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THE REALITY OF RISK MANAGEMENT AND BUSINESS PERFORMANCE OF INSURANCE COMPANIES IN PALESTINE

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ABSTRACT
For the majority of organizations, especially insurance companies, who are in the core business of managing risk, risk management gone bad could spell disaster. This involves identifying, analyzing, and evaluating risks, implementing risk-handling techniques, and monitoring the progress of these in order to reduce, avoid, deal with, or mitigate their effects on the business performance of the company. The aim of this study is to clarify the reality of risk management in Palestinian insurance companies and discuss the business performance of insurance companies and how it is affected by risk management. This was done by collecting data and information from two sources: primary and secondary sources related to the study topic. The secondary sources used, especially during the literature review, were retrieved from books, journal articles, online research, and annual reports. The primary sources were obtained through semi-structured interviews designed by the researcher. This paper's results revealed the importance of implementing risk management. Unfortunately, however, risk management practices are very poor and immature in the Palestinian insurance companies due to many reasons, such as focusing more on pricing than providing high-quality services, fierce competition, a shortage of qualified and trained employees, local actuarial experts, etc. Thus, when risk management practices are implemented and effectively enforced, overall business performance improves. This can be accomplished by instilling a risk management culture throughout the organization. Finally, respondents agree and emphasize the importance of better risk management in mitigating the negative consequences of risk. Risk management requires the full support of the board of directors and top management to effectively enforce the implementation of risk management systems.

Keywords:
Risk Management, Business Performance, Insurance Companies, Palestine

INTRODUCTION

Insurance companies are regarded as important entities that provide specialized financial services that contribute to the economic growth and development of countries [1]. They are in the core business of managing risks, as they are responsible for managing both client and their own risks. This necessitates the integration of risk management into the company's systems, processes, and culture [2].

According to ISO 31000:2009, The risk management process consists of a series of steps, which are establishing the context, identifying, analyzing, evaluating, treating, monitoring and reviewing, and communicating and consulting risks, which allow continuous improvement of decision-making [3]. By implementing risk management steps, organizations can reduce unexpected and costly surprises and increase the effectiveness of resource allocation. It improves communication and provides senior management with a concise summary of threats that the organization may face, ultimately assisting them in making better decisions [2]. Risk management is now regarded as one of the most important concerns for executives, and risk management activities are growing. However, few empirical studies on the peripheral effects and applications of risk management have been conducted to date. In other words, despite the topic's rapid growth in importance, few applied studies have been conducted to determine whether risk management has practical effects on the business performance in insurance companies in Palestine. Contribution of this study is twofold. First, this paper attempts to clarify the reality of risk management in Palestinian insurance companies. Second, it discusses the business performance in insurance companies and how is it affected by risk management.

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LITERATURE REVIEW

The insurance sector in Palestine went through many changes due to the multiplicity of authorities that ruled the country until 1994, and it witnessed a significant development since the establishment of the Palestine Capital Market Authority (PCMA) as a legally authorized body to supervise, regulate, and control the sector's operations. This development was not limited to doubling the size of the insurance portfolio and increasing the amount of compensation paid by insurance companies, but also to the level of nature and quality of services provided to the public, their diversity, and an increase in the size of the insurance companies' capital, in addition to increasing the level of their investments.

The Insurance Directorate is constantly working to stay up-to-date with international standards and best practices to carry out its role of supervising and controlling the Palestinian insurance sector. enacting any necessary secondary legislation to improve the legal framework for the insurance industry and make it easier for the authority to carry out its supervisory duties effectively [4].

Insurance companies are like other economic institutions, as they always seek to carry out their activities in ways that help achieve their multiple goals, but on the other hand, there are many obstacles and risks that confront them, whether at the level of current or future activities, and the roles they play in insuring the risks to which individuals and institutions are exposed, the risks they face constitute a constant source of threat, prompting them to pay attention to them by resorting to managing them according to the circumstances surrounding them and with the means available to them. So, in order to achieve the best possible business performance while also adhering to international standards in this field. companies should frequently include risk management procedures in their plans to improve performance and increase profits.

Various documents and guidelines suggested that established risk management practices should be on a continuous basis to bring about improved performance and profits. Several studies show a link between good risk management and improved business performance. In particular, [5], [6] and [7] argued that there is a positive and significant relationship between total risk management and company's performance. [8] examined the relation of enterprise risk management (ERM) and performance. They argued that is contingent upon some firm-specific factors such as environmental uncertainty, industry competition, firm complexity, firm size, and board of directors' monitoring. And they also argued that for implementing ERM firms should pay attention to the contextual variables that are surrounding the firm. Similarly, [9] investigates risk management in Indian companies and the reasons for the adoption or non-adoption of an integrated approach to risk management. He demonstrates that, while effective risk management can improve organizational performance, companies lack the necessary infrastructure to implement enterprise-wide risk management. He concludes that a significant shift in risk perception is required to foster a risk culture across business segments and incentivize risk management adoption.

Multiple studies have found that implementing Enterprise Risk Management (ERM) has positive effects on both firm's performance and value [10]; [11]; [12].

[13] clarify the importance of risk management in the insurance field is represented in minimizing the total risk compensation, identifying priorities of compensation, to ensure profitability, it's important to understand risk timing, select appropriate compensation methods, and minimize additional unit costs during production. Adopting risk tools and using risk management strategies both help to reduce risks, increase profits, and cut costs. This, in turns, makes the financial situation of insurance companies much better and leads to an increase in the business performance.

