (14) banks quoted in the Nigeria stock exchange for the year 2014-2016 with 42 firm-year observations and the used technique was panel data approach. In addition, data in this study were regressed using random effect. The research here showcases a significant negative relationship with ROA as a result of the co-existence of RMCI and board financial knowledge. Meanwhile, risk management committee size has a positive insignificant relationship with ROA. Besides providing suggestion for future research work, this study provides several recommendations for regulators and the Nigerian banking industry. Ugwu, Ekwochi & Ogbu (2021) examined the impact of the corporate risk management committee on the performance of 18 Nigerian banks from (2009-2019) the data gathered were analyzed using the multiple regression. The results show that the Corporate Risk Management Committee affects the ROE of the companies. The study found that CRCD and CRCC has positive significant relationship. Also, CRCE, show positively non-significant, and CRCS was non-significant with ROE. They suggested that companies, especially banks, should have a risk management committee in place to review CRCDs and CRCCs, given their impact on financial performance. This study adds a great deal of scientific literature and knowledge of the new models used in the study.
Olubunmi and Oluwaseye (2018) empirically examined, on how the potency of the audit committee influences the financial performance of deposit money banks in Nigeria.Return on equity (ROE) as a measure of financial performance, independence, financial expertise and frequency of meetings were used and identified as possibly having effects on financial performance.Also Correlation and ordinary least squares (OLS)techniques were used to regress the relationship between audit committee characteristics and financial performance. The Audit committee financial expertise and audit committee meetings discovered that,it has a significant influence on deposit money banks' financial performance.It was also recommended under this study that audit committee meetings, should be more regular, as it relates to deposit money bank.
Stephen, Alex & Olajide (2021) suggested in their study, due to the various risk factor threatening the existence of industries in recent times. The board of directors and senior executives are expected to manage their risk portfolios in their various organisations affecting their financial performance. This has led to the assigning of the risk assessment role to the audit committee. The board of directors ,that are representations of the shareholders and its audit committee play an essential function in Enterprise Risk Management (ERM). This study examined the relationship between audit committee characteristics and risk management of

some selected listed firms in a developing country like Nigeria.Here secondary data were used to describe the dependent variable (financial risk decomposed into credit risk and liquidity risk) and the explanatory variables (decomposed into audit committee accounting expertise, audit committee meetings, audit committee independence and audit committee gender). The indicators used in the research are pair sample t-test, student t-test, Pearson Moment Correlation and random panel data estimator for twenty (20) selected listed firms for 2012-2016. It is revealed that Accounting Expertise in Audit Committees are likely to involve in activities and practices to curb financial risk. In addition, the Audit committee meeting indicates a negative relationship with credit risk. Audit committee gender and audit committee independence have a negative effect on liquidity risk. Therefore, this study recommends that Audit committees embrace Enterprise Risk Management (ERM) to manage risks effectively across the organization. Risk management processes should be one of the major points The aim of this paper is to explore and identify the association of risk management committee characteristics with firm performance of Malaysia's Non-Financial Firms, since 2016-2018. This study has investigated three identified characteristics of risk management committee, with the name of size, diligence, and training. The sample comprises 1,728 observations in the framework of three years from 2016 till 2018. Among all three characteristics, size and committee, training have negative significant association towards firm performance. While, the last characteristic of this study is diligence of the risk management committee which found an insignificant association with firm performance in the current research. discussion during audit committee meetings
Mourad and Suhaimi (2020) identify the relationship of risk management committee characteristics and the firm performance of non-financial firms in malaysia,since 2016-2018. In the course of this research three characteristics of risk management committee were identified which are size training and diligence. The sample used are 1728 observations covering the span of three years from 2016-2018. The research indicated that size and committee training have a negative significant relationship with firm performance. While the diligence which is the last characteristics of risk management committee has an insignificant relationship with firm performance in the recent research.

METHODOLOGY

The study espoused the ex-post facto design. The choice of the design was because of the pre-research nature of the event. The data was obtained from the financial report of quoted insurance firms in Nigeria. The study population encompasses twenty two (22) insurance firms quoted on the Nigerian Stock Market which spans across (2011-2020). The study used the purposive random sampling to select fifteen (15) insurance firms for the study. Therefore, the study adopted descriptive statistics to measure the means and standard deviation and the ordinary least square was utilize for the econometrics analysis.

Model Specification

The regression model for testing the relationship between the explanatory variables and corporate performance. Scholars like (******)
The study model is presented as follows:
Corporate Performance = C(1) + C(2)*RCS + C(3)*RCM + C(4)*RCI + C(5)*RCD + C(6)*FSIZE

Where;
CP = Corporate Performance proxied by return on asset (ROA)
RCS = Risk committee size
RCM = Risk committee meetings
RCI = Risk committee Independence

Control Variable

Firm Size= it is computed as the natural logarithm of total assets.

Results and Discussion of Findings

Table 1: ***Descriptive Statistics***

Variables	Mean	Min.	Max.	Std. Dev
ROA	55.87755	0.00000	165.0000	45.42514
RCI	72.88251	28.57140	94.44440	12.07998
RCM	4.653061	3.000000	10.00000	1.407584
RCS	8.918367	4.000000	19.00000	3.790540
Log of Tot Asset	6.642914	5.401100	8.761700	0.984995

Source: Authors Computation, 2021

From table 1, Return on asset (ROA) had a mean value of 55.87755, with minimum and maximum values of 0 and 165. Risk committee Independence (RCI) had a mean value of 72.8851, with Min. and Max. of 28.57 and 94.4 respectively. The result indicates that 72% of the directors are Independent Non-Executive. The Risk Committee Meetings (RCM) had a mean value of 4.653061, with Min. and Max. of 3 and 10 respectively. The result revealed that boards of directors should ensure to meet four times within an accounting year. The Risk committee Size (RCS) had a mean value of 8.918367, with Min. and Max. of 4 and 19 respectively. Furthermore, (Firm Size) measured by the Log of Total Asset had a mean of 6.642914, with Min. and Max. of 5.4 and 8.761 respectively.

Table 2: ***Pearson Correlation Analysis***

Correlation Probability	ROA	RCI	RCM	RCS
ROA	1.000000			

RCI	0.210673	1.000000		
	0.1462	-----		
RCM	0.037769	0.192070	1.000000	
	0.7967	0.1861	-----	
RCS	0.221721	0.414188	0.541234	1.000000
	0.1257	0.0031	0.0001	-----
FIRM SIZE	0.158981	0.395599	0.338859	0.757532
	0.2752	0.0049	0.0172	0.0000

Source: ***E-view output, 2021***

Interpretation

Pearson correlation matrix was used to intersect for the nexus amongst each explanatory variable and the dependent variable. Table 2 reveals the correlation between the dependent variable (ROA) and the explanatory variables of (RCI, RCM, RCM). There is a positive relationship between return on asset (ROA) between (RCI, RCM and RCS).

From the above analysis, we observe that all the independents variables show positive correlation existence.

Table 3: ***Regression Result***

Dependent Variable	Independent Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROA	C	16.31467	68.57146	-0.237922	0.8131
	RCI	0.571595	0.593333	0.963364	0.0408

	RCM	-2.942108	5.526758	-0.532339	0.5972
	RCS	3.119147	2.996509	1.040927	0.0037
	FIRM SIZE	1.371912	10.58736	0.129580	0.8975
R-squared	0.130975	Adjusted R-squared	0.029926	Durbin-Watson stat	0.945665
F-statistic	1.296151	Prob(F-statistic)	0.283392		

Source: ***Author's Computation from E-view, 2021***

From Table 3, the result investigated the coefficients of the explanatory variables, the respective t-ratios reported, and the probability. The value of R that is the correlation coefficient stood at 0.130 (13%). Also, the coefficient of determination (R^2), which stood at 0.130, indicates that over 13% of the total variations in the dependent variable (ROA) were elucidated by the independent variables, while about 87% of the contributory variables were inexplicable by this model. The F-statistics prediction stood at a value of 1.296, meanwhile, the Durbin Watson statistic stood at 0.945, indicating the positive autocorrelation.

Table 4: ***Hausman Test***

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section and period random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	4	1.0000
Period random	0.000000	4	1.0000
Cross-section and period random	0.000000	4	1.0000

* Cross-section test variance is invalid. Hausman statistic set to zero.
* Period test variance is invalid. Hausman statistic set to zero.
** WARNING: estimated period random effects variance is zero.

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
RCI	1.197031	0.633087	-0.186549	NA
RCM	-0.185604	-2.949294	-10.305175	0.0012
RCS	12.427412	4.802528	10.532229	0.0188
FIRM SIZE	69.361648	-3.160820	2148.117458	0.1176

Source: ***E-view Output, 2021***

The result from Table 4 shows the Hausman test that was used to test the Fixed/Random Effects and to ascertain the appropriate model. The null hypothesis represents the Random Effects Model at ($p>0.05$), while the alternate hypothesis represents the Fixed Effect Model at ($p<0.05$). From the Hausman test, the result revealed that the p-value of (1.0000) which is greater than 0.05%. The result shows that the Random Effects Model is a better model for the above relationship than the Fixed Effect Model. From the OLS statistical analytical outputs in Table 3, the regression result shows:

1. Risk Committee Independence (RCI) has a positive and statistically significant impact on return on asset (ROA) with a coefficient of 0.571595 and a p-value of 0.0408. This result is consistent with the work of (Mourad & Suhaimi,2020; Ugwu, et al., 2021), While, it is inconsistent with the findings of (Stephen, Alex & Olajide (2021).
2. Also, The Risk committee Meeting (RCM) has a negative and non-significant impact on ROA with a coefficient of -2.942108 and a p-value of 0.5972. The result agrees with (Ugwu, et al., 2021)) and disagreement with (Rotich, 2017).
3. The Risk committee Size (RCS) has a positive relationship and statistically significant with ROA and the findings are in with (Ahmed, et al., 2018) and inconsistent with the findings of (Elamer & Benyazid, 2018; Moura & Suhaimi, 2020).

Also, the control variable introduced; firm size (FSIZE) also revealed that positive effect and insignificant relationship with return on asset.

CONCLUSION AND RECOMMENDATION

The study explored risk committee characteristics and financial performance of insurance companies trading on the floor of the Nigerian Stock Exchange for the period of 2011-2020. The study found that risk committee characteristics (RCI and RCS) has positive and statistically significant on return on asset; RCM has a negative and non-statistically significant with return on asset. The study conclude that risk committee characteristics has significant impact on financial performance. Hence, the study recommended that the risk committee size of the insurance firms should not be too large in other to enhance effective communication and oversight function.

REFERENCES

Abiola, K., Uwuigbe, U., Olajide, D., & Faith, O. O. (2021). Corporate governance, risk management and financial performance of listed deposit money bank in Nigeria, *Cogent Business & Management, 8:*1, 1888679, DOI: 10.1080/23311975.2021.1888679

Ahmed, H. A., Abdullahi, B. A., Mohamed, I. M. & Umar, A. M. (2018). The effect of risk management committee attributes and board financial knowledge on the financial performance of listed banks in Nigeria. *American International Journal of Business Management, 1*(5); 07-13

Atik, J. (2009). Basel II and extreme risk analysis. [Online] Available: http://www.asil.org/files/atik.pdf

Becht, M., Bolton, P., & Roell, A. (2011). Why bank corporate governance is different. *Oxford Review of Economic policy*, 27(3), 437-463. http://dx.doi.org/10.1093/oxrep/grr024

Elamer, A.A. & Benyazid, I. (2018). The impact of risk committee on financial performance of UK financial institutions', *International Journal Accounting and Finance, 8* (2) 161–180.

Ellul, A., Yerramilli, V. (2013). Stronger risk controls, lower risk: Evidence from U.S. bank holding companies. *Journal of Finance* 68, 1757-1803.

Kim, P. K., & Rasiah, D. (2010). Relationship between corporate governance and bank performance in Malaysia during the pre and post Asian financial crisis. *European Journal of Economics, Finance and Administrative Sciences*, 21, 39-63.

Khoon, G. S., & Mah-Hui, M. L. (2010). The impact of global financial crisis: The case of Malaysia. Penang: Third World Network. [Online*]* *Available: http://twnside.org.sg/title2/ge/ge26.pdf*

Moosa, I. (2008). Anatomy of the subprime financial crisis. *Monash Business Review*, 4(1), 1-7.

Mourad, B., & Suhaimi, I.(2020). The influence of risk management committee attributes on performance of non-financial listed firms in Malaysia.

Olubunmi,F.O., & Oluwaseye, G.F. (2018).Effectiveness of audit committee and financial performance of deposit money banks in Nigeria

Stephen,A. O.,Alex, A., & Olajide,D. (2021). Does audit committee characteristics promote risk management practices in Nigeria listed firms.

Tonello, M. (2012). *Should your board have a separate risk committee*? Harvard: The Harvard Law School Forum on Corporate Governance and Financial Regulation.

Ugwu, I. V., Ekwochi, Eucharia A.,& Ogbu, C. G.(2021). A critical study of corporate risk management committee impact on firm performance.