Impact Of Unsystematic Risk On Financial Performance Of Quoted Nigeria Insurance Firms

[1*]Success Blessing Ejura
[2]Success Jibrin Musa
[3]Moses Ibrahim Karim
[4]Musa Saliu Mubarak
[5]Zikhrullah Ahmed

[1*]Department of Accounting, Banking and Finance, Faculty of Management Sciences, Veritas University Abuja Email: Besreal@gmail.com Mobile: +23408167550823

[2]Department of Accounting, Banking and Finance, Faculty of Management Sciences, Veritas University Abuja Email: musasuccessj@gmail.com Mobile: +2348039738770

[3]Department of Accounting, Faculty of Management Sciences, Kogi State University Abuja, Email: imoses93@yahoo.com, Mobile: +2349124621571

[4]Department of Accounting, Banking and Finance, Faculty of Management Sciences, Veritas University Abuja, Email: emperor2023@gmail.com, Mobile: +234 806 607 5256

[5]Department of Accounting, Banking and Finance, Faculty of Management Sciences, Veritas University Abuja, email: Zikhaad@gmail.com+234 802 363 9662

*Corresponding Author: Success Blessing Ejura

*Department of Accounting, Banking and Finance, Faculty of Management Sciences, Veritas University Abuja Email: Besreal@gmail.com Mobile: +23408167550823

Abstract

In the modern era, the insurance sector has experienced a crucial transformation in its environment due to improvements in the requirement of financial risk, operational risk, political, economic, natural, technical resources, and high-tech facilities, resulting in a significant impact on its performance. The broad objective of this research paper is to examine the impact of unsystematic risk on the financial performance of quoted Nigerian insurance firms**.** An ex-post facto research design was adopted. As of December 31, 2022, the population consisted of all 26 insurance companies that were listed on the Nigerian Exchange Group. The complete group of 26 listed insurance companies was subjected to census sample techniques for the years 2012 through 2022. According to the model's conclusions, the study discovers, among other things, that: Capital adequacy risk has a statistically significant influence on the financial performance of insurance firms in Nigeria, indicating that financial performance will be impacted if capital adequacy risk is not resolved by insurance firms in Nigeria. The study recommends among others that Reviewing the adequacy of capital adequacy risk across all the insurance firms' branches to ensure good capital adequacy. Also, assessment and the continuous monitoring of counterparty and portfolio to know when capital is adequate to finance all the policies undertaken.

Keywords: unsystematic financial performance

1. INTRODUCTION

Due to the increased demand for political, economic, environmental, technological, and high-tech resources and facilities in the contemporary era, the insurance industry has undergone a substantial alteration in its environment. This has had a significant impact on its performance (Akinyele, 2019). Unsystematic risk is also known as internal threat, the possibility of negative outcomes, loss, or exposure to misfortune. Financial services have unsystematic risk as a fundamental component. 2014 (Charles et al). Insurance businesses play a crucial role in managing customer risk as financial institutions, improving the resources that support a country's economic activities. According to Olalekan (2018), insurance companies play one of the most

important roles in a nation's economic life by fostering economic growth, allocating resources effectively, lowering risk, minimizing transaction costs, generating employment, encouraging investments, and distributing financial losses. In addition to sharing risk exposures, insurance companies perform tasks that banks and other financial organizations also perform (Mwangi and Angima, 2016, Musa, *et. al.* 2022)

In a similar vein, the researcher inferred from public insurance companies' financial accounts in Nigeria, between 2011 and 2017, over 25.6% of them had performance losses, and that, of the 25 firms under review, 12 of them reported losses in 2016. The National Bureau of Statistics (NBS, 2019) also states that the finance and insurance sector is made up of the two largest subsectors of financial institutions, accounting for 87.09% and 12.91% of the sector in real terms, respectively. The sector as a whole increased at -3.88% in negligible terms (year over year), with the growth rate of the insurance sector being -4.47%. The overall rate was -24.53% points lower than it was in the third quarter of 2016 and -21.56% points lower than it was in the years before that. In the third quarter of 2017, the sector contributed 3.04% to the overall national Gross Domestic Product, which was down from the 3.51% it contributed in the same period the previous year and from the 3.75% it contributed in the years preceding. Again, NBS (2019) revealed that the sector's growth in real terms was -5.96%, driven by the activity of financial institutions, which was lower by 8.61% points from the rate recorded in 2016 and by -16.42% points from the rate recorded in the years before.

The broad objective of this research paper is to examine the impact of unsystematic risk on financial performance of quoted Nigeria insurance firms. Specifically, the research aimed at achieving the below quoted objectives which are to

i) determine the impact of capital adequacy risk on financial performance of quoted insurance firms in Nigeria;

ii) examine the impact of Liquidity risk on financial performance of quoted insurance firms in Nigeria;

iii) evaluate the impact of re-insurance risk on financial performance of quoted insurance firms in Nigeria and

iv) To access the impact of underwriting risk on financial performance of quoted insurance firms in Nigeria.