[14] examined the effect of implementing risk management on the financial performance of companies which has a positive impact on market performance it aimed that financial performance has positive impacts on market performance. the impact of financial performance toward market performance organization with ERM is higher than organization non-ERM, this study found that companies that implemented ERM outperformed those that did not in terms of market and financial performance.

Those studies made significant contributions to risk management and firm performance; they were geared toward developed countries. However, developing countries have received little attention in the various literatures on this issue.

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Risk management and business performance

When a company is able to mitigate the negative effects of external risks and respond to environmental changes, it becomes less sensitive to the economic consequences of market fluctuations. In other words, when a company effectively manages risk, it can successfully adapt to changes in environmental conditions, reducing profit variation [15].

To avoid financial losses and bankruptcy, any insurance company must implement proper risk management in its daily operations [2].

Preventing losses through precautionary measures is an important aspect of risk management and, as a result, a key driver of profitability. Effective risk management impacts insurance companies' financial performance [16].

[17] confirms that risk management is a critical function for insurance companies in creating value for shareholders and customers. In general, company operations are risky, and if these risks are not managed, the firm's financial performance will suffer. Firms with effective risk management structures outperform their competitors because they are better prepared for periods following the occurrence of the related risks.

Although most studies focused on the financial performance of companies, in this study we try to address business performance from a different perspective. So, the business performance that we discuss here include:

- The company's local rating and reputation within the industry;
- The company's ability to effectively respond to market changes and stay competitive;
- Ensure customer satisfaction contributes to building long-term customer loyalty;
- The company's ability to identify emerging risks and takes necessary measures to hedge against them in a timely manner;
- Improving operational performance results in increased efficiency and effectiveness and improving sales and driving revenue growth.

METHODOLOGY

The researcher has followed a qualitative approach to address this research objective, the study was conducted in terms of data collection, analyzing, and presenting the results. during the research the researcher has collected data and information from two sources: primary and secondary sources related to the study topic. The secondary sources used especially during literature review were retrieved from books, journal articles online research and annual reports. The primary sources were obtained through semi-structured interviews designed by the researcher. The study starts with setting the research aims which is clarify the reality of risk management in Palestinian insurance companies and discusses the business performance in insurance companies and how is it affected by risk management, then the researcher uses the literature review to better understand the topic of the study. The third step was to conduct interviews with experts related to Palestinian insurance market to understand the current risk management situation, after collecting the data the data analysis starts. Finally, based on the analysis results, the reality of risk management and business performance of insurance companies in Palestine were clarified.

The data sets used

The researcher used a literature review, data sets were in the form of words or information about risk management presented by various sources of data, such as texts, articles, reports, and doctoral dissertations relevant to the research topic were noted, written in a draft, and then analyzed, also assisted with the process of obtaining semi-structured interview questions. The semi-structured interviews were held with ten Palestinian insurance experts in all Palestinian insurance companies, with the purpose of aiding the researcher in understanding the current Palestinian risk management situation. In particular, the analysis focused on clarifying the reality of risk management in Palestinian insurance companies and discusses the business performance in insurance companies and how is it affected by risk management.

Tools used

The data and information required for this study to achieve this objective were obtained in two ways. First, the literature review uses various sources of data such as texts, articles, reports, and doctoral dissertations relevant to the research topic. Secondly, semi-structured interviews with a sample containing ten experts chosen from two Palestinian insurance companies, provided the researcher with the required knowledge to understand the current risk management situation regarding Palestinian insurance companies based on the opinions, perceptions, experiences, and points of view of the interviewees.

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RESULTS

The data have been analyzed using the thematic analysis technique, the findings were gained from the semi-structured interviews and the literature review were taken into consideration for achieving the aims of the study, the purpose behind conducting the interviews was to clarify the reality of risk management in Palestinian insurance companies and discusses the business performance in insurance companies and how is it affected by risk management.

The results the researcher obtained from analyzing the literature review, and the semi-structured interviews can be summarized as follows: all of the interviewees confirm the fact of the importance of implementing risk management, unfortunately, however, risk management practices are very poor and immature in the Palestinian insurance companies there are many reasons for this unfortunate fact. First, insurance companies compete fiercely and unprofessionally, focusing more on pricing than providing high-quality services. Second, the small size of the insurance market, combined with the number of insurance companies, makes competition fierce. Furthermore, a severe shortage of qualified and trained employees, as well as a lack of local actuarial experts, make insurance service management and pricing challenging. Although laws and regulations are in place to promote fairness in the insurance industry, their efficacy is hindered by a lack of implementation.

Furthermore, systematic factors identify systematic or uncontrollable risks that the company cannot completely avoid and are unpredictable, such as political instability, government decisions, legal and regulatory changes, and natural disasters. These risks cannot be mitigated, so the only way to deal with them is through hedging. For example, political instability makes it difficult for an insurance company to find an appropriate reinsurance company to deal with, and Palestinian insurance companies face a very complicated and unstable economic situation as a result of their economic dependence on the Israeli occupation, making investment opportunities unappealing.

Unemployment is high, and salaries are low in comparison to the cost of living, discouraging people from using any portion of their income to purchase insurance unless forced by law.

Thus, when risk management practices are implemented and effectively enforced, overall business performance improves. This can be accomplished by instilling a risk management culture throughout the organization. Employee effectiveness is critical to a company's success, especially given the Palestinian people's poor insurance culture. This is because Palestinians are concerned only with purchