Risk Management Committee Size, Independence, Expertise and Financial Performance of Listed Insurance Firms in Nigeria

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Abstract:- **Continuous collapse of many organization have increase the demand to have a committee aside the board whose focus is on setting and implementing firm risk policy, appetite and limit. With firm goal on maximizing profit, this study evaluates the effect of risk management committee size, independence, expertise on financial performance of listed insurance companies in Nigeria from 2012 to 2018. The study used a sample size of (24) insurance companies from population of 27 insurance firms. The study used secondary data obtained from annual report of the firms. The dependent variable was measured by return on asset (ROA) The study employed Random Effect regression model and find evidence that risk management committee expertise has negative and significant effect on financial performance while risk management committee size and independence does not influence financial performance. The study concludes that risk management committee constrain on management excess risk undertaking will lead to poor financial performance of insurance firms. The study recommends that the risk management committee should be made effective by inclusion of more members with back ground on finance and actuarial sciences into risk management committee structures.**

Keywords: **Financial Performance, Risk management size, Risk management Independence, Risk management Expertise**

I. INTRODUCTION

In developed and developing countries corporate governance has become a common subject for discussion. The widely held view of corporate governance as determining firm performance and protecting shareholders ' interests has led to increased global attention (Heenetigala & Armstrong, 2011).The corporate governance system specifies the allocation of rights and duties to different organizational members, such as the board, executives, shareholders and other stakeholders, and describes the rules and procedures for making corporate relations decisions. By doing so, it also establishes the mechanism by which the company's targets are set and the means to meet those targets and track the results (Akinsulire, 2006). Corporate governance sub divided into several committee amongst are risk management, audit, board, remuneration etc. For the purpose of these studies we are looking at the aspect of risk management committee.

Risk Management Committee (RMC) is an autonomous board of directors committee which, as its primary and exclusive role, is responsible for the risk management policies of the global operations of the company, and oversees the implementation of the global risk management system of the organization. The committee will help the board of directors in carrying out its regulatory duties regarding the corporation's risk tolerance and the risk control and enforcement process and the governance system that governs it. Risk tolerance is the amount and type of risk that a company is capable of and ready to bear in its risks and market practices, despite its corporate priorities and stakeholder responsibilities.

In finance-related discipline, success relates to assessments of the strategies, operations, and operating outcomes of the business in financial terms. It is used to test the performance, enforcement and financial status of an organization. Such outcomes are expressed in the return on investment, cash, equity, employees' capital, and competitiveness of the company (Naz, Ijaz & Naqvi, 2016). The performance is divided into two viz-a-viz: financial and non-financial performance. For the purpose of this research we used financial performance because of its advantages over the non- financial performance measures. The financial performance measures are return on assets, return on equity, return on capital employed, return on investment and so on while non – financial performance measures such as growth, market share etc. One of the advantages of financial performance is agreeable definition and can easily be found on financial statements.

According to Naz, Ijaz & Naqvi (2016), financial performance (FP) is a degree to which an organization's financial stability is measured over a period of time. In other words, it is a financial activity used to produce the enhanced profits, productivity and interest of a corporate entity for its owners by controlling its existing and non-current cash, borrowing, equity, revenues and expenditure. Its key aim is to provide the owners and stakeholders with full knowledge up to the stage in order to enable them to take decisions. This may be used to measure related firms from the same sector or to compare the aggregated sectors.

RMC is a firm's asset allowing it to meet its corporate goals and increase the standard of financial statements as a shield for the integrity of the company, and eventually to enhance the efficiency of the company. As the RMC is responsible for reviewing, tracking, and assessing the principles, practices, procedures, systems, and regulation of risk management, that should create a stronger risk management framework, so that the risks posed by the organization will be reduced and even dodged and eventually affect firm performance improvements.