2. LITERATURE REVIEW
Financial Performance
Financial performance was described by Tulsian (2014) as the capacity to maximize returns from all of an enterprise's operations. It describes how well an organization's management generates revenue by utilizing the resources at its disposal. Or, to put it another way, the capacity for profit. According to Asemeit (2014), who also defined financial performance as the process of carrying out monetary engagement employed to gauge a company's overall financial health over a specified time period. All profit-oriented businesses must have financial performance as a goal, and failure can result if it doesn't. Profitability is a common metric of the monetary outcome. (Musa *et al* 2022.)

Financial performance according to this study's definition of return on equity. (ROE), which is calculated as earnings after interest and taxes (EIT) divided by the total shareholder equity among the risk-management firms. In order to examine the links between the other variables in the study, the panel regression analysis uses this financial performance indicator as a dependent variable.

Unsystematic Risk
Many studies have defined unsystematic risk in various ways, as may be seen in: Unsystematic risk, sometimes referred to as particular risk or idiosyncratic risk, is a class of risks that solely affect an industry or a single company, according to Dionne (2013). The danger of losing a share because of a risk unique to a firm or industry is known as unsystematic risk. (Ibrahim et al. 2018) A new rival entering the market with the potential to steal market share from a firm some examples. Others include a management shift, a product recall, a supervisory change that could hurt company sales, and a change in management. By investing in a variety of claims, insurance companies frequently employ re-insurance to manage unsystematic risk. Examining how unsystematic risk affects the monetary outcome of listed risk-management firms in Nigeria, this

study selected the definition provided by Arif and Showket (2015) because it included all of the essential components. (Musa *et al* 2022.)

Capital Adequacy Risk
Capital adequacy risk, according to Oluwafemi et al. (2014), is the difference between the apparent lengths of enduring assets that are financed with short-term, regulated rate loans, leading to a shortfall in cash flows during periods of rising interest rates. This element once more has the potential to lower the company's ranking and create less favorable circumstances for future issues with further funding throughout the asset's remaining useful life. Moreover, Wani and Dar (2015) described capital adequacy risk as an organization's incapacity to effectively manage its finances and fulfill its financial responsibilities. If a business is able to fulfill its obligations, it is considered to be liquid. Because this research solely considers the component of capital adequacy risk that pertains to insurance firms, capital adequacy risk is defined for the purposes of this study as the potential loss of part or all of an investment, as adopted by (Ibrahim, et al. 2021).

Liquidity Risk
Liquidity risk is the incapacity of insurance firms to execute their immediate obligations without having to increase profits on underwriting and investment, to policyholders' operations and/or liquidate financial assets, according to Boadi, et al. (2013), who examined the topic. To fulfill the immediate liabilities for "claims due for payment but not paid," there must be enough cash and bank balances on hand. This firmly covers the percentage of claims liability that was incurred but not disclosed. The cash flow of an insurance should always be positive. A company needs cash flow to survive. If you have enough money on hand, you may make sure that your debtors, employees, and other parties are paid on time. The incapacity of the financial institution to fulfill its cash and collateral obligations without suffering unacceptable losses is referred to as liquidity risk for the purposes of this study. (Mwangi & Murigu, 2015)

Re-Insurance Risk
Malik (2011) defined re-insurance as the act of dispersing risk with regard to re-insurance risk. He added that by allowing insurers to spread their risks, reinsurance protects them from unexpected or severe losses. For instance, a major fire at an industrial facility may bankrupt the insurer. Reinsurance ensures that no one insurer is faced with costs that are too great for them to bear. By leveling loss experience, expanding capacity, restricting liability on particular risks, and/or protecting against catastrophes, buying reinsurance lowers the insolvency risk for insurers. But, paying reinsurers to shift risk is expensive. Reinsurance can cost an insurer substantially more than the actual cost of the risk transferred. The definition provided by Suheyli (2015) is used for the purposes of this study since it provides the precise terminology that is anticipated to assist the researcher in explaining the findings in connection to financial performance. (Musa *et al* 2022.)

Underwriting Risk
Jakovcevic and Mihelja (2014) defined insurance underwriting risk as the possibility that risk-management (insurance) businesses would incur losses as a result of economic circumstances or the frequency of accidents changing in contrast to the predictions made when a premium rate was set. In addition to the aforementioned, Suheyli (2015) defined underwriting risks as the dangers that arise when premiums, aggregate claims, and claims reserves are computed wrongly. There could be impending losses for the company if claim reserves are undervalued and the total number of claims is calculated incorrectly. The organization suffers negative financial effects when premiums are calculated incorrectly, especially when it comes to paying claims. This study employed the concept of Mwangi and Murigu (2015) to discuss financial risk since it highlighted the element required for this study and provided an explanation in regard to the monetary outcome of risk-management companies. (Musa *et al* 2022.)

Empirical Review
The research incorporates various empirical studies from both developed and developing nations, such as Nigeria and Africa, to review several empirical studies that are relevant to the influence of monetary risk on the efficiency of insurance businesses. This focuses on related research on

financial risk and insurance company financial performance. For instance, Ujunwa and Modebe (2011) looked at the Nigerian case study of repositioning the insurance business for operational efficiency. For typical insurance firms, there are several areas that are ready for transformation using a conceptual research system, including expository research manual procedures, client retention, underwriter impactiveness, client service response, and claims cycle times. They outlined how insurance businesses that comprehend the genuinely compelling need for this transformation and who make use of the resources currently at their disposal to boost functional impassivity and improve crucial insurance processes will be pioneers in the assiduity for a long time to come. They came to the conclusion that these difficulties are not insurmountable and advised developing measures for improving the operational effectiveness of the Nigerian insurance sector. The time-lapse will be covered in this study.

Adrian (2014) also looked at the link between monetary risk and the success of Kenyan insurance firms financially. 49 insurance companies in Kenya made up the study's sample, and the study's five-year time frame spanned from 2009 to 2013. The study showed a link between monetary risk and the financial success of Kenyan insurance firms. Consequently, the researcher gathered a sample of the entire population. For the following independent variables, the research effort made use of secondary data from risk-management (insurance) company annual reports.: capital adequacy risk, Risks related to money, liquidity risk, terms of size, and volatility risk. The monetary achievement of the corporation was measured using return on assets (ROA). Multiple regression models were employed to apply inferential statistics during the data analysis using SPSS Version 20. He ignored attempts to confirm new model assumptions in favor of merely testing the relevance of the model. The study's ultimate finding was that despite the fact that the financial health of insurance providers in Kenya had a poor correlation with Risks associated with capital, finances, solvency, liquidity, and insurance size businesses were favorably correlated with that performance. This study will moderate the variable that is utilized to determine the strength of the correlation after moderation.

Additionally, Cucinelli (2013) conducted research on the correlation of flexibility risk and default dimension using data from the Euro Area. On the basis of panel data, OLS regression was utilized for the analysis, and the sample consists of 575 quoted and unquoted Euro zone banks. The findings show that only the association between credit rating and liquidity coverage ratio exists; there is no correlation between default likelihood and long-term liquidity. The results of the study cannot be applied to the Nigerian insurance industry since it is too small to be comparable to the banks in the Eurozone, and the results must be moderated to determine if they support or refute his findings.

Rehman and Srivastava (2013) looked at the evidence from Pakistan's non-life insurance business to analyze the change in profitability owing to reinsurance utilization and leverage levels. Their independent variables were reinsurance practice and leverage, and their dependent variables were ROA and ROE. The use of reinsurance and profitability was shown to be positively correlated by the random impact model, which was used to panel data regression analysis. Leverage levels have a severe detrimental influence on profitability. However, profitability is declining as reliance on reinsurers increases, increasing the risk of insolvency. The bulk of insurance businesses largely rely on reinsurance and leverage to increase their underwriting capacity and maintain their profitability, which puts them at risk of bankruptcy.

In a similar vein, Ijaz (2015) investigated Pakistan's post-crisis macroeconomic environment and insurance industry profitability. The variables that were independently included business size, financial leverage, underwriting risk, financial soundness, growth potential, expansion, working capital management, the equity market, and inflation. The factor that was dependent was profitability. Recent studies have suggested that the net worth of coverage companies was significantly affected by the size of the company, leveraged funding, insuring risk, fiscal stability, prospects for growth, diversified portfolios, cash flow management, and stock market conditions. Underwriting risk, financial leverage, and relative company size have a negative impact on the profitability of life insurance companies, whereas the other factors have a positive impact.

The many ways that insurance companies raise capital are examined, as well as how funding is distributed to projects while taking into account the risks involved (Arif & Showket, 2015). The portfolio theory, the prospect theory, and the contingency theory—all of which are discussed in this section—will be utilized to support the study's conclusions.

Theoretical Review
The Portfolio Theory
The "portfolio option" theory, which allows financiers to assess risk in relation to estimated returns, was established by an American economist named William (19520). The results of this research, William Sharpe, Merton Miller, and Professor Markowitz, at Baruch College at the City University of New York, discussed the 1990 Nobel Commemorative Prize in Economic Sciences. The theory of portfolios is the contemporary name for Markowitz's thesis. By judiciously regulating the value of various assets, the portfolio theory is an investing concept that tries to optimize projected payout from a specific degree of risk or, contrary, mitigate risk for a given degree of potential return. Although several of its underlying assumptions have recently come under investigation, the MPT is frequently employed in practice in the financial industry. (Musa *et al* 2022.)

