



## IMPACT OF RISK MANAGEMENT ON THE PROFITABILITY OF INSURANCE COMPANIES IN NIGERIA

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### Abstract

*The primary objective of all established businesses is profit, and profitability is a key metric for assessing the effectiveness of financial organizations globally. This study examines the impact of risk management practices on the profitability of insurance companies in Nigeria. A descriptive and inferential research design was adopted. Data were collected via questionnaires from 60 employees across five sampled insurance companies, selected from a population of all 58 insurance companies in Nigeria, and analyzed using SPSS version 23.0. Regression analysis revealed that financial risk management practices account for approximately 86.53% of the variation in profitability, while operational risk management practices account for 69.35%. Furthermore, a strong positive correlation ( $r = 0.94154$ ) was found between strategic risk management practices and profitability. The study concludes that effective risk management in its financial, operational, and strategic dimensions profoundly influences the profitability and sustainability of insurance companies in Nigeria. It is recommended that insurance companies should continuously evaluate and enhance their risk management frameworks, leverage technology for risk assessment, and invest in employee training to foster a robust risk culture, thereby safeguarding and improving financial performance.*

**Keywords:** Risk Management, Profitability, Insurance Companies, Financial Risk, Operational Risk and Strategic Risk.

### 1. Introduction

Profitability serves as a fundamental objective for all business ventures and a common metric for evaluating the performance of financial institutions worldwide (Bobakova, 2019). The efficacy with which insurance companies execute their role as financial intermediaries significantly influences the broader economic landscape (Sharma and Mani, 2021). These firms provide essential financial services that underpin economic growth through mechanisms such as risk transfer, stimulation of private investment, job creation,

and funding for developmental projects (Hofman, 2019). The stability of the financial sector, at both micro and macro levels, is inherently tied to the profitability of its constituent institutions.

Despite achieving a gross premium income of N312 billion in the first quarter of 2023, the Nigerian insurance sector remains underpenetrated (FBN Quest, 2023). The industry navigates a complex environment marked by regulatory changes, economic volatility, and shifting consumer expectations. In this dynamic context, effective risk management emerges as a critical

determinant for sustaining growth. Inadequate risk management can lead to an accumulation of claims, escalated losses, and consequently, diminished financial performance (Magezi, 2017). As entities fundamentally engaged in bearing risk, the failure of insurance companies to manage risk adeptly can precipitate insolvency. Their core function of distributing risk across a pool of participants makes risk management central to their operational existence (Merton, 2011).

While the importance of risk management is universally acknowledged, a gap exists in understanding its specific impact on profitability within the unique Nigerian context. The prevailing body of literature is predominantly derived from Western economies, creating a need to investigate how local economic, regulatory, and cultural factors modulate the effectiveness of risk management strategies. This study, therefore, aims to address this gap by critically examining the relationship between various risk management practices and the profitability of insurance companies in Nigeria.

The Nigerian insurance industry contends with several challenges, including a scarcity of empirical research on the efficacy of specific risk management techniques, the emergence of novel risks such as cyber threats and climate change, and a regulatory framework that mandates specific risk management protocols. This study directly addresses the challenge of these ever-emerging risks by investigating the nexus between the risk management practices adopted by insurance companies and their profitability.

The principal objective of this research is to examine the impact of risk management practices on the profitability of insurance companies in Nigeria. The specific objectives are:

- i. To examine the relationship between financial risk management practices and firm performance.
- ii. To assess the effectiveness of operational risk management practices and firm performance.
- iii. To evaluate the effectiveness of strategic risk management practices and firm performance.

## 2. Literature Review

### 2.1 Conceptual Framework

This study establishes a conceptual link between risk management practices and the profitability of insurance companies. Profitability is measured by conventional metrics such as Return on Assets (ROA).

#### Concept of Profitability

Profitability refers to the ability of a firm to generate earnings in excess of its operating and financial costs over a given period. It represents a critical indicator of financial sustainability, growth potential, and managerial efficiency in resource utilization (Nguyen & Vo, 2022). Profitability enables firms to withstand economic shocks, meet stakeholder expectations, and reinvest in business expansion and innovation.

Profitability is a critical objective for any business, including insurance companies inclusive with main aim of improving an organization's financial health (Olajumoke, 2019). Profitability describes the relationship between the out-and-out sums of incomes and other variables.

Ibrahim and Abubakar (2017) posited that profitability is a key performance indicator (KPI) of insurance companies because it is a reliable measures of the company's income state. Profits, in practice, are defined by upper-level managers as earnings after expenses while some others measured in terms of return on assets (ROA) or profit after tax (PAT) (Green & Segal, 2016; Hafiz, 2018 ). Insurance companies' profitability is influenced by a variety of factors, which are generally classified as internal, industry, and macroeconomic. Internal are factors that can be control by management and can also make their profitability level irrespective of the external environment (Ayele, 2017; Hafiz, 2018). Swiss Re (2016) asserts that an insurer's profitability is determined by its underwriting and investment activities. The underwriting activities are examined in this study.

Irukwu (2019) defines an insurance claim as an “insurance extract in which the insurer agrees to indemnify the insured against a loss that may occur in the future or to pay a specified sum of money if a specified event occurs”. He describes insured risk as the loss against which the policy is written and that

insurance is enforceable in court because it is legally valid. He continued by stating that the obligations of both parties to the contract of insurance. While the insured's primary obligations are to pay the agreed premium and adhere to the policy's terms, the insurer's primary obligations are to adhere to his own terms and promises under the policy and also settle genuine claims promptly and fairly. Just like any other of the Nigerian economy, the insurance industry is plagued by a slew of issues. There is no doubt that some, if not all, of these issues are solvable by insurance practitioners with the assistance of government and the understanding of the insuring public. The last thing on the average Nigerian's mind is the need to effect insurance policies, despite the fact that business and life inherently involve financial or any other risks, many of which can be mitigated through insurance (Akintayo, 2018). According to Irukwu (2019), a good insurance manager must strive to maintain a competent claims department with technically competent and dependable personnel.

Furthermore, profitability represents a firm's ability to generate earnings relative to its resources, assets, or equity. It is a key indicator of managerial efficiency and long-term sustainability. In insurance companies, profitability is often measured using indicators such as return on assets (ROA), return on equity (ROE), net profit margin, and underwriting surplus (Fali, Nyor, & Mustapha, 2024). A profitable insurance firm is better positioned to absorb shocks, honor claims obligations, and maintain stakeholder confidence.

Profitability is commonly measured using accounting-based ratios such as Return on Assets (ROA) and Return on Equity (ROE). Return on Assets evaluates how efficiently a firm utilizes its total assets to generate profits, while Return on Equity measures the return generated on shareholders' invested capital (Boadi, Antwi, & Lartey, 2023). These indicators are particularly suitable for insurance companies because they capture both operational efficiency and financial performance.

For insurance companies, profitability is largely driven by two core activities: underwriting operations and investment activities. Underwriting profitability depends on the insurer's ability to correctly price risk, manage claims efficiently, and control operating costs. Investment profitability, on the other hand, arises from

effective management of premium income invested in financial assets before claims settlement (Swiss Re Institute, 2023).

A crucial determinant of underwriting profitability is claims management efficiency, as claims expenses typically represent the largest cost component for insurance firms. Recent industry and empirical evidence indicates that claims payments may account for between 60% and 80% of premium income, depending on market conditions and risk exposure (IAIS, 2024). High claims ratios and poor expense control directly reduce underwriting surplus, thereby weakening overall profitability. Consequently, effective risk management practices are essential for enhancing profitability and ensuring the long-term financial stability of insurance companies.

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

Return on Assets (ROA): 
$$\frac{\text{Net Income} + \text{Interest Expense}}{\text{Total Assets}}$$

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

Return on Equity (ROE): 
$$\frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

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

Lapse Ratio: 
$$\frac{\text{Lapsed Life Insurance}}{\text{Specified Period}}$$

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

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

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

Mounting competitive pressure combined with artificially low interest rates, characteristic of the last couple of decades, creates a potent incentive to engage in these strategies to keep investors happy. Excessive debt leverage becomes a significant albatross for a company when market demand for its products heads south, as many companies discovered during the current economic downturn. It actually creates more risk for a company in hard times. These efforts can become addictive. If underlying profitability continues to deteriorate, more stock buybacks or debt leverage will be necessary to maintain return on equity, further increasing company exposure to unanticipated

downturns in consumer demand or financial market crises. But letting ROE decline is often too painful to contemplate since the impact on stock performance hence financial performance can be immediate. The risks on the other side are less immediate and less quantifiable, so there is an understandable temptation to avoid immediate pain (Hagel, Brown & Davison, 2017).

### Concept of Risk Management

Risk management refers to a structured and continuous process through which organizations identify, assess, control, and monitor potential threats that may adversely affect the achievement of corporate objectives. It is designed to protect a firm's assets, earnings, and long-term sustainability by minimizing exposure to uncertainties arising from financial, operational, strategic, and external environmental factors (ISO, 2022). Effective risk management enables firms to anticipate adverse events, reduce potential losses, and enhance decision-making under uncertainty.

In the corporate environment, risk management serves as a fundamental governance mechanism for safeguarding organizational capital and ensuring earnings stability. It encompasses the systematic identification, evaluation, and mitigation of risks associated with financial volatility, legal obligations, technological disruptions, regulatory changes, and strategic failures (COSO, 2023). By integrating risk considerations into strategic planning and operational processes, organizations are better positioned to achieve resilience and sustained performance.

For insurance companies, risk management is not merely a supportive function but the core of their business operations. Insurers exist primarily to assume, pool, and manage risks transferred from policyholders in exchange for premiums. As such, ineffective risk management exposes insurance firms to underwriting losses, liquidity pressures, solvency challenges, and reputational damage (IAIS, 2024). The insurance industry faces unique risk exposures, including underwriting risk, claims volatility, investment risk, operational risk, and regulatory risk, all of which require specialized risk management frameworks. This study categorizes this comprehensive process into three primary domains which are financial risk management,

operational risk management and strategic risk management.

Modern insurance risk management emphasizes the adoption of Enterprise Risk Management (ERM) systems that integrate operational and financial risks across all organizational levels. ERM promotes a holistic approach to risk identification and control, enabling insurers to balance risk-taking with profitability objectives while ensuring compliance with regulatory standards such as risk-based supervision and capital adequacy requirements (Swiss Re Institute, 2023). Consequently, effective risk management remains a critical determinant of financial performance, stability, and competitiveness in the insurance sector.

Financial risk refers to the possibility that a firm may be unable to meet its financial obligations, thereby exposing shareholders and other stakeholders to potential losses. In recent literature, financial risk is commonly associated with liquidity risk, credit risk, solvency risk, underwriting risk, reinsurance risk, and capital adequacy risk, particularly within financial institutions such as insurance companies (Mohammed, Teru, & Aliyu, 2022; Kakanda, Salim, & Chandren, 2022). Financial risk arises mainly from uncertainties in cash flow management, excessive leverage, poor asset–liability matching, and weak risk governance structures (Jimoh & Attah, 2022).

Financial risk management focuses on risks arising from adverse movements in financial variables such as interest rates, exchange rates, inflation, credit exposures, and liquidity conditions. These risks directly affect insurers' asset values, liability structures, and solvency positions. Financial risk management involves the use of techniques such as diversification, reinsurance, asset–liability matching, and capital adequacy planning to mitigate potential losses (Mohammed, Teru, & Aliyu, 2022).