Continuous collapse of many organization have increase the demand to have a committee aside the board whose focus is on setting and implementing firm risk policy, appetite and limit. Business failures is also as a result of risk management mechanism (Davies, 2013; McShane, Nair, & Rustambekov, 2011). With firm goal on maximizing profit, in view of the above, it is clear that lack of adequate risk management framework was among the key causes of insurance failure in Nigeria and also it is due to the failures of risk management committee to discharge their duty and functions accordingly that lead to the collapsed of some notable insurance companies in Nigeria. For instance, in the year 2008, the following insurance companies collapsed Acen Insurance Plc, Amicable Insurance Plc, Baico Insurance Plc and Security Assurance Plc and Sun Insurance Plc. In 2013 Crusader Insurance Nigeria Plc merged with custodian and Allied Insurance Plc. In 2014 FBN life Insurance acquired Oasis Insurance Plc. In another vein, Investment and Allied Insurance Plc collapsed due to being unable to meet up with regulatory guidelines and in 2019 Great Nigeria Insurance Plc voluntarily withdrew from the business due to their failure to manage the risk properly.

Also, the extensive body of related previous empirical studies on risk management committee attributes and financial performance have presented somewhat conflicting results, others agreeing some disagreeing with important theories of risk management committee globally (Elamer & Benyazid, 2018: Malik, 2017). The contrasting results warrant further research. Most of the studies done in Nigeria have focused on risk management committee in banking and financial sector (Kakanda, Salim & Chandren, 2017 & Jimoh & Attah, 2017) Making it difficult to produce a convincing result, and henceforth, the need to do this study in insurance sector in Nigeria. Therefore, this study examine the effect of risk management committee attributes on financial performance of listed insurance firms in Nigeria.

In view of the above, therefore, the following research hypothesis was developed and stated in null form.

Ho_1 Risk management committee size has no significant effect on financial performance of listed insurance firms in Nigeria.

Ho_2 Risk management committee independence has no significant effect on financial performance of listed insurance firms in Nigeria.

Ho_3 Risk management committee expertise has no significant effect on financial performance of listed insurance firms in Nigeria.

The study would be significant in providing information to investors, government agencies, business professionals, accounting practitioners, regulators and the literature on RMC characteristics and FP. The study is about the effect of risk management committee attributes on the financial results of the insurance companies listed in Nigeria. The research spans a seven (7) year time span (2012 – 2018). The article is divided into five parts to achieve this analysis, namely: section one is the introduction, section two takes up the examination of the literature, section three introduces the approach, section four deals with the findings and comments and section five ends the research.

II. LITERATURE REVIEW

In this section, a review of extant literature on the subject matter is carried out covering conceptual issues, theoretical review and review of empirical studies.

Risk Management Committee

RMC is described as the board of commissioners who assist in the execution of supervisory duties on corporate risk control (Halim, Mustika, Sari, Anugerah & Mohd-Sanusi 2017). In Nigerian Corporate Governance Code NCGC (2011) any company's board may create a Risk Management Committee to assist the board of directors (BOD) in its oversight responsibility for the risk function or profile, the risk management system and the risk scheme to be set up.As required by the Corporate Governance Code, this is one of the BOD Committee. Getting one is necessary but not mandatory for company. Scholars postulate that corporate efficiency may be increased if there is a strong committee of management in place. Business success is largely based upon the process of risk control (Akindele, 2012; Edogbanya & Kamardin, 2015).

Risk Management Committee Size

The presence of a risk management committee may be tied to a board’s size. The presence of board size provides more opportunities for managers with the necessary skills to coordinate and be in charge of a sub-committee on risk management (Abubakar, Ado, Mohamed, & Mustapha, 2018). In another loss, the size of the Risk Committee is used as a measure of the willingness of a corporation to expend board money to improve the prestige of clients and the strength of committee. Bédard, Chtourou and Courteau (2004) note that not only does a broad committee have power but the resulting plurality of opinions within a committee makes it more successful in solving possible problems (Ng, Chong & Ismail, 2013).This is also proposed as an improvement of ERM roles by a growing number of members within a risk committee.

However, the literature is also discussing certain adverse consequences of large commissions. For this article the makeup of the risk committee as the total number of risk committee members is estimated for absolute terms. The data for this feature was gathered by hand from the Corporate Governance portion of financial accounts.