In the mathematical representation of finance, contemporary portfolio theory, which replaces conventional investment models, marks a significant accomplishment. The theory promotes the diversification of assets as an effort for guarding towards the market volatility as well as unsystematic risk, which is a risk unique to a particular organization. The theory, which is also known as portfolio management theory, is an intricate system for choosing investments that help investors categorize, estimate, and control the nature and quantity of imagined return on risk. The measurable nature of the link between return on risk and the concept that financiers must be paid for taking on risk are the cornerstones of portfolio theory. The MPT formulates the concept of investment diversification mathematically, allowing investors to select a a group of financial assets that collectively carry a lower risk than any single item. Given how frequently different asset types undergo opposite swings in value, the possibility of this is logically apparent. But even when asset returns are favorably correlated—and even when they are—diversification lowers risk.

3. METHODOLOGY
The correlation and ex-post facto research approaches were used by the researcher to analyze how monetary risk affected the success of listed Nigerian risk-management firms. All 26 insurance companies that were valued on the Nigerian Currency as of December 31, 2021, made up the study's population. According to Creswell (2014), in order to generalize the study's findings to the target group, there should be some observable traits. The sample size is however limited to all 26 quoted insurance companies on the Nigerian Stock Exchange market as of December 2022, based on census sampling. Data for the study is created using secondary sources and taken from the official website's annual financial reports and accounts of mentioned insurance corporations of the Nigerian Exchange Group (NEG) market. The subject of a study that gathered data for the last ten years beginning in the year 2012 and ending in the year 2022 from the financial statements of the insurance firm during the same period disclosed in accordance with the NAICOM prudential guidelines was the link between unsystematic danger and monetary of quoted Nigerian risk-management firms. The study's main focus will be on quantitative analysis in order to meet its goals. As a way to ascertain and quantify the effect of unsystematic risk on the fiscal performance of listed Nigerian Risk Managers, the researcher will employ econometric models. The STATA 13 software program will be used to choose the best method of data analysis for the project.

Model Specification
For the purposes of elaborateness and complete comprehension, this study will make use of two distinct models, which have been modified from (Mutende et al 2017). The first model will depict how risks associated with reinsurance, capital, liquidity, underwriting, and leverage are all directly related to ROE without moderation.

$$ROE_{it} = \beta_0 + \beta_1\, CAR_{it} + \beta_2\, LR_{it} + \beta_3\, RIR_{it} + \beta_4\, UR_{it} + \beta_5\, LVR_{it}\, it + \beta_6\, FRS_{it} + \varepsilon\, it$$

Where: ROE = Return on Equity

β_0 = Constant

β_1 to β_6 = Coefficients of independent variables 1 to 6

β_6 = Coefficient of the moderating variable

CAR = Capital Adequacy Risk

LR = Liquidity Risk

RIR = Re-Insurance Risk

UR = Underwriting Risk

it= Represent a combination of time series data and cross-sectional data (panel data)

ε = error term

4. RESUT AND DISCUSSION
Descriptive Statistics
Table .1 presents descriptive statistics of the variables of the study.

Table .1: Descriptive Statistics of the Variable

Variables	OB	Mean	Std dev.	Min	Max	Skewness	Kurtosis
ROE	260	0.788	0.904	-2.260	3.190	0.0449	3.435
CAR	260	0.721	0.712	0.110	0.990	-0.948	3.529
LQR	260	0.973	0.320	0.180	1.920	0.363	3.017
RIR	260	0.545	0.245	0.010	0.980	-0.319	2.124
UR	260	0.596	0.245	0.001	0.980	-0.371	2.125

Source: Summary Statistics from Stata (2023) output

Table.1 above shows that the return on equity ranges from -2.260 to 3.190, with a mean of 0.788 and a standard deviation of 0.904. It demonstrates that the sampled firms' operations provide an average return of 79%. The minimal value shows that certain insurance companies may have up to a 226% loss while others may have up to a 319% profit. The standard deviation of 0.904 indicates that the data deviate by 90% on either side of the mean value, proving how far the figures are from the mean. The skewness measures the symmetry of a distribution. The skewness gauges a distribution's symmetry. The skewness value of 0.0449 suggests that the data is positively skewed, and since it is distributed above 0, it does match the symmetrical distribution assumption. Similar to this, the Kurtosis measures the distribution's tail end and determines whether a data set's distribution has fat or skinny tails in comparison to the normal distribution. The data follow a Gaussian distribution with no fat or thin tails, according to the standard distribution, which has a Kurtosis of 5. As a result, the observed data have a kurtosis of 3.435, which indicates that they are below the average mean and do not satisfy the criteria for a Gaussian distribution. This is consistent with (Shao, 2003)

Also, the mean, minimum, and maximum values for Capital Adequacy Risk (CAR) are 0.721, 0.110, and 0.99, respectively. There is not much variance from the mean, as indicated by the data are centered around the mean according to the standard deviation of 0.712. While the kurtosis value of 3.529 indicates that the majority of the data are lower than the mean more than would be expected under the assumptions of the normal distribution, the coefficient of skewness -0.948 indicates that data is negatively skewed and, therefore, meets the symmetrical distribution assumption because it is distributed below (0).

