



جامعة الجميع الذكية
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كلية الإدارة – ماجستير إدارة المخاطر
مقترح البحث العلمي لمشروع التخرج

عنوان البحث:

**The Impact of Risk Management
on the Performance of Insurance
Companies in Saudi Arabia from
2018 to 2022**

أثر استراتيجية إدارة المخاطر على أداء شركات
التأمين في السعودية من ٢٠١٨ - ٢٠٢٢

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The Impact of Risk Management on the Performance of Insurance Companies in Saudi Arabia from 2018 to 2022

Introduction (المقدمة):

The insurance sector has links to sectors such as industrial, transportation, agriculture, mining, petroleum, and trade both locally and internationally. Its relevance to general human activities has continued to grow for all ages as all categories of risks increase. Recently, several interesting lines of research have begun to map the specific contributions of insurance to the risk management processes as well as to the wellbeing of the poor (Ntivuguruzwa, 2020). Risk management is attributed to the overall process that a financial institution follows to define a business strategy, to identify the risks to which it is exposed, to quantify those risks, and to understand and control the nature of risks it faces. Risk management is a forward-looking process, which involves decision making on an Ongoing basis (Mahi, & Bezzaouia, 2022). In recent years, risk management evolved into enterprise risk management to offer a more integrated approach, which requires that risks assessment, quantification, and management encompass the entire organization, throughout all functions and levels (Florio, & Leoni, 2017).

The quality of risk management is a crucial issue not only for the survival and profitability of the insurance industry, but also for the growth and development of the whole economy. As major risks underwriters, insurance companies need to adopt good practices or quality measures in the management of all types of risk Oscar (Akotey & Abor, 2013). Poor management of risk, by insurance companies, leads to accumulation of claims from the clients hence leading to increased losses and hence poor financial performance. Risk management activities are affected by the risk behavior of managers. A robust hazard administration framework can help organizations to reduce their exposure to risks, and enhance their financial performance (Owolabi, Oloyede, Iriyemi, & Akinola, 2017).

The selection of particular risk tools tends to be associated with the firm's calculative culture and the measurable attitudes that senior decision makers display towards the use of risk management models. While some risk functions focus on extensive risk measurement and risk-based performance management, others focus instead on qualitative discourse and the mobilization of expert opinions about

emerging risk issues. Lately, insurance companies have increased their focus on hazard administration (Mikes & Kaplan, 2014).

In recent years, insurance companies have increased their focus on risk management. There should be careful judgement, by management of insurance companies, of insurable risks in order to avoid excessive losses in settling claims. It follows that risk management is an important factor in improving financial performance. Insurers, as risk-bearing institutions can, and do, fail if risks are not managed adequately. The central function of an insurance company is its ability to distribute risk across different participants. Modern insurance companies are in the risk management business. They discuss that insurance companies undertake risk bearing and management functions on behalf of their customers through the pooling of risks and the sale of their services as risk specialists. This indicates that management of risks should take the center stage in the operations of insurance companies (Omasete, 2014).

Problem statement (مشكلة البحث):

The relationship between risk and performance has drawn the attention of practitioners and academics for a long time, especially because the association between risk and value is not verified in imperfect markets. In the meanwhile, internal control and risk management systems diffused among firms to reduce risks and improve performance. Initially, risk management maintained a silo-based approach on financial risks only, but suffered the limitation of managing one risk at a time whilst risks are interrelated especially in complex and globalized firms facing the financial crisis (Leverty, Phillips, & Shimpi, 2015; Bertinetti, Cavezzali, & Gardenal, 2013).

Academics and industry experts argue that risk measurement is beneficial for insurance companies for several reasons. Risk measurement helps by decreasing earnings and stock price volatility, increasing capital efficiency, reducing external capital costs, and creating synergies between different risk management activities. The risk management theory suggests that firms with better risk management should be able to manage their risks more effectively and, therefore, minimize the impact of a crisis on the firm's performance (Eikenhout, 2015).

So, this research will give more effort to study the relationship between risk management and the performance of insurance companies in Saudi Arabia from 2018 to 2022.

Research Questions (تساؤلات البحث):

What is the impact of Risk Management on Performance of Insurance Companies in Saudi Arabia?

Regarding the main question, the research can include the following sub-questions:

1. What is the impact of Return on Asset on Performance of Insurance Companies in Saudi Arabia?
2. What is the impact of Return on Equity on Performance of Insurance Companies in Saudi Arabia?
3. What is the impact of Liquidity Risk on Performance of Insurance Companies in Saudi Arabia?
4. What is the impact of Credit Risk on Performance of Insurance Companies in Saudi Arabia?
5. What is the impact of Operational Risk on Performance of Insurance Companies in Saudi Arabia?

Research Variables:

The research seeks to reach its objectives through the following variables:

1. Independent Variable: Risk Management that includes 5 variables:

- 1.1. Return on Asset.
- 1.2. Return on Equity.
- 1.3. Liquidity Risk.
- 1.4. Credit Risk.
- 1.5. Operational Risk.

2. Dependent Variable: Performance of Insurance Companies.

Research Model:

Based on the literature review, the research model can be developed to link the impact of Risk Management on Performance of Insurance Companies. Figure 1 below shows the correlation between independent variables and dependent variable.

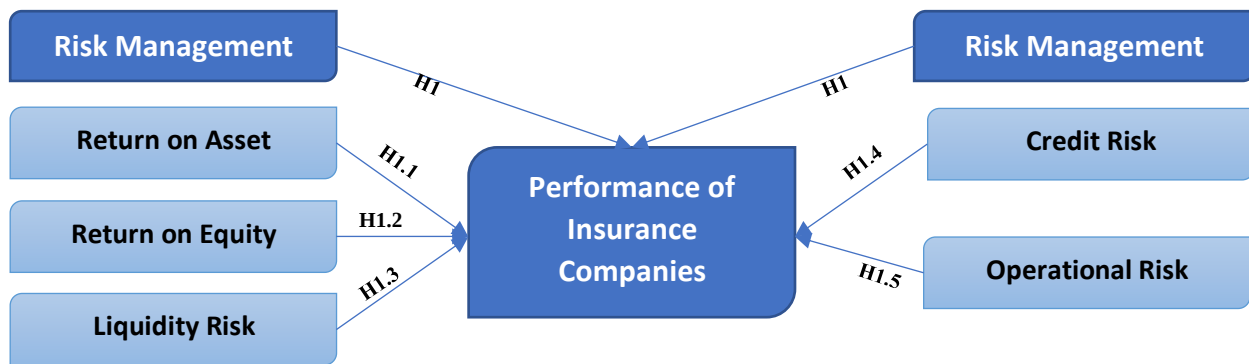


Figure 1: Study Model

Source: Developed by the Researcher depending on (Mahi & Bezzaouia, 2022)

Research Hypothesis:

Based on the research framework, the main hypotheses can be formulated and moreover, five sub-hypotheses can be extracted based on each variable of Risk Management:

H1: There is a significant effect at level $\alpha \leq 0.05$ of Risk Management on Performance of Insurance Companies.

H1.1: There is a significant effect at level $\alpha \leq 0.05$ of Return on Asset on Performance of Insurance Companies.

H1.2: There is a significant effect at level $\alpha \leq 0.05$ of Return on Equity on Performance of Insurance Companies.

H1.3: There is a significant effect at level $\alpha \leq 0.05$ of Liquidity Risk on Performance of Insurance Companies.

H1.4: There is a significant effect at level $\alpha \leq 0.05$ of Credit Risk on Performance of Insurance Companies.

H1.5: There is a significant effect at level $\alpha \leq 0.05$ of Operational Risk on Performance of Insurance Companies.

Research Objectives (أهداف البحث):

This research aims to achieve the following objectives:

1. To highlight risk management and understand the differences between its variables.
2. To asses and evaluate the performance of insurance companies in Saudi Arabia.
3. To investigate the impact risk management on the performance of insurance companies in Saudi Arabia.