Risk Management Committee Independence

For the monitoring capacity of a board, board independence from management is important. The involvement of a significant number of non-executive board members is regarded as a strong measure of the board's freedom from management (Abubakar et al. 2018). According to Abubakar et al. (2018), RMC independence includes the number of leaders sitting on the RMC who are independent non-executive directors. Subramaniam, Mcmanus, & Zhang (2009) indicated that boards with a larger number of non-executive directors are able to better analyze risks and consider setting up a risk management committee as a vital tool to assist them in fulfilling their risk management oversight function as opposed to those with a small number of non-executive directors.

In the risk committee, Protiviti (2011) stresses that having independent / non-executive directors is a prerequisite for establishing constructive coordination with the administrators and officers in charge of ERM operations of an organization. Ng et al. (2013) also believes that a timely objective evaluation of main risk areas could mitigate the vulnerability to major risks. In addition, the Walker study (2009) stresses the flexibility of the ERM function by making an independent CRO working under the oversight of the risk exposure and risk appetite control committee (Walker, 2009). This analysis recognizes the flexibility of the risk committee and the non-executive directors independently, as indicated by Nicholson and Kiel (2007) in that the two concepts should not be deemed equivalent. The independent risk management committee was calculated as the number of independent / non-executive directors of the risk committee to the overall number of the risk management committee, and the details is gathered from the financial reports portion of corporate governance.

Risk Management Committee Expertise

Accounting or financial skills are attributes / qualifications or knowledge that an individual has gained before becoming a member of a firm's board. In comparison, financial expertise and Board members' experience has gained considerable coverage in the literature on corporate governance. This work adopts the idea of a financial expert to determine the financial competency of the risk committee, as established by the FRC for audit committees. The advice from the FRC (2012) notes that financial consultants should have formal credentials (in accounting or finance or actuarial) and usually need to have ample expertise in corporate financial matters. In the UK, according to Elamer and Benyazid (2018) adding a financial expert to the audit committee is a requirement (FRC, 2012; 2014) but for a risk committee there is (until now) no legal or regulatory control. The Walker research, however, recommends that a risk committee would have at least one financial specialist with ample appropriate expertise to communicate with the executive team and respond to the key risk concerns within the ERM limits (Walker, 2009).

The indicator of the competence of the risk committee is measured as the proportion of members of finance or actuarial experience to the total RMC number. The data is obtained from the financial accounts section of corporate governance, as this section also includes biographical information for each board member.

Financial Performance

Financial performance is a subjective measure of how well a company can harness assets from its primary business mode and generate revenue. Often, the term is used as a general indicator of the overall financial performance of a company over a given timeframe. Analysts and investors use financial performance to compare similar companies across the same industry, or to aggregate industries or sectors. Financial achievement calls for concrete consequences in the strategies and practices of a company. Those results are reflected in the company's return on investment, asset benefit, value added, etc. A comparative measure of how easily a company can maximize and deliver revenue from its primary business type inventory. This term is also used as a general measure of a company's average financial output over a given period of time, and can be used to align similar firms within the same industry or to compare aggregated industries or sectors. Examination of the financial statements is undertaken primarily for decision-making purposes. The specifics found in the financial report are of great value when analyzing and assessing the financial statements before making decisions. Financial analysis is the process of assessing the financial performance and failure of a company by accurately creating a relationship between the balance sheet goods and the benefit-and-loss account (Ravichandran & Subramanian, 2016).

Review of Empirical Studies

Elamer and Benyazid (2018) looked at the risk committee's impact on the financial performance of UK financial institutions. The research sample consists of 23 listed FTSE-100 benchmark financial institutions for the period 2010 to 2014.For the data analysis, ordinary lease square (OLS) regression model was employed; the explanatory variables comprised of risk committee (existence, size, meetings & independence), firm size, liquidity, gearing, audit quality and year dummies whereas the explained variable was the return on assets (ROA) and return on equity (ROE). The study findings showed a negative association between the characteristics of the risk committee (i.e. presence, scale, flexibility, and meetings) and the financial efficiency. The results also indicate that companies with no risk committee (RC) performed considerably well in comparison to companies with RC.