Effective financial risk management improves insurers' profitability by stabilizing cash flows and reducing earnings volatility. Poor management of financial risks can lead to solvency challenges and declining firm performance, particularly in volatile economic environments such as Nigeria (Agboola & Obalola, 2024).

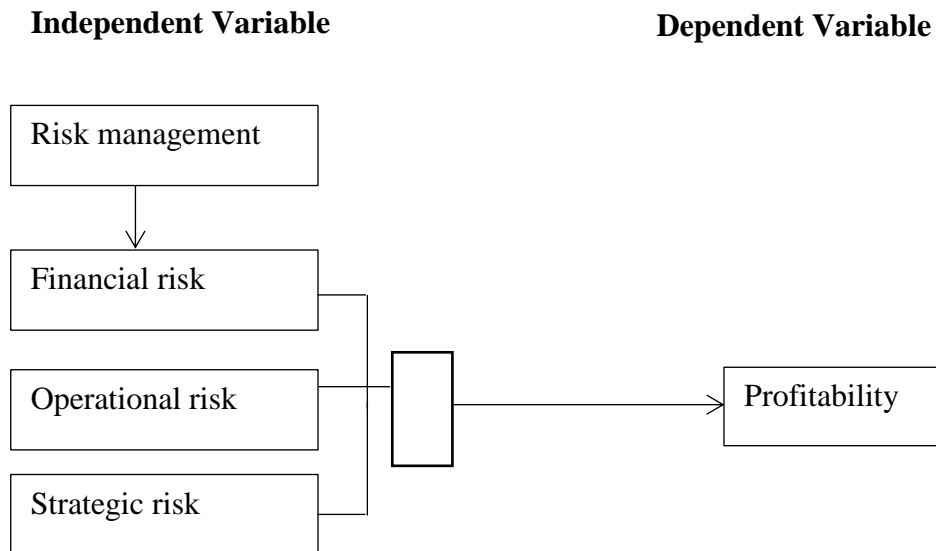
Operational risk management addresses losses resulting from inadequate or failed internal processes, human errors, system failures, or external events. In insurance companies, operational risk is closely linked to underwriting procedures, claims administration, information technology systems, and regulatory compliance frameworks (Basel Committee on Banking Supervision, 2023).

Operational risk is commonly proxied using indicators such as the claims ratio and expense ratio, which capture underwriting effectiveness and cost efficiency respectively. High claims ratios often indicate weak underwriting standards or poor claims control, while elevated expense ratios reflect operational inefficiencies that negatively affect profitability (Fali et al., 2024).

In developing economies, operational risk is exacerbated by technological gaps, regulatory changes, cyber threats, and infrastructural limitations. Empirical evidence suggests that insurers that invest in automation, internal controls, staff training, and process optimization are better positioned to reduce operational losses and enhance financial performance (OECD, 2023). Strategic risk management concerns risk that threaten an organization's long-term objectives and competitive position. These risks arise from poor strategic decisions, misinterpretation of market trends, regulatory shifts, reputational damage, or failure to adapt to changing stakeholder expectations. For insurance companies, strategic risk management involves aligning business strategies with market realities, regulatory requirements, and risk appetite. Poor strategic choices such as aggressive expansion without adequate risk assessment can undermine profitability and threaten organizational survival. Effective strategic risk management ensures that insurers maintain resilience and sustainable growth in an increasingly competitive and uncertain environment. Together, these form an integrated risk management framework indispensable for ensuring an insurer's financial stability and long-term profitability.

### **Conceptual Framework**

The conceptual framework explains the relationship between the explanatory and dependent variable.



## 2.2 Theoretical Framework

This study is anchored on two main theories which includes agency theory and modern portfolio theory.

Agency Theory (Stulz, 1985) provides a critical lens for understanding the necessity of risk management in corporate governance. This theory elucidates the potential conflicts of interest, or agency problems, that arise from the separation of ownership and control within a firm. Specifically, a mismatch can occur between the risk preferences of shareholders, who may seek higher returns, managers, who might prioritize job security or short-term performance, and debt holders, who are primarily concerned with the firm's solvency. These divergent interests can lead to suboptimal decisions, such as managers either taking excessive risks or avoiding beneficial but risky projects. Consequently, risk management serves as a vital mechanism to mitigate these conflicts, aligning the actions and risk-taking behaviors of management with the long-term interests of the owners and other stakeholders, thereby safeguarding the firm's value.

Modern Portfolio Theory (MPT), pioneered by Markowitz (1952), offers a foundational principle for risk management by demonstrating that diversification can reduce overall portfolio risk without necessarily sacrificing returns. Insurance companies inherently operationalize this theory through their core business model of risk pooling, which involves holding a large and diversified portfolio of uncorrelated or weakly correlated insurance risks. By effectively managing and

diversifying their underwriting portfolios across different lines of business, geographic regions, and risk categories, insurers can minimize the impact of any single loss event. MPT thus supports the idea that strategic risk diversification allows insurance companies to optimize their risk-return profile, achieving a more stable and enhanced level of profitability by operating on an efficient frontier where risk is calibrated to return.

## 2.3 Empirical Review

Recent empirical studies emphasize the importance of firm-specific factors and risk management practices in determining insurance company profitability. Fali et al. (2024) found that financial and operational risks significantly influence the profitability of listed insurance firms in Nigeria. Mohammed et al. (2022) reported that effective risk governance moderates the relationship between financial risk and firm performance.

Also, recent studies emphasize that effective financial risk management enhances profitability by stabilizing cash flows, reducing unexpected losses, and improving capital utilization (Agboola & Obalola, 2024). Conversely, excessive exposure to unmanaged financial risks may erode earnings and threaten firm survival, especially in volatile economic environments such as Nigeria's financial sector (World Bank, 2023).

Empirical evidence reveals a strong relationship between financial risk and profitability in insurance and financial institutions. Mohammed, Teru, and Aliyu

(2022) examined listed deposit money banks in Nigeria and found that credit risk, liquidity risk, and capital risk significantly influenced financial performance, with the risk management committee (RMC) playing a moderating role. Their findings suggest that strong risk governance mechanisms can mitigate the adverse effects of financial risk on firm performance.

Similarly, Kakanda, Salim, and Chandren (2022) investigated the characteristics of risk management committees and market performance of listed financial firms in Nigeria. The study revealed that RMC composition and expertise positively affected firm performance, while excessively large committee sizes negatively impacted profitability. This underscores the importance of not only having risk management structures in place but also ensuring their effectiveness.

Focusing specifically on the insurance sector, Fali, Nyor, and Mustapha (2024) analyzed listed insurance companies in Nigeria and found that credit risk and underwriting risk exerted significant negative effects on profitability, while liquidity risk showed mixed results. The study concluded that poor risk exposure management reduces insurers' capacity to generate sustainable profits and recommended stronger internal risk control frameworks.

Agboola and Obalola (2024) further examined the impact of financial risks on the financial performance of Nigerian insurance companies using panel data from 2012 to 2023. Their findings indicated that liquidity risk, credit risk, and underwriting risk did not have a statistically significant effect on profitability in the short run, suggesting that diversification strategies and regulatory compliance may cushion insurers against financial risk shocks.

Singh (2024) provided global evidence from microfinance institutions, demonstrating that financial risk negatively affects financial performance, while strong social and governance practices help moderate this relationship. Although the study was not insurance-specific, its findings reinforce the argument that effective risk governance can reduce the adverse profitability effects of financial risk.

Similarly, Agboola and Obalola (2024) observed that regulatory compliance and diversification strategies help Nigerian insurers mitigate risk-related losses.

International evidence also suggests that enterprise risk management adoption reduces earnings volatility and enhances firm value in the long run (OECD, 2023).

Mohammed et al. (2022) investigated the effect of financial risk on profitability of listed deposit money banks in Nigeria. Profitability was measured using Return on Assets (ROA), while financial risk was proxied by credit risk, liquidity risk, and capital risk. Using panel regression techniques, the study found that credit risk and liquidity risk had significant negative effects on ROA. The study further revealed that the presence of an effective risk management committee moderated the adverse effect of financial risk on profitability. The authors concluded that strong financial risk management frameworks enhance firm profitability.

Kakanda et al. (2022) examined the relationship between risk management committee characteristics and firm profitability among listed financial institutions in Nigeria. Return on Assets (ROA) was used as the proxy for profitability, while committee size, independence, and expertise represented risk governance. The findings showed that committee expertise and independence significantly improved profitability, while excessively large committees reduced ROA. The study emphasized that effective risk governance structures contribute positively to firm performance.

Jimoh and Attah (2022) analyzed the effect of risk governance mechanisms on firm profitability in Nigeria. Using ROA as a measure of profitability, the study found that effective risk oversight and governance significantly reduced financial risk exposure and enhanced profitability. The study concluded that firms with strong risk governance frameworks achieve better financial outcomes.

Mohammed and Ibrahim (2022) assessed the impact of enterprise risk management on profitability of insurance companies in emerging economies. Profitability was measured using Return on Assets (ROA) and Return on Equity (ROE), while financial and operational risks were incorporated as explanatory variables. The study found that insurers with structured risk management systems recorded higher profitability compared to those without formal frameworks.

The OECD (2023) conducted a cross-country study on financial and operational risk management in financial institutions. Using ROA, ROE, and earnings stability as performance indicators, the study found that institutions with integrated risk management systems experienced lower earnings volatility and improved profitability. The report emphasized that comprehensive risk management enhances long-term firm performance.

Swiss Re Institute (2023) analyzed global insurance profitability trends and identified underwriting risk and operational inefficiencies as key determinants of profitability. Operational risk was measured using claims ratio and expense ratio, while profitability was assessed using ROA and ROE. The study found that high claims and expense ratios significantly reduced insurers' profitability.

Akinwale and Adeyemi (2023) examined the effect of operational risk on profitability of insurance firms in emerging markets. Claims ratio was used as a proxy for operational risk, while ROA measured profitability. The findings revealed a significant negative relationship between operational risk and profitability, highlighting the importance of effective claims management.

Singh (2024) investigated the relationship between financial risk and profitability using ROA and ROE as performance indicators. The study found that financial risk negatively affected profitability, while strong governance mechanisms helped mitigate the adverse effects of risk on firm performance.

Fali et al. (2024) analyzed the effect of financial risk on profitability of listed insurance companies in Nigeria. Profitability was measured using ROA, while credit risk, underwriting risk, and liquidity risk served as proxies for financial risk. The findings showed that credit risk and underwriting risk significantly reduced profitability.

Agboola and Obalola (2024) examined the impact of financial risk on profitability of insurance companies in Nigeria. Using ROA as the dependent variable, the study found that liquidity risk, credit risk, and underwriting risk had no significant short-run effect on profitability, suggesting that diversification and regulatory compliance mitigated risk exposure.

The World Bank (2024) assessed the impact of operational risk management on profitability of firms in developing economies. Using expense ratio and internal process efficiency as proxies for operational risk and ROA as a performance measure, the study found that improved operational risk management significantly enhanced profitability.

Adekunle and Yusuf (2024) examined operational efficiency and profitability of insurance firms in Sub-Saharan Africa. Expense ratio was used as a proxy for operational risk, while ROE measured profitability. The findings showed that operational inefficiencies significantly reduced profitability.