4. To provide recommendations that help in improving the situation of risk management.

Research Importance:

This research is important from different perspectives, as follows:

1. **Theoretical Importance:** This research will help to enrich the scientific library. It is considered an additional resource for researchers who can make use of it during their research. Furthermore, it will contribute to the literature in different ways because, after reviewing the literature, it showed that there is few research that investigates risk management and its effect on the performance of insurance companies in Saudi Arabia. This research will be considered as an important reference in risk management and understanding how to improve the performance of insurance companies.
2. **Practical Importance:** This research will enable insurance companies in Saudi Arabia to improve their risk management process, and to adopt efficient strategies to improve firm performance like profitability through the risk management processes. This will enable the insurance companies to perform better and to grow their businesses and maintain a competitive advantage. Apart from benefiting the insurance companies, the general public will benefit from the study through improved insurance services and better management of risks. This will result to affordable rates of insurance premiums and reduction in levels of non-payment and fraud. The study will be helpful to the government in setting regulations on insurance practices in Saudi Arabia and safeguarding the resources of the kingdom. Finally, the researcher hopes that this study will contribute to increasing his scientific and practical knowledge. Also, this research is a fundamental requirement for obtaining a Master degree in Crisis and Disaster Management.

Methodology:

This research will depend on the descriptive analytical approach. The descriptive-analytical approach is suitable for the nature of this research because quantitative research is the process of gathering, evaluating, interpreting, and presenting the results of a study. Descriptive analytical approach based on describing the phenomenon, determining patterns in the data to provide answers to the questions related to who, what, where, when, and to what extent. It is also considered as a fundamental for almost every research project as it offers what is recognized concerning capabilities, requirements, techniques,

activities, regulations, people, and contexts in a form that is relevant to the research question (Loeb et al., 2017). The researcher will depend on the poll and use the main program SPSS.

The goal of the study was to describe the relationship between risk management and performance among insurance companies in Saudi Arabia. The study will use a regression model to determine the existing relationship. The Multiple Regression Model below will use for the study.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Where:

Y = Performance.

X1, X2, X3, X4 and X5 are the independent variables which are stated below:

X1 = Return on Asset.

X2 = Return on Equity.

X3 = Liquidity Risk.

X4 = Credit Risk.

X5 = Operational Risk.

ε = the error term.

Research Population:

The population in this research are insurance sector companies listed on the Saudi Central Bank (2022) for the period 2018 - 2022 which consist of 30 companies, so the amount of data that can be taken and used is 150 data.

Research Limitations:

1. **Locational Limits:** This research will cover all the insurance companies in Saudi Arabia.
2. **Time Limits:** This research will address the period between 2018 and 2022.
3. **Objective Limits:** This research will be limited to knowing the impact of risk management on the performance of insurance companies.

Data Collection:

In this research, the researcher will gather the data depending on two main sources as following:

1. **Secondary Data:** It's the data acquired from optional sources like magazines, books, documents, journals, reports, websites, research papers, and previous studies. This research will use secondary data to get past figures on the performance of the Insurance industry with the help of yearly financial reports and journal articles published by the Saudi Central Bank and other ministries that relate to the subject. Precisely the secondary dataset will used in this study will come from the Saudi Central Bank, reports on insurance sector indicators and financial statements for the period of 2018 to 2022, and other related articles, journals, and papers will use to work out this study.
2. **Primary Data:** It's the data particularly customized to the analysis's requirements. It's collected from the field throughout the designed questionnaire distributed to a sample of the research investigating the research's variables. The researcher realized that the questionnaire is the best tool to collect the data due to the sample size, the nature of the study, and the required data.

Statistical Analysis Tools:

The questionnaire will be analyzed by SPSS, and the following statistical tools will be employed:

1. **Frequency and Descriptive Analysis:** To determine the measures of central tendency which are mean, mode, and median. These measures help the researcher to evaluate the results.
2. **Cronbach's Alpha for Reliability Statistics:** To measure the reliability of the questionnaire to ensure it measures well what it should be designed for.
3. **Kolmogorov-Smirnov test of normality:** To determine if the data follows a normal distribution and it compares the sample with a normal distribution.
4. **Pearson Correlation Coefficient for Validity:** To measure the correlation between variables.
5. **One-sample T-Test:** To compare the sample mean with a predefined value. It requires a random sample, independent data, and normally distributed data.

6. **Independent Samples T-test:** To determine the differences between two groups of data when the population mean is unknown and with two independent samples.
7. **Analysis of Variance (ANOVA):** To compare the means of several variables to determine the differences among them. It helps to find out whether to reject or accept the null hypothesis.
8. **Multiple Linear Regression Model:** To clarify the relationship between several the research independent variables and the dependent variable.

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