Zraig and Fadzil (2018) had investigated the impact of audit committee characteristics on firm performance: Evidence from Jordan. The population of the study consisted of 228 listed industrial and services firms in Jordon for the period of two years, 2015 to 2016. The study tested the link between independent (AC size and meetings) and dependent variables (ROA and EPS) using OLS regression. The study results showed a good path but negligible relationship between the size of the audit committee and ROA while the size of the audit committee with EPS is good and important.

Malik (2017) studied Enterprise Risk Management and Company Performance: Role of the Four Year Risk Committee, 2012 to 2015 in the UK. The test study consists of 260 business- year evaluation and the application of regression used to analyze the relationship. The study findings revealed that ERM significantly and positively affects the firm performance measured by Tobin's Q. In addition, the presence of size in the risk committee has a positive but weak influence on the performance relationship with ERM.

In addition, Battaglia and Gallo (2015) used data from the Asian financial sector that focused on Indian and Chinese banks to establish the relationship between boards of directors with risk management mechanisms related to CFP during the financial collapse of 2007–08. No substantial link between productivity and RC size was disclosed in the tests.

However, study by Kallamu and Saat (2013), who investigated the effect on financial efficiency of the corporate governance system by collecting data from 37 FIs listed in the financial sector in Malaysia, using ROA and Tobin's Q as a performance metric for the period 2007 to 2011, shows that there is a positive relationship between the RC size and CFP. Hoque, Islam & Azam (2013) published another analysis in this respect, and found a strong negative correlation between the scale of RC and FP.

Akpey and Azembila (2016) have researched the impact of an audit committee on the results of Ghana Stock Exchange listed companies. The sample size of the report consisted for the 2015 financial year of 36 traded stocks on the Ghana Stock Exchange. Cross sectional regression model was used, and the version SPSS 17.0 was used. The study showed that the number of independent audit committee members had little impact on the company's results. However, the number of independent audit committee members with degrees in finance or accounting adversely affected the performance of the firm.

Abubakar, Ado, Mohammed & Mustapha (2018) work on the impact of skills of risk management committee and financial board information on the financial performance of listed banks in Nigeria; The study's population and sample size is comprised of fourteen (14) banks listed on the Nigerian Stock Exchange floor for a period of three years (2014-2016).The study used secondary data and random effect was adopted in analyzing the data. The results of the study reveals that risk management committee independence and board financial knowledge exhibit a significant negative effect with ROA while risk management committee size has a positive insignificant effect on ROA. The study recommends that the board should include more independence directors and more of board financial knowledge as these lead to banks performance.

Jimoh and Attah (2017) studied on risk management committee attributes and bank performance in Nigeria. For the purpose of this study, the sample of the study consist of 15 listed banks on the floor of the Nigeria Stock Exchange. The evidence was primarily secondary with implementation of multiple regression techniques. The study found that all variable risk governance except the size of a risk committee is positively related to returning on assets as indicators of bank performance. Accordingly, the study advises that risk committee leaders be adequately encouraged, meet more regularly, have more independent directors and more financial and risk experts as all of these contribute to improved bank results.

Kakanda, Salim and Chandren (2017) had investigated the risk committee characteristics and market performance: Empirical Evidence from listed financial service firms in Nigeria. The research statistical population was consisted of those Nigeria stock exchange 45 listed financials service firms analyzed from 2012 to 2016. By taking RMC characteristics and market performance as variables and to analyze data and test hypotheses of the present research, descriptive statistics method and panel corrected standard errors (PCSEs) regression model was used. They concluded that risk management size has a significant but negative impact on firms' performance while RMC composition and RMC meeting have a significant positive effect on FP as expected by their hypothesis.

Agency Theory Review

The roots of the agency hypothesis can be traced back to Jensen and Meckling (1976) and the exploration of the problem of ownership-control separation. Jensen and Meckling (1976) suggested that managers of other people's money cannot be expected to watch over it with the same anxious vigilance that one would expect from the owners and therefore that negligence and profusion must always prevail, more or less, in the management of such a company's affairs. They established the relationship between the stakeholders, such as shareholders and agents such as managers, and held that managers cannot, on their own, optimize shareholders' returns unless proper governance mechanisms are placed in place to protect shareholders' interests (Jensen & Meckling, 1976).

Agency theory proponents argue that division of ownership and power leads to moral hazard issues, where agents behave to gain personal advantages at shareholders' expense. Efficient board monitoring can be a great benefit to curb these behavior. The Board monitoring's success relies, among others, on the Board's sub-committees (Kibiya, Che-

Ahmad & Amran 2016). Dinu and Nedelcu (2015) employed agency theory in explaining transparency and quality of financial disclosures in the case of Romanian listed companies. Koładkiewicz (2014) also analyzed the main agency problems and their consequences. Similarly, Nayeri and Salehi (2013) analyses the role of the agency theory in implementing management's control. This study will add to the existing literature by adopting the agency theory in explaining the relationship between RMC attributes and financial performance of listed insurance firms in Nigeria.

III. METHODOLOGY

Data for this analysis were collected for the seven (7) year duration (2012-2018) from the audited financial statements of the sampled listed insurance firms in Nigeria. The test adopts Ex-Post Facto Research Design and uses already collected data for study purposes. This sample population is composed of twenty-seven (27) listed insurance firms. This was obtained from Fact Book of Nigerian Stock Exchange as at December 2018. Purposive sampling techniques was adapted to filter out some of the Insurance firms in the following manner; all Insurance firms listed after 2012 were excluded and the insurance firms that the researcher was not be able to gather all necessary information for the period of study (2012 to 2018). In line with the foregoing, twenty four (24) insurance firms were selected as sample for the study.

Panel data approach was followed because it represented the chosen companies' mixture of time series and cross-sectional data. The empirical approach was multiple regression, and the Ordinary Least Square (OLS) as an inference method. The model used in this study is Kakanda, Salim and Chandren (2017) in modified form. The model compares success of total companies to characteristics of the risk management team, while accounting for certain company-specific variables. The modified version is given as:

$$ROA_{it} = \beta 0 + \beta 1RMCSZ_{it} + \beta 3RMCINDP_{it} + \beta 4RMCEXP_{it} + \beta 5FSIZE_{it} + \beta 6LEV_{it} + e_{it}$$

Where:

FP = measured by Return on Assets (ROA).

RMCSZ = Risk Management Committee Size

RMCINDP = Risk Management Committee Independence

RMCEXP = Risk Management Committee Expertise

FSIZE = Firm Size

LEV= Leverage

ε = Error term

i = Firm Script (i=24)

t = Firm Script (t=7)

β_0 = is the intercept

$\beta_1 - \beta_7$ = are the parameters to be estimated in the equation

Return on Assets, measured as Net income to Total assets (Elamer & Benyazid, 2018), Risk management committee Size, measured as total number of risk committee members (Malik, 2017 & Kakande et al., 2017),Risk Management Committee Independence, measured as Proportion of independent and non- executive directors to the total number of risk (Elamer & Benyazid, 2018, Malik, 2017 and Kakande et al., 2017),Risk Management Committee Expertise , measured as Proportion of members with finance or actuarial knowledge to the total number of risk committee (Malik, 2017), firm size measured as firm total assets(Elamer & Benyazid, 2018) and Leverage, measured as ratio of total liabilities to total assets (Kazeem, 2015 and Sumaira & Amjad, 2013).

IV. RESULT AND DISCUSSION

This section presents the descriptive statistics and the summary of the regression results; followed by analysis and discussions of what the figures portray.

Table 4.1 Descriptive Statistics

Variables	No of Observations	Mean	Standard Deviation	Minimum	Maximum
ROA	168	.02	.12	-.69	.46
RMCSZ	168	5.02	1.20	3	10
RMCINDP	168	.60	.12	.2	.83
RMCEXP	168	.34	.10	.17	.5
FSIZE	168	7.20	.38	6.25	8.35
LEV	168	.62	.63	045	4.44

Source: Results from STATA Output

The table reveals the description of the variables under study. The table shows that return on assets has an average value of 2% with a standard deviation value revealing a wide variation. The average size of the risk committee is revealed with a value of 5 members. The table shows that the sizes are common among the insurance firms during the period under study. Table 1 further show that the risk committee members on average have 60% of the board who are non-executive directors. Further the paper also shows that 34% of the members are accounting and finance expertise with standard deviation showing a low dispersion of the individual variables from the mean value.

Firm size measured by log of total assets reveals a mean value of 7.20 with leverage showing that the insurance sectors is characterize by high debt evidence by the average value of 62%.

Table 4.3 Summary of Regression Result – OLS Model

Variables	Coefficients.	Z-Value	P-Value	Variance Inflation Factor (VIF)
Constant	-.439	-1.89	0.058	.
RMCSZ	-.001	-0.12	0.906	1.58
RMCINDP	.033	0.44	0.661	1.28
RMCEXP	-.16	-2.10	0.036*	1.10
FSIZE	.075	2.35	0.019*	1.55
LEV	-.001	-3.67	0.000*	1.21
R^2	0.094			
Wald chi	34.02		0.000*	
Hausan test	1.27		0.934	
Lagrangian Multiplier Test	42.67		0.000*	
Auto correlation	1.86		0.185	
Heteroskedacity	32.65		0.000*	
Crosssectional independence	.778		0.436	

*at 5% level of significance

Interpretation

The table 2 above presents the result of Random effect model selected for the study based on the Hausman specification test and Lagrangian Multiplier test. The regression result discloses that risk management committee size, independence, expertise and the control variables are able to give account of 9.4% changes in the financial performance of the listed Insurance firms in Nigeria. The F-statistics chi square reveals a value of 34.02 and a p-value of 0.000 which is significant at less than 5% level significance. This reveals that the model is fit and adequate. It also shows that the variables jointly have significant effect on financial performance of listed Insurance firms in Nigeria.

Risk Management Committee Size and Financial Performance

Table 2 reveals that risk management committee size has a negative and insignificant effect on financial performance of listed insurance firms in Nigeria during the period under review. This is indicated by the sign of the coefficient which is -.004 and a p-value of 0.906. This further shows that the size of the risk committee does not influence financial performance. The result is in conformity with previous works by Battaglia and Gallo (2015), Abubukar et al. (2018) and contrary to the work of Jimoh and Attah (2017), Kakanda et al.(2017), Elamer and Benyazid (2018) and others. On the strength of this result, the study fails to reject the hypothesis thatrisk management committee size has no significance effect on financial performance of listed insurance firms in Nigeria.

Risk Management Committee Independence and Financial Performance

The results in table 2 shows that risk management committee independence does not have effect on financial performance of listed insurance firms. The table reveals that risk management committee independence has a coefficient of 0.003 and a p-value of 0.661 which is not statistically significant. The result is contrary to prior studies by Abubukar et al. (2018), Kakanda et al. (2017) and others. The study therefore fails to rejects the hypothesis that risk management committee independence has no significance effect on financial performance of listed insurance firms in Nigeria.

Risk Management Committee Expertise and Financial Performance

The study also found that risk management committee expertise has a negative and significant impact on ROA of DMB's in Nigeria. The result output shows that RMCEXP has a coefficient of -0.16 and p-value of 0.036 significant at 5% level. This implies that risk management member expertise in accounting finance will affect the financial performance of listed insurance firms in Nigeria negatively. Hence the study reject the null hypothesis three that risk management committee expertise has no significant effect on financial performance of listed insurance firms in Nigeria. This is line with prior studies by Abubakar et al.(2018) who discovered that expertise of the members of risk management may reduce the performance the firms as result of knowledge on risk. This is contrary to the work of Jimoh and Attah (2017) who discover that risk management committee expertise positively impact financial performance.

V. CONCLUSIONS AND RECOMMENDATIONS

This study examined the effect of risk management committee size, independence, expertise and financial performance of listed Insurance Firms in Nigeria between 2012 and 2018. The study used a sample of 24 listed Insurance firms on the NSE as at 31 December 2018. From the panel least square regression results, the study concludes that risk management committee size, and independence does not influence financial performance while risk management committee expertise have an inverse and substantial effect on financial performance of listed insurance firms in Nigeria in the period under review. Drawing from these conclusions, it is recommended that the risk management committee should be made effective by inclusion of more members with back ground on finance and actuarial sciences..

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