

***RISK BASED SUPERVISION AND THE STABILITY OF THE NIGERIAN
INSURANCE INDUSTRY***

Obinna Chilekezi

Department of Management Science, School of Business and Public Administration
University of The Gambia, Banjul, The Gambia
Email cobinna@utg.edu.gm ugobichi@yahoo.com
Phone +2348023190751, +2203585740

Abstract

The Nigerian insurance industry has experienced regulatory and structural challenges that demand more effective supervisory approaches. Risk-Based Supervision (RBS) offers a modern regulatory framework focused on identifying and mitigating risks to ensure industry stability and sustainable growth. The main objective of this study is to examine the expected role that the implementation of risk-based supervision would have in impacting the growth of insurance operators in Nigeria, thereby enhancing the stability of the industry. A quantitative research design was employed. Data were collected using structured questionnaires administered to employees across six purposively selected insurance companies located on Lagos Island, Lagos State. Out of 300 distributed questionnaires, 189 were valid and analyzed. The study utilized descriptive statistics, Chi-Square Goodness of Fit tests, and simple regression analysis using the Statistical Package for the Social Sciences (SPSS). The results of the first hypothesis showed that a statistically significant majority of respondents agree that risk-based supervision is needed in the Nigerian insurance industry. The second hypothesis revealed that most respondents believe RBS would enhance industry growth. The third hypothesis demonstrated a strong, positive, and statistically significant relationship between the adoption of RBS and the growth of insurance operators. The study concludes that implementing risk-based supervision is essential for strengthening regulatory oversight and enhancing the sustainable growth of insurance firms in Nigeria. It is recommended that Nigeria's insurance regulatory bodies, particularly NAICOM, institutionalize RBS as a standard supervisory practice. Capacity-building programs should also be implemented to support insurance companies in aligning their operations with RBS principles, ensuring long-term industry resilience and competitiveness.

Key words: Sustainability, Supervision, Insurance, Financial Management

Word Count = 256

Introduction

Nigeria had over the years ran the compliance-based supervision which allowed the companies to be capitalised

based on the amount as required by the law irrespective of their individual risk exposure. This situation has been partial changed with enactment of the Nigerian

Insurance Industry Reform Act 2025 that made provision for both compliance based capitalisation of N10 billion for life companies and N15 billion for non-life companies as well as provision of possible higher amount under the risk-based supervision. This means that companies could be required to have higher capitals than the statutory required minimum. Risk-based Pensions Supervision, according to the International Organisation of Pension Supervisors (2012, p.2) provides a structured approach focusing on identifying potential risks faced by financial funds and assessing the financial and operational factors in place to mitigate those risks. The International Organisation of Pension Supervisors maintained that this process then allows the supervisory authority to direct its resources towards the issues and institutions which pose the greatest threat. This shows the importance of using the risk-based supervision in managing financial institutions such as banks, capital markets, insurance and pensions in most countries of the world.

The Nigerian Insurance Industry Reform Act 2025 provides the legal framework for the country to migrate from compliance-based supervision to that of risk-based supervision. This entails that unlike the present situation of capitalisation of insurance companies in the market, companies would be made to capitalise according to the nature and number of classes of insurance that they would like to sell to the insuring public. Under this regime, companies are expected to be full capitalise before they could sell these classes of insurance. This will on the long

run help in maintain the solvency margin of these companies in the Nigerian insurance industry.

Risk based supervision is a new concept in the regulation and supervision of the Nigerian insurance industry. Like most introduced new concept, the introduction of risk-based supervision would pose problem of implementation to the operators and regulators at large. It will create a problem which the entire industry would and should work together to surmount. On the other hand, the introduction would help the industry to address the problem of solvency and solvency margin which is key for insurance companies to keep their promises to the insureds and thereby maintaining a healthier market. A market that should response to claims payment without much delay after n insured losses had occurred.

This study examines the expected role that the implementation of risk-based supervision would have in impacting on the growth of the insurance operators in Nigeria thereby enhancing the stability of the industry. This way, the industry would be in a better position to meet up with its obligations to its different stakeholders.