Okoye and Eze (2024) investigated the effect of claims management efficiency on profitability of Nigerian insurance companies. Claims ratio was used as a proxy for operational risk, while ROA measured profitability. The study found that efficient claims management significantly improved insurers' financial performance.

The International Association of Insurance Supervisors (IAIS, 2025) examined the relationship between risk-based supervision and profitability of insurance firms. Using ROA and solvency indicators, the study found that effective regulatory oversight reduced financial and operational risks, leading to improved profitability.

Lawal et al. (2025) examined the effect of strategic risk management on profitability of listed insurance companies in Nigeria. Using ROA and ROE as measures of profitability, the study found that strategic alignment, diversification, and proactive risk planning positively influenced firm performance.

### **3. Methodology**

#### **3.1 Research Design**

This study employed a descriptive research design, supplemented by inferential statistics. The descriptive design allowed for the characterization of the variables under study, while inferential statistics (regression analysis) was used to establish relationships between risk management practices and profitability.

#### **3.2 Population and Sampling**

The study population consisted of all 58 insurance companies in Nigeria. A probability sampling technique was used, and five (5) insurance companies

were selected for the study. Sixty-five (65) questionnaires were administered to employees in relevant roles, such as risk managers, actuaries, financial analysts, of which 60 were properly filled and used for analysis, yielding a 92% response rate.

### 3.3 Data Collection and Analysis

Primary data was collected using a structured questionnaire. The data was analyzed using the Statistical Package for the Social Sciences (SPSS), version 23.0. Regression analysis was used to test the hypotheses.

### 3.4 Model Specification

The regression model used to describe the relationship is specified as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y = Profitability of the Insurance Firm

$\beta_0$  = Intercept

$\beta_1, \beta_2, \beta_3$  = Regression coefficients

$X_1$  = Financial Risk Management Practices

$X_2$  = Operational Risk Management Practices

$X_3$  = Strategic Risk Management Practices

$\varepsilon$  = Error term

## 4. Results and Discussion

### 4.1 Demographic Profile of Respondents

The demographic data (Table 1) shows that the majority of respondents (40%) were between 36-45 years old and 66.7% were male. In terms of position, actuaries (31.7%) and risk managers (21.7%) constituted the largest groups. The respondents' work experience was almost evenly split between 1-5 years (36.7%) and 6-10 years (36.7%), indicating a blend of fresh and experienced perspectives.

### 4.2 Test of Hypotheses

**Hypothesis 1 (H<sub>01</sub>):** Financial risk management practices do not have an impact on profitability.

A regression analysis was conducted with financial risk management practices as the predictor and profitability as the dependent variable. The results (Table 1) showed a significant model (R-Square = 0.8653), indicating that 86.53% of the variation in profitability is explained by financial risk management practices. The relationship was positive and significant ( $\beta = 0.87380$ ,  $t = 18.10$ ,  $p < .0001$ ). However, the null hypothesis was rejected.

**Table 1: Regression of Financial Risk Management on Profitability**

Predictor	Coefficient ( $\beta$ )	t-value	p-value	R-Square
Constant	0.16061	1.42	0.1603	
Financial Risk Practices	0.87380	18.10	<.0001	0.8653

Source: Authors' Compilation (2025)

**Decision:** Financial risk management practices have a significant positive impact on the profitability of insurance firms.

**Hypothesis 2 (H<sub>02</sub>):** Operational risk management practices do not have a positive influence on profitability.

The regression analysis for operational risk (Table 2) also yielded a significant model (R-Square = 0.6935). The practices accounted for 69.35% of the variation in profitability. The coefficient was positive and significant ( $\beta = 0.97399$ ,  $t = 10.74$ ,  $p < .0001$ ). The null hypothesis was rejected.