Moreover, Liquidity Risk (LQR) has a mean of 0.973, with the minimum value being 0. 180 and the highest value being 1.920. The data are centered around the mean, as shown by the standard deviation of 0.3200, indicating that there is not much variation from the mean. The data does not satisfy the symmetrical distribution assumption since it is distributed above zero (0), according to the Coefficient of Skewness of 0.363, and it also does not satisfy the normal distribution assumption, according to the kurtosis value of 3.017.

Similar to the above, the mean for reinsurance risk is 0.545, with a minimum value of 0.010 and a high value of 0.980. According to this, insurance companies typically face a 55% annual reinsurance risk. Since the data are not tightly connected, the deviation of 0.281 shows that

there's significant dispersion around the mean. On the aggregate, however, the re-insurance risk has deviated significantly. While the kurtosis value of 2.124 suggests that the data does not match the normal distribution criteria since it falls below the mean value as suggested by the skewness of -0.319, the data does meet the symmetrical distribution assumption because it is dispersed below zero (0). (Shao, 2003).

The typical mean value of the Underwriting Risk (UR) is 0.596. During that time, the lowest Underwriting Risk was set at 0.001 and the maximum at 0.98. The 0.245 standard deviation shows that Underwriting Risk was not randomly distributed across the time. It is not much below the mean average, which explains why. The data is symmetric, as indicated by the skewness value of -0.371, and does not fit the criteria for a normal distribution, as indicated by the kurtosis value of 2.125.

Test of Model

Table The Robust Fixed Impact Regression Result (HACC Model)

Variables	Coefficient	T-values	p-values
Constants	0.0139	0.07	0.945
CAR	0.238	2.12	0.034
LQR	0.275	2.11	0.035
RIR	0.091	0.99	0.321
UR	0.129	1.14	0.253
LEV	0.271	2.25	0.025
R-Squared	0.3866		
Adj R-Squared	0.3866		
F-Stats	34.83		
Prob>F	0.0000		

Source: STATA Output (2023)

Unsystematic Risk and Financial Performance

The independent factors represented by unsystematic risk have a favorable and substantial influence on the financial results of Nigeria's listed insurers, as illustrated in Table 2. The dependent and independent variables' cumulative correlation indicates a positive, strong, and statistically significant link between unsystematic risk and financial performance at the 1% level of significance. This means that any N1 adjustments to an insurance company's unsystematic risk will have a direct effect on their ability to generate revenue. The cumulative R2 (0.3866), also known as the multiple coefficient of determination, is the coefficient of determination based on the proportion of the dependent variable's total variance that can be explained by the independent variables when they are all considered together. Hence, it means that the amount of risk associated with capital adequacy, liquidity, reinsurance, underwriting, leverage, and company size accounts for 38.66% of the overall variation in the financial performance of stated insurance firms in Nigeria. This indicates the model is accurate and that the explanatory variables were chosen, merged, and used appropriately. The value of F statistics, which is 34.83 at the 1% level of significance, confirms this. The outcome, however, does not supersize because the researcher had anticipated it beforehand. As it is supported by the findings of Arif and Showket, (2015), Sisay (2017) and Asemeit (2014)

The coefficient and t-value of capital adequacy risk are, respectively, 0.238 and 2.12, with 0.034 as the p-value, according to the table's findings. This shows that capital adequacy risk has a 5% positive, considerable impact on the monetary performance of Nigerian listed insurance companies. According to the outcome, Nigerian insurance companies' financial performance will rise by 24% for every 1% increase in CAR. This suggests that any increase in an organization's capital Eventually, adequacy risk will result to a boost in the financial success of Nigerian insurance companies. This is not unexpected because it is in line with the researcher's earlier hypotheses: the more the return on investment, which up until now has affected the monetary performance of risk-management (insurance) firms in Nigeria, the greater the capital a firm has invested. The research's findings are in line with the portfolio theory, which explains or influences

how capital adequacy risk affects the fiscal success of the dependent variable as evaluated by return on equity for insurance firms. This is due to the absurdity of insurance companies' liquidity and solvency without significant and effective capital adequacy risk management (Pyle, 1997). However, businesses need a lot of capital in order to compete with international organizations, benefit from economies of scale, and offset losses as indicated by the problem statement. In reality, too much capital in an organization can result in overcapitalization of the firm, which allows for lower financial performance and may eventually cause liquidation. Thus, the analysis disproves null hypothesis one (H01), which asserted that the financial standing of Nigeria's publicly traded insurance companies has not noticeable impact on capital adequacy risk. The study draws the conclusion that capital adequacy risk had a substantial impact on the monetary success of valued insurers in Nigeria during the study period. The findings of Wani and Dar (2015), Mwangi and Murigu (2015), and Adrian (2014) confirm this; Berhe and Kaur's (2017) findings are in opposition.