Literature Review

Risk-based supervision in banking and insurance has this main goal of ensuring that institutions like insurance companies adopt sound risk-management approach which enable them to be fully capitalised at every point in time. This means that the supervisors and regulators of this sector, especially those of insurance, which is the subject of this study, should be aware that

many leading institutions have already adopted good risk-management practices, and some companies would already be able to meet the more demanding requirements of Basel II and Solvency II (Brunner, 2020, p. 168). The regulators of this sector should ensure that the financial institutions under their supervision are aware that sound risk-management practices would be of greater importance to them and that would be rewarded by the market, as indicated by the growing consideration of the quality of internal risk management by rating companies (Brunner, 2020, p.173).

Looking the banking sector which is related to the insurance industry, Ajibo (2015) argued that the Nigerian banking industry needs to adopt a risk-based regulation as a future regulatory model in the industry, noting the frequent distress and failures in the industry have shown that reliance on recapitalisation and on credit rating information by the supervisors and investors to determine the health of the financial institutions is less than satisfactory. Ajibo (2015) revealed that this is the reason that agency ratings suffer accountability deficits. On the design and methodology of the study, Ajibo (2025) posited that while the regulation of the credit ratings is necessary for institutional accountability, it is never a substitute for oversight functions and due diligence exercise for both the supervisors and investors in the industry. He revealed that the study adopted the exploratory research method as structured to cover the origin of banking regulation in Nigeria, the recapitalised efforts by the regulators, the problem with the agency ratings and why

the future of Nigerian banking regulation should be risk-based. The study found that while reliance on recapitalisation strategy and agency rating publications is relevant in banks, the future of Nigerian banking regulation should be risk-based and concluded that the Nigerian banking industry should develop effective risk-management structures in line with the international regulatory framework.

Akpan (2018, p.1) in empirical work on risk and non-risk capitalisation effect on performance of listed insurance companies in Nigeria acknowledged that financial theories and past researches consider a firm's capital structure as comprising debt and equity. Akpan (2018, p1) noted that insurers' capital structure was different as it comprised equity and technical provisions. This study tested empirical studies tested the theoretic prediction under different policy regimes within insurance firms which were scarce and the risk capital theory that affirmed firms that were vulnerable to bankruptcy should hold high capital to be solvent, an idea behind risk-based capital (RBC) policy implementation; this seemed to have received little empirical attention (Akpan, 2018, p.1). The study observed the contradictions in past empirical findings, researchers had suggested that the effect of RBC should further be investigated with latent variables as intervening in capital-performance nexus. To date, there is doubt on any existing empirical studies conducted to shed these research gaps by examining the direct and indirect effect of capital structure on insurers' performance with corporate risk profile (CRP) as a

moderator comparatively during non-RBC (NRBC) and RBC regimes in Nigeria (Akpan, 2018, p.1). The study compared and statistically tested if insurers' performance during RBC and NRBC era was significantly different in achieving these objectives, direct and indirect 2SLS FE and RE models were applied. The study examined the effect of capital structure (measured by equity ratio -EQR and technical provision ratio -TPR) on insurers' performance (measured by return on assets - ROA, return on equity - ROE, and earnings per share - EPS) with CRP (measured by opportunity asset risk - OAR and corporate risk-taking behaviour - CRB) as moderating variables (Akpan, 2018, p.8). The dependent sample and Wilcoxon signed-rank t-test statistics were applied to analyse insurers' ROA, ROE, and EPS before and after RBC policy implementation. Fifteen (15) listed insurers in Nigeria were studied eight years (1995-2002) before and eight years (2008-2015) after RBC policy implementation. Empirical results of the direct effect model reveal, in general, that TPR affects insurers' performance significantly and positively than equity in NRBC than in RBC era; equity had a significant positive effect on ROA and EPS, but a significant negative effect on ROE in RBC regime (Akpan, 2018, p.1). The indirect effect models revealed generally that, CRP does not moderate insurers' capital structure and performance association; meaning that insurers do not take high risk, especially during RBC regime (Akpan, 2018, p.1). The last model revealed that insurers' performance significantly reduced after RBC policy

implementation and using these empirical results, this study demonstrated that RBC does not improve insurers' performance; and that, insurers' risk-taking preferences do not explain their performance beyond the level explained by their financing mix (Akpan, 2018, p.1). The study noted that there was theoretical argument that RBC may not be a bad policy; rather, the manner and strategy of implementation may be inappropriate; there was need for strategic policy review to incorporate performance risks, while insurers should focus their strategies on which fund to use for which type of risk to take in RBC scenario to satisfy the interest of all stakeholder (Akpan, 2018, p.1).

Bett and Wepulchulu (2019) in an empirical study studied the effect of the adoption of risk based supervision methodology of the financial performance of insurance companies in Kenya. The study is based on Risk based supervision (RBS) model which was a structured approach that concentrates on the identification of potential risks faced by firms through the assessment of the measures in place to minimise and reduce those risks. The study was designed to promote transparency, provide an early warning system and encourage the regulated entities to both self-assess and report periodically as well as help in the implementation of RBS methodology in Kenya is still in its infancy and most entities are in the process of adoption (Bett & Wepulchulu, 2019, p. 139). It acknowledged the few local studies on the subject have therefore been inconclusive due to the relatively short period that RBS has been in force in Kenya.

This study was aimed at uncovering the full impact on financial performance on insurance companies in Kenya, of the RBS model as implemented by the Insurance Regulatory Authority (IRA) (Bett & Wepulchulu, 2019, p. 139). The study studied three variables of RBS were studied to determine their influence on financial performance with the target population for the study as 55 licensed insurance companies operating within the republic of Kenya. The study adopted a census study as it evaluated data for all the 55 licensed insurance companies and the data was drawn from financial information submitted to IRA by insurers, which form part of the quarterly and annual returns to that regulator. The study also used industry data collected for the period between 2012 and 2018 financial years. This represents three years prior to implementation of RBS and three years' post-implementation, with 2015 being the reference year. Other data was obtained from publicly available information including the websites of CMA, NSE, RBA and AKI. Inferential statistics of correlation and regression analysis was used to establish the effect of the independent variables on the dependent variables (Bett & Wepulchulu, 2019, p.139). These researchers found a direct and significant relationship between capital adequacy and financial performance; which was an inverse and significant relationship was noted between actuarial valuation and financial performance of insurance companies; and there was a direct and significant relationship between investments and financial performance of insurance companies. The study

recommends full compliance to risk-based supervision guidelines by adhering to guidelines on; investments, actuarial valuation and keeping adequate capital (commensurate to risk held) to achieve success in financial performance by insurance companies in Kenya (Bett & Wepulchulu, 2019, p.139).

Adegbemi and Adeolu (2018) evaluated the impact of risk-based supervision on insurance companies' performance in Nigeria. They used risk-based supervision index, firm size, leverage, inflation rate and GDP growth as the explanatory variables to assess how risk-based supervision influences the profitability, solvency, liquidity and efficiency of non-life insurance companies in Nigeria. The work analysed the hypotheses using panel data analysis and various regression models. The performance of non-life insurance businesses in Nigeria is positively and significantly impacted, according to the article, by risk-based supervision. Uzoigwe and Njoku, (2017) examined the connection between risk-based supervision and the financial soundness of insurance businesses in Nigeria. In order to guarantee the stability and solvency of insurance firms, the authors emphasize the significance of risk-based oversight. In this study, data from non-life insurance companies doing business in Nigeria were analysed using a quantitative methodology. To determine how risk-based supervision has affected these companies' financial health, the study takes into account certain financial soundness measures such capital adequacy ratios and liquidity ratios. The

study does, however, acknowledge some constraints, such as the use of secondary data and the potential impact of unobserved factors. Nevertheless, the study offers important empirical proof of the association between risk-based oversight and Nigeria's insurance companies' strong financial standing. The study concluded that for regulators and decision-makers there is need for the adoption of the Risk Based Supervision in the insurance industry, highlighting the value of risk-based supervision in fostering financial stability and solvency in the non-life insurance market. The regulatory authorities can improve risk-based supervision frameworks and guarantee the long-term sustainability and viability of non-life insurers in Nigeria by utilizing these findings.

Research Methodology

This study adopted the qualitative method with focus on gathering, evaluating and interpreting data (textual or audio or visual) rather than numerical data (Creswell, 2014). This research study would then focus on using the descriptive method by carrying out a critical review (documentary content analysis) of crucial literature based on secondary data on risk-based supervision in Insurance companies in Nigeria to clarify the area and generate valuable insights (Dalhatu & Sharofiddin, 2020, p. 3).

The secondary data which are also referred to as second-hand information since they are not directly obtained from the source by the researchers would also be used in the study especially in the literature review.

It is important to note that secondary data are obtained from sources which include various journals, textbooks, magazines, write-ups, and symposium papers relevant to the subject of research (Dalhatu & Sharofiddin, 2020, p.3). Time horizon in relation to methodology refers to the number of times data is collected in order to answer the research question(s). According to (Sekaran, & Bougie., 2016) studies can be classified into two types based on the time horizon. These are cross-sectional studies and longitudinal studies. Cross-sectional (one-shot) studies, according to Dalhatu & Sharofiddin, 2020, p.3) refer to studies that gather data just once in order to answer the research question while longitudinal studies gather data at more than one point in time to answer the research question. Thus, there are many studies that are conducted through cross-sectional in nature because it is resource (time, efforts and costs) intensive to obtain data multiple times. This means that the cross-sectional study is selected in this paper because of its cost-efficiency. Although there are fifty seven insurance companies in the market which composes of composite insurance companies. General insurance companies and life insurance companies, only six of them in Lagos Island of Lagos State would be selected as sample for the study. The respondents for the student were selected from these six companies that make up the sample of the study. The questionnaire is the research instrument and copies of the research instrument were administered to the respondents for the study. Chi square goodness of fit and simple regression were

used to test hypothesis with the aid of Statistical Package for Social Sciences (SPSS).

The random sampling was chosen for the study. The reason for this is because of the shortness of the timeframe for the study. More so, it is easier using this method in selecting the needed respondents for the study than using other sampling method. This sampling is also anchored on the purposive sampling method which allows the research to use his discretion in selecting the sample for the study.

Data Presentation and Discussions

This section presents the data obtained from the administered questionnaires to provide insights into the study objectives. It covers the response rate, the

demographic characteristics of the respondents, and the descriptive analysis of the study variables relevant to understanding the role of risk-based supervision in the growth and stability of the Nigerian insurance industry.

Response rate

This section presents the response rate from the administered questionnaires used to collect data for the study. Although there are fifty-seven insurance companies operating in Nigeria, only six companies located on Lagos Island, Lagos State, were purposively selected as the sample for the study. A total of 300 questionnaires were distributed across these companies, out of which 189 were duly completed and found valid for analysis.

Table 1: Response Rate

Description	Frequency	Percentage (%)
Questionnaires Distributed	300	100
Questionnaires Returned and Valid	189	63
Questionnaires Not Returned/Invalid	111	37

Source: Field Survey, 2026

The response rate of 63% is considered adequate and acceptable for statistical analysis in management and social science research.

Descriptive Analysis of Study Variables

Need for Risk-Based Supervision

Out of the 189 respondents surveyed, 121 individuals (64%) agreed that risk-based supervision is needed in the Nigerian

insurance industry, while 68 respondents (36%) disagreed. This result indicates a strong consensus among stakeholders in the industry on the necessity of adopting risk-based supervision. The majority's positive response suggests a recognition of the potential benefits of such a regulatory approach, particularly in improving risk management practices and aligning with global supervisory standards.

Table 2: Descriptive Analysis (Dichotomous Variable)

Study Variable	Response	Frequency	Percent (%)
Need for Risk-Based Supervision	No	68	36
	Yes	121	64
	Total	189	100
Risk-Based Supervision and Industry Growth	No	58	30.7
	Yes	131	69.3
	Total	189	100

Source: Field Survey, 2026

Risk-Based Supervision and Industry Growth

Regarding the impact of risk-based supervision on the growth of the Nigerian insurance industry, Table 2 revealed that 131 respondents (69.3%) affirmed that it would enhance industry growth, whereas 58 respondents (30.7%) disagreed. This result reinforces the belief that

implementing risk-based supervision could contribute significantly to the stability and expansion of the sector. The high level of agreement reflects industry optimism that risk-based supervision will lead to better regulatory compliance, improved operational performance, and increased public confidence in insurance operators.

Table 3: Descriptive Statistics (Multivariate Variables)

Variable / Questionnaire Item (N = 189)	SD (%)	D (%)	U (%)	A (%)	SA (%)	Mean
Implementation of Risk-Based Supervision (ARBS)						
ARBS1: Compliance with RBS principles	2.6	10.1	18	30.7	38.6	3.92
ARBS2: RBS embedded in routine regulatory processes	3.7	10.1	24.3	25.9	36	3.8
ARBS3: Use of risk classification for priorities	11.6	14.3	30.7	24.9	18.5	3.24
ARBS4: Regular updates aligned with RBS guidelines	3.2	11.6	23.3	26.5	35.4	3.79
Grand Mean – ARBS	—	—	—	—	—	3.69
Growth of Insurance Brokerage Firms (GRW)						
GRW1: Expansion of client base	6.3	3.7	14.3	53.4	22.2	3.82
GRW2: Introduction of new services	4.2	4.8	18	52.4	20.6	3.8
GRW3: Entry into new markets/segments	2.6	3.7	19.6	51.9	22.2	3.87
Grand Mean – GRW	—	—	—	—	—	3.83

Source: Field Survey, 2026

Table 3 shows that respondents generally supported the implementation of risk-based supervision in their organizations.

For ARBS1, 30.7% agreed and 38.6% strongly agreed that their company complies with RBS principles, resulting in a

high mean of 3.92. Regarding whether RBS is embedded in routine regulatory processes (ARBS2), 25.9% agreed and 36.0% strongly agreed, giving a mean score of 3.80. However, opinions were more mixed on the application of risk classification (ARBS3), with a lower mean of 3.24 due to 30.7% remaining neutral and only 18.5% strongly agreeing. For ARBS4, which assesses the regular updating of practices to align with RBS guidelines, 26.5% agreed and 35.4% strongly agreed (mean = 3.79). The grand mean of 3.69 reflects a generally positive perception of risk-based supervision practices among the sampled firms, although some variability in implementation is evident.

Table 3 indicates that respondents perceived positive growth trends in their brokerage firms. On GRW1, which relates to the expansion of client base, 53.4% agreed and 22.2% strongly agreed (mean = 3.82). GRW2, covering the introduction of new services, also received high agreement with 52.4% agreeing and

20.6% strongly agreeing (mean = 3.80). Similarly, GRW3 on entry into new markets or segments had 51.9% agreement and 22.2% strong agreement (mean = 3.87). The grand mean of 3.83 suggests a strong perception of recent growth among insurance brokerage firms, particularly in customer base, service innovation, and market expansion, which aligns with expectations from firms adopting risk-based regulatory practices.

Analysis of Data

This section reports the findings from the hypothesis testing, which employed the Chi-Square Goodness of Fit test and simple regression analysis, using the Statistical Package for the Social Sciences (SPSS). The results are summarized in Tables 4.5 to 4.8, offering empirical insights into the relationships among the key study variables as proposed in the research hypotheses.

H01: Risk based supervision is not needed in the Nigerian insurance industry.

Tables 4: Need for Risk Based Supervision

	Observed N	Expected N	Residual
No	68	94.5	-26.5
Yes	121	94.5	26.5
Total	189		

Table 4 shows the observed and expected frequencies regarding the need for risk-based supervision in the Nigerian insurance industry. Out of 189 respondents, 121 indicated "Yes" while 68 responded "No." The expected frequency under the null hypothesis was 94.5 for each response category. The residuals show a deviation of ± 26.5 from the expected counts, indicating that more respondents believe risk-based supervision is needed than would be expected by chance alone.

Tables 5: Test Statistics

Need for Risk Based Supervision	
Chi-Square	14.862 ^a
Df	1
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 94.5.

A chi-square goodness-of-fit test was conducted to determine whether there is a significant difference between the observed and expected responses on the need for risk-based supervision. The results revealed a statistically significant difference, $\chi^2(1, N = 189) = 14.86$, $p < .001$. This indicates that the distribution of responses is not due to random variation.

Based on the significant chi-square result ($p < .001$), the null hypothesis (H_0 : Risk-based supervision is not needed in the Nigerian insurance industry) is rejected. Therefore, it can be concluded that a statistically significant majority of respondents agree that risk-based supervision is needed in the Nigerian insurance industry.

H02: Risk-based supervision would not enhance the growth of the Nigerian insurance industry.

Tables 6: Risk Based Supervision and Insurance Industry growth

	Observed N	Expected N	Residual
No	58	94.5	-36.5
Yes	131	94.5	36.5
Total	189		

Table 6 displays the observed and expected frequencies for respondents' opinions on whether risk-based supervision would enhance the growth of the Nigerian insurance industry. Out of 189 respondents, 131 answered "Yes," while 58 answered "No." Under the null hypothesis,

the expected frequency for each category is 94.5. The residuals show a significant deviation of ± 36.5 , indicating a strong inclination among respondents toward the belief that risk-based supervision would enhance industry growth.

Tables 7: Test Statistics

Risk Based Supervision and Insurance Industry growth

Chi-Square	28.196 ^a
Df	1
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 94.5.

A chi-square goodness-of-fit test was conducted to assess whether the distribution of responses differed significantly from what would be expected by chance. The result was statistically significant, $\chi^2(1, N = 189) = 28.20, p < .001$. This indicates that the observed preference for risk-based supervision as a growth enhancer in the Nigerian insurance industry is unlikely due to random

variation. Given the statistically significant result ($p < .001$), the null hypothesis (H_0 : Risk-based supervision would not enhance the growth of the Nigerian insurance industry) is rejected. This implies that a significant majority of respondents believe that risk-based supervision would enhance the growth of the Nigerian insurance industry.

H03: There is no significant relationship between the adoption of risk-based supervision and the growth of the Nigerian insurance industry.

Tables 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.763 ^a	.582	.580	.56482

a. Predictors: (Constant), Risk-Based Supervision

The model summary in Table 7 indicates a strong positive relationship between the adoption of risk-based supervision and the growth of the Nigerian insurance industry. The correlation coefficient was $R = .763$, showing a high level of association. The $R^2 = .582$ implies that approximately 58.2%

of the variance in insurance company growth is explained by the adoption of risk-based supervision. The adjusted $R^2 = .580$, which is only slightly lower, confirms that the model maintains good explanatory power even after adjusting for the number of predictors.

Tables 8: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	83.147	1	83.147	260.632	.000 ^b
	Residual	59.657	187	.319		
	Total	142.804	188			

a. Dependent Variable: Insurance Company Growth

b. Predictors: (Constant), Risk-Based Supervision

The ANOVA results in Table 8 show that the regression model is statistically significant, $F(1, 187) = 260.63, p < .001$. This indicates that the model as a whole significantly predicts the dependent

variable (insurance company growth). The large F-value and the very low significance level suggest a strong effect of the independent variable (risk-based supervision) on the outcome variable.

Tables 9: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.939	.184		5.107	.000
Risk-Based Supervision	.783	.049	.763	16.144	.000

a. Dependent Variable: Insurance Company Growth

Table 9 presents the regression coefficients. The unstandardized coefficient for risk-based supervision was $B = 0.783$, $SE = 0.049$, with a standardized Beta value of .763. The predictor was statistically significant ($t = 16.14$, $p < .001$), indicating a strong positive and significant relationship between the adoption of risk-based supervision and the growth of the Nigerian insurance industry. This means that for every one-unit increase in the implementation of risk-based supervision, there is an expected 0.783-unit increase in perceived growth of the industry, holding other factors constant.

Discussion of Findings

This section discusses the outcomes of the hypotheses testing in line with the main objective of the study, which was to examine the expected role that the implementation of risk-based supervision (RBS) would play in promoting the growth and stability of insurance operators in Nigeria. The discussion is guided by the statistical findings derived from both the chi-square goodness-of-fit test and regression analysis.

The result of hypothesis one reveals that a statistically significant majority of respondents agree that risk-based supervision is needed in the Nigerian insurance industry. This finding is justified

by the growing complexity and risk exposure in Nigeria's insurance sector, which necessitates a shift from rules-based to risk-based oversight. RBS allows regulators to allocate supervisory attention based on the level of risk each insurer poses to the system, thereby improving oversight efficiency. The respondents' strong agreement may reflect their awareness of global trends, where RBS is considered best practice by leading regulatory bodies such as the International Association of Insurance Supervisors (IAIS). The industry's support also suggests recognition that RBS can promote transparency, accountability, and a more resilient insurance framework. The finding that a significant majority agreed that risk-based supervision is needed in Nigeria aligns with Brunner (2020), who emphasized global regulatory shifts such as Solvency II, and Luo et al. (2014), who highlighted the systematic and scientific foundations of RBS. Similarly, Ajibo (2015) supports a risk-based model as a future regulatory direction for Nigeria's financial sector.

The result of hypothesis two indicated that a significant majority of respondents believe that risk-based supervision would enhance the growth of the Nigerian insurance industry. This perception is likely

rooted in the potential of RBS to improve the operational soundness of insurers by encouraging better internal controls, corporate governance, and capital adequacy. With these structures in place, firms are more likely to gain investor confidence and expand sustainably. The respondents' belief in RBS as a growth enhancer may also stem from its capacity to differentiate stronger firms from weaker ones, allowing for better resource allocation and market discipline. As a result, risk-based oversight can stimulate innovation, market expansion, and stronger performance metrics across the sector. The finding that risk-based supervision would enhance the growth of the Nigerian insurance industry is supported by Bett and Wepulchulu (2019), who found a positive relationship between RBS and insurers' performance in Kenya. Likewise, Adegbelemi and Adeolu (2018) observed that RBS significantly improves profitability and efficiency among Nigerian non-life insurers, reinforcing the relevance of RBS to industry growth.

The result of hypothesis three shows that there is a positive and significant relationship between the adoption of risk-based supervision and the growth of the Nigerian insurance industry. This finding affirms the theoretical expectation that regulatory quality significantly influences industry performance. A well-implemented RBS framework equips insurance firms with proactive tools for identifying, assessing, and managing risks. This, in turn, enhances strategic planning, customer confidence, and market competitiveness. The strong correlation observed in the regression analysis further suggests that as firms

deepen their adoption of RBS principles, they experience measurable improvements in areas such as client base growth, product innovation, and market reach. Thus, RBS not only stabilizes the industry but also serves as a catalyst for growth and long-term sustainability. The finding of a significant positive relationship between RBS adoption and insurance industry growth agrees with Adegbelemi and Adeolu (2018), who found RBS to significantly influence insurers' solvency and profitability. Similarly, Uzoigwe and Njoku (2017) confirmed that risk-based supervision enhances the financial soundness of Nigerian insurers, while Brunner (2020) emphasized its global value in supporting institutional resilience and stability.

Presentations of Findings

The primary objective of this study was to examine the expected role that the implementation of risk-based supervision (RBS) would play in influencing the growth of insurance operators in Nigeria, with the ultimate aim of enhancing the overall stability of the insurance industry. To achieve this objective, a quantitative research approach was adopted. Although there are fifty-seven (57) registered insurance companies in Nigeria, a purposive sampling technique was employed to select six (6) companies located on Lagos Island, Lagos State, for the study. A total of 300 structured questionnaires were distributed to employees across these firms, and 189 valid responses were obtained and used for analysis. The study employed descriptive statistics and hypothesis testing using Chi-Square Goodness of Fit and simple linear

regression, with the aid of the Statistical Package for the Social Sciences (SPSS). The analysis revealed three major findings aligned with the proposed hypotheses:

Finding One: A statistically significant majority of respondents affirmed that risk-based supervision is needed in the Nigerian insurance industry. This finding demonstrates a strong consensus among industry practitioners on the relevance of RBS as a necessary regulatory reform.

Finding Two: The second hypothesis revealed that a significant majority of the respondents believed that the implementation of risk-based supervision would enhance the growth of the Nigerian insurance industry. This implies widespread confidence in RBS as a catalyst for industry expansion and sustainability.

Finding Three: Results from the regression analysis showed a positive and statistically significant relationship between the adoption of risk-based supervision and the growth of the Nigerian insurance industry. This indicates that the more RBS is implemented and embedded in regulatory practices, the more likely it is to contribute positively to the growth and performance of insurance operators in the country.