**Table 2: Regression of Operational Risk Management on Profitability**

Predictor	Coefficient ( $\beta$ )	t-value	p-value	R-Square
Constant	0.67880	4.64	<.0001	
Operational Risk Practices	0.97399	10.74	<.0001	0.6935

**Source: Authors' Compilation (2025)**

**Decision:** Operational risk management practices have a significant positive influence on the profitability of insurance firms.

**Hypothesis 3 (H<sub>3</sub>):** Strategic risk management practices do not increase profitability.

A Pearson correlation analysis was performed to test this hypothesis. The results (Table 3) revealed a very strong, positive, and statistically significant correlation between strategic risk management practices and profitability ( $r = 0.94154$ ,  $p < .0001$ ). This indicates that as strategic risk management practices improve, profitability increases substantially.

**Table 3: Correlation between Strategic Risk Management and Profitability**

Variables	Correlation Coefficient (r)	p-value
Strategic Risk Practices & Profitability	0.94154	<.0001

**Source: Authors' Compilation (2025)**

**Decision:** Strategic risk management practices have a significant positive relationship with the profitability of insurance companies. The null hypothesis is rejected.

#### 4.3 Summary of Findings

The data analysis yielded clear and significant findings regarding the impact of risk management on profitability. The study established that financial risk management practices exert a substantial and statistically significant influence on profitability, accounting for approximately 86.53% of its variation. Operational risk management practices were also found to be a critical determinant, significantly influencing profitability and explaining 69.35% of its variation. The analysis revealed a very strong positive correlation between strategic risk management practices and profitability, indicating that improvements in strategic risk oversight are closely associated with enhanced financial performance. Collectively, these findings underscore that the enhancement of risk management practices across all three domains financial, operational, and strategic is crucial for improving the overall financial performance and sustainability of insurance companies operating within the Nigerian market.

#### 5. Conclusion and Recommendations

This study provided valuable understanding into the profound influence of risk management on the profitability of the insurance sector in Nigeria. In a rapidly evolving financial landscape characterized by

numerous uncertainties, the industry's capacity to navigate complex challenges depends heavily on its ability to proactively identify, assess, and mitigate risks. The research has conclusively demonstrated that robust risk management practices are not merely a strategic choice but an absolute necessity for insurance firms seeking to enhance their profitability and ensure long-term viability.

The findings affirm that financial, operational, and strategic risk management practices are significant determinants of profitability. Companies that invest in comprehensive risk management frameworks are better positioned to seize emerging opportunities, weather unforeseen challenges, reduce financial losses, ensure regulatory compliance, and foster trust among policyholders. The impact of risk management on the profitability of the Nigerian insurance industry is, therefore, undeniable and crucial for its continued growth and stability.

Based on the findings, the following recommendations are proposed:

- i. Continuous Evaluation and Enhancement of Risk Frameworks: Insurance company management should institutionalize the continuous evaluation of their risk management practices to ensure relevance in a constantly evolving operating environment. This includes adapting to

- new regulatory pressures (e.g., solvency and Basel regimes). Regular open forums should be held to discuss the organization's risk capabilities, including its strategic position, personnel, processes, and technology.
- ii. Leverage Technology and Training: Management should invest in information systems capable of conducting precise risk assessments and monitoring the effectiveness of risk programs. This must be complemented by comprehensive employee training on the firm's risk management strategies, with clearly defined roles and responsibilities to foster a risk-aware culture.
  - iii. Adopt an Incremental Implementation Approach: The adoption of integrated risk management should be a gradual, evolving process rather than a revolutionary one.

- This allows employees across the organization time to adapt to the changes, ensuring better understanding and more successful long-term adoption.
- iv. Board and Management Education: Users of risk information, including the board of directors, should acquire a basic understanding of risk management. This will enable them to comprehend its significance, provide appropriate support and guidance, and remain informed about daily risk developments. Invest in Specialized Training: Individual external training should be arranged for staff to significantly enhance their risk management skills. A well-trained internal risk management team is crucial for the effective implementation and utilization of risk management practices within insurance firms.

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