Also, the results show that the liquidity ratio has a t-value of 4.11, a beta value of roughly 0.275, a probability of 0.035, and is significant at 5%. This suggests that stability risk has a favorable and considerable impact on the financial performance of Nigerian quoted insurance firms. This means that the performance of insurance companies will improve by 28% for every 1% increase in liquidity risk. This also fits with what I had previously anticipated from the researcher. The results of this study are consistent with the prospect theory, which argues that insurance companies must keep liquid assets in order to seek high returns, lower risk, and make necessary provisions. According to this notion, businesses must keep short-term assets to lessen the effects of operational uncertainties and different liquidity requirements. The results are also consistent with reality. Increased liquidity enhances the financial efficiency of insurers' businesses in Nigeria by increasing their capacity to finance their activities. This supports our rejection of null hypothesis 2 (H02), which asserts that liquidity risk have no appreciable effect on the financial efficiency of listed insurers in Nigeria. The research's findings as a result that, throughout the study period, liquidity risk severely influenced the monetary success of quoted insurance firms in Nigeria. Support for this may be seen in the findings of studies by Olalekan (2018), Mwangi and Angima (2016), Kamau and Njeru (2016), Otieno and Nyagol (2016), along with others who believed that the financial performance of insurance companies in Nigeria was significantly and favorably impacted by liquidity risk. But according to Igbal, Chaudry, and Din's (2015) research, there is a bad correlation between liquidity risk and financial success. which is in contrast to Muriithi and Waweru's (2017) findings.

According to the table, Re-Insurance Risk (RIR) has a t-value of 0.99, a beta coefficient of 0.09, and a p-value of 0.321. This suggests that RIR has little to no effect on the financial health of Nigeria's listed insurance companies. According to the beta coefficient value, a 1% rise in RIR will result in a 9% rise in the financial performance of Nigerian insurance companies that are publicly traded. This study has the implication that financial performance increases as re-insurance value increases. This is not unexpected because it is consistent with the researcher's earlier prediction. The results of this study are also consistent with the portfolio theory and contingency planning theory, which explain that insurance companies must aim for high returns, minimize risk, and provide for enough reserves by diversifying risk. This theory supports the idea that insurance companies should share risk so they can take on greater risk and diversify their investments. In actuality, the capacity to diversify risk spreads the organization's risk component, so lowering the entity's risk. The third null hypothesis (H03), according to which re-insurance risk has no appreciable impact on the monetary performance of insurance firms in Nigeria, is not refuted by the study. The finding contradicts the study of Burca and Batrinca (2014), Rehman and Srivastava (20130 and Aduloju and Ajemunigbohun (2017)

The financial performance of quoted insurance firms in Nigeria is found to be minimally impacted by underwriting risk. The probability value of 0.253 and the t-value of 1.14 support this. In other words, it is not relevant at any level. This conclusion has the indication that insurance companies in Nigeria appropriately captured underwriting risk over a longer period between the time a policy is purchased and the time claims are paid. The correlation of 0.129 shows that when underwriting risk rises by 1%, financial performance rises by 13%. This is consistent with the researcher's earlier prediction that rising underwriting risk would improve the financial results of Nigerian insurance firms. The results of our study are consistent with the contingency theory, which

contends that insurance companies should aim for large returns while also lowering risk and providing for underwriting risk. According to this notion, insurance companies must handle the underwriting risk component appropriately in order to pull a bigger risk and diversify their investments. In actuality, the capacity to diversify risk spreads the organization's risk component, so lowering the entity's risk. The fourth null hypothesis (H04), which states that underwriting risk has no discernible effect on the financial performance of insurance firms in Nigeria, is also not refuted by the study.. As such, this finding is supported by the findings of Ijaz (2015), Wani and Dar (2015) Charumathi (2012).

5. CONCLUSION AND RECOMMENDATIONS

The study comes to the following conclusion: Capital adequacy risk has a statistically significant influence on the financial performance of insurance firms in Nigeria, indicating that financial performance will be impacted if capital adequacy risk remains unresolved in insurance firms in Nigeria. The financial performance of insurance firms in Nigeria is statistically significantly impacted positively by liquidity risk, suggesting that the more LQR an insurance firm has, the better its financial performance will be. Reinsurance risk does not have a statistically significant impact, but it does have an impact on how well insurance companies perform financially in Nigeria. If reinsurance risk is correctly managed, this can improve financial performance. The researcher comes to the conclusion that in order to improve the financial performance of insurance firms in Nigeria, re-insurance risk should be appropriately managed. This conclusion suggests that underwriting risk should be effectively controlled as it will improve the financial performance of insurance firms. Underwriting risk has a statistically minor impact on the financial performance of quoted insurance firms in Nigeria.

Based on the moderating effect of firm size, the study suggests that key players like insurance firm managers, financial analysts, policy makers, and all other stakeholders in the insurance sector should be aware of the four types of unsystematic risk and effectively implement preventive measures to allow insurance firms to function at their best. In light of its results and recommendations, the study suggests the following::

i. Reviewing the adequacy of capital adequacy risk across all the insurance firms' branches to ensure good capital adequacy. Also, examination and the continual supervision of adversary and portfolio to know where funds is sufficient to fund all the policies implemented.

ii. Management of insurance firms in Nigeria should take keen interest in how they manage liquidity risk in order to maximize return to the shareholder which is one of the major objectives of their existence.

iii. By managing re-insurance risk, management should come up with policies of ensuring that re-insurance of policies is properly handle in other to enhanced financial performance but re-insurance should be up to certain limit beyond which the impact could be negative due to bureaucratic and other reason.

iv. Underwriting risk constitute a great proportion of the insurance risk. Management should adopt proper measures of handling underwriting risk since it can enhance financial performance of the insurance firms.

REFERENCES

Adrian, R. (2014). The relationship between financial risk and financial performance insurance companies in Kenya. *Unpublished master's thesis.* University of Nairobi.

Aduloju, A. S & Ajemunigbohun, S. S. (2017). Reinsurance and performance of the ceding companies: The Nigerian insurance industry experience: *Economics and Business Journal,* ISSN 2256-0394. https://www.degruyter.com/view/j/eb

Akinyele, B., (2019). 2019 Outlook for Nigerian Insurance Industry. *Proshare Finance.* Thursday, January 10, 2019 9.58 AM

Arif, A. & Showket, A. (2015). Relationship between financial risk and financial performance: an insight of Indian insurance industry. *International Journal of Science and Research.* (11), 1424-1433.

Asemeit, C. (2014). The impact of risk management on financial performance of insurance companies in Kenya. *A research project submitted in partial fulfillment of the requirement for the award of the degree of master of science in finance*. The University of Nairobi.

Berhe, T. A. & Kaur T. (2017). Determinants of insurance companies' profitability Analysis of insurance sector in Ethiopia, *International Journal of Academic Research in Economics and Management Sciences, 7*(4), 124–137.

Boadi, E. K., Antwi, S., & Lartey, V. C. (2013). Determinants of profitability of insurance firms in Ghana, *International Journal of Academic Research in Management Sciences,* (4), 43–50.

Burca, A., & Batrînca, G. (2014). The determinants of financial performance in the romanian insurance market, *Journal of Risk and Insurance. 4*(1), 299–308. https://doi.org/10.6007/IJARAFMS/v4-i1/637

Charles, Y., Jane, S. & Cheruiyot, P. K. (2014) Impacts of financial risk management on firm's profitability: panel data econometrics of selected micro-financial institutions in Kenya. *Research Journal of Finance and Accounting.* (5), 160-169

Creswell, W. (2014). Research design: quantitative, qualitative and mixed methods approaches, 4rd EDN. Sage Publications, California.

Cucinelli, D. (2013). The relationship between liquidity risk and probability of default: Evidence from the Euro area. *Risk Governance and Control: Financial Markets and Institutions*, *3*(1), 42- 50.

Dionne, G. (2013). Risk management : history , definition and critique risk management : history, definition and critique. *Research Journal of Finance and Accounting. (*16), 147-166

Ibrahim, K. M., Haruna, R. A., & Udanwojo, A. A (2018) Effect of corporate governance mechanism on financial performance of listed food and beverages companies in Nigeria. *Journal of Economics and finance 2(2) 67 – 79*

Ibrahim, K. M., Haruna, R.,A & Aruwa, S. A. O.S (2021) The effect of forensic accounting and communication skills on financial reporting : A case of Nigeria food and beverages company: *Journal of forensic accounting & fraud investigation (JFAFI) 6(1)1–22*

Iqbal, H. T., Rehman, M. U., & Shahzad, S. J. H. (2014). Analysis of change in profitability due to reinsurance utilization and leverage levels: evidence from non-life insurance sector of Pakistan. *JISR-MSSE. Journal of Business Ethics*, (12), 1-10

Kamau, F & Njeru., A. (2016). Impact of mergers on financial performance of firms quotedat the Nairobi securities exchange. *International Journal of Science and Research (IJSR) 5*(10), 867–872. https://doi.org/10.21275/ART20162288

Malik, H. (2011). Determinants of insurance companies profitability: An Analysis of Insurance Sector of Pakistan, *International Journal of Science and Research. 1*(3), 315–321.

Musa, S. J., Ibrahim, K. M. & Success, B. E. (2022) Agency theory and corporate governance: A comparative study of Board diversity. *Journal of Positive School Psychology. 6, (6), 10364 – 10372*

Musa, S. J., Ibrahim, K. M. & Success, B. E. (2022) Effect of leverage on profitability of information and communication technology companies listed on the Nigeria stock exchange. *Journal of Positive School Psychology 6(6), 10386 – 10393*

Musa, S. J., Ibrahim, K. M. & Success, B. E. (2022). Contribution of tax revenue to Nigeria Economic growth (2003–2017) *ESUT Journal of accountancy 8(2) 228–244*

Musa, S. J., Ibrahim, K. M. & Success, B. E. (2022). Moderating role of board expertise on the effect of working capital management on profitability of food and beverages companies quoted in Nigeria. *Journal of Positive School Psychology 6(6), 10375 – 10385*

Musa, S. J., Moses, I. K., & Success, B. E. (2022). Agency theory and corporate governance: A comparative study of Board diversity and financial performance in Nigeria: *Journal of Positive School Psychology* 6(6), 10364 – 10372

Musa, S. J., Moses, I. K., & Success, B. E. (2022). Effect of corporate governance on risk management of selected deposit money banks in Nigeria. *International Journal of Health Sciences*, 6(S6), 6193–6203. https://doi.org/10.53730/ijhs.v6nS6.10970

Musa, S. J., Moses, I. K., & Success, B. E. (2022). Moderating effect of audit quality on value relevance of accounting information of listed firms in Nigeria. *Neuro Quantology, 20(7) 2639-2648, doi: 10.14704/nq.2022.20.7. NQ33339.*

Musa, S. J., Success, B. E. & Ibrahim, K. M. (2022) Moderating effect of audit quality on value relevance of accounting information of listed firms in Nigeria: *Neuro Quantology , 20(7) 2639-2648/ doi: 10.14704/nq.2022.20.*

Musa, S. J., Success, B. E. & Ibrahim, K. M. (2022). Impact of corporate financial need on dividend policy: *Neuro Quantology* 20 (7)2626-2638 doi: 10.14704/nq.2022.20.7. NQ 33338.

Muriithi, J. G., & Waweru, K., M. (2017). Liquidity risk and financial performance of commercial banks in Kenya. *International Journal of Economics and Finance*, *9*(3), 256. https://doi.org/10.5539/ijef.v9n3p256

Muteti, S., R. (2014) Relationship between financial risk management and financial performance of commercial banks in Kenya. *Unpublished Dissertation,* School of Business, University Of Nairobi

Mwangi, M. S. & Angima, C. B. (2016). Actuarial risk management practices and financial performance of property and casualty insurance firms: Identification of a moderating variable, *International Journal of Economics and Finance*, *6*(2), 126–132.

Mwangi, M. &Iraya, C. (2014). Determinants of financial performance of general insurance underwriters in Kenya. *Journal of Business and Social Science*, 5(3), 210-215.

Mwangi, M. & Murigu, J. W. (2015). The determinants of financial performance in general insurance companies in Kenya. *European Scientific Journal,* edition (11), 288-297

National Bureau of Statistics: (November,2019). Nigerian gross domestic product report. *National Bureau of Statistics.* Abuja-Nigeriaport

Olalekan L. I. (2018), impact of liquidity risk, premium growth on the performance of quoted insurance firms in Nigeria: a panel data analysis. *American Finance & Banking Review*; (2) 123-128

Oluwafemi, A., S., Israel, A., N., Simeon, A., O., & Olawale, O., (2014). Risk management and financial performance of banks in Nigeria. *European Journal of Business and Management* (6) 336-342

Otieno, S., & Nyagol, M. (2016). Empirical analysis on relationship between liquidity risk management and financial performance of microfinance banks in Kenya. *Research Journal of Finance and Accounting*, *7*(6), 115–142.

Pyle, D. (1997), "Financial risk management ", *Working Paper* NO.272, University of RBA.

Rehman MAA and Srivastava RL (2013). Green manufacturing (GM): past, present and future (a state of art review). *World Review of Science, Technology and Sustainable Development Journal*, (10), 17-55.

Sisay, D. (2017). The impact of financial risk on performance of insurance companies in Ethiopia. *Unpublished Master's Thesis.* Addis Ababa University.

Tulsian, M. (2014). Profitability analysis (A comparative study of SAIL & TATA), *International Journal of Economics and Finance*, *3*(2), 19–22.

Ujunwa, A., & Modebe, N. J. (2011). Repositioning insurance industry for operational efficiency: The Nigerian Case, *International Journal of Empirical Finance*, *1*(3), 15–32.

Wani, A. A., & Dar, S. A. (2015). Relationship between financial risk and financial performance: An Insight of Indian Insurance Industry*, International Journal of Empirical Finance*, *4*(11), 1424–1433.