These findings offer empirical support for the adoption and institutionalisation of risk-based supervision as a strategic regulatory framework in the Nigerian insurance sector.

Recommendations

The following are three distinct recommendations—each aligned with a key finding of your study and contextualized for the Nigerian insurance industry:

The result of hypothesis one reveals that a statistically significant majority of respondents agree that risk-based supervision is needed in the Nigerian insurance industry. Therefore, this study recommends that Regulatory authorities such as NAICOM should formally institutionalise risk-based supervision (RBS) as the foundational regulatory approach. This can be achieved by mandating all insurance firms to adopt RBS frameworks through capacity-building workshops and tailored compliance roadmaps suited to Nigeria's regulatory maturity.

The result of hypothesis two indicates that a significant majority of respondents believe that risk-based supervision would enhance the growth of the Nigerian insurance industry. Therefore, this study recommends that NAICOM should promote RBS as a growth enabler by linking compliance to incentives such as access to innovation grants, faster licensing, or reduced audit frequency. In the Nigerian context, this will encourage firms to view RBS as a growth strategy rather than a mere compliance burden.

The result of hypothesis three shows that there is a positive and significant relationship between the adoption of risk-based supervision and the growth of the Nigerian insurance industry. Therefore, this study recommends that Insurance companies in Nigeria should integrate RBS into their strategic planning processes. This means embedding risk profiling into decision-making for product design, capital allocation, and market expansion—thereby driving sustainable growth through

informed risk-taking and proactive governance.

Conclusion

The main objective of this study was to examine the expected role that the implementation of risk-based supervision (RBS) would have in impacting the growth of insurance operators in Nigeria, thereby enhancing the stability of the industry. Based on the findings, the study concludes that RBS is not only widely recognized as

necessary within the Nigerian insurance industry but is also perceived as a significant catalyst for growth. Furthermore, statistical evidence confirms a strong and positive relationship between the adoption of RBS and the performance of insurance firms. This underscores the importance of adopting structured, risk-sensitive supervisory frameworks to ensure sustainable development and resilience within Nigeria's insurance sector.

References

- Adegbemi, B.O. & Adegoke, A. (2018). Evaluating the impact of risk-based supervision on non-life insurance companies' performance in Nigeria. *Journal of Economics and Sustainable Development*, 9(5), 51-62.
- Ajibo, K. I. (2015). Risk-based regulation: the future of Nigerian banking industry. *International Journal of Law and Management*, 57(3).
- Akpan, S. S. (2018). Risk and Non-Risk based capitalisation effect on performance of listed insurance companies in Nigeria. Being a Thesis submitted to the Universiti Putra Malaysia in fulfilment for the requirement for the degree of Doctor of Philosophy.
- Bett, L. K. & Wepulchulu, J. M. (2019). Effect of adoption of risk-based supervision methodology on the financial performance of insurance companies in Kenya. *International Journal of Business management & Finance*, 3(2).
- Brunner, G. (2020). Risk based supervision of pensions. World Bank Group.
- Creswell, J. W. (2017) *Qualitative inquiry and research design: choosing among five traditions*. London: Sage
- Dalhatu, S.S., & Sharofiddin, A. (2021). A Risk-Based Supervisory Framework for Islamic Banks in Nigeria. In: Alareeni, B., Hamdan, A., Elgedawy, I. (eds) *The Importance of New Technologies and Entrepreneurship in Business Development: In The Context of Economic Diversity in Developing Countries*. ICBT 2020. Lecture Notes in Networks and Systems, vol 194. Springer, Cham. https://doi.org/10.1007/978-3-030-69221-6_111
- International Organisation of Pensions Supervisors (2012). Module O: Introduction to Risk based Pensions Supervisors, Retrieved from [www.iopsweb.org/rbstoolkit/Module\)Introduction.pdf](http://www.iopsweb.org/rbstoolkit/Module)Introduction.pdf)
- Uzoigwe, K. & Njoku, C. E. (2017). Risk-Based supervision and financial soundness of insurance companies in Nigeria. *International Journal of Economics, Commerce, and Management*, 5(7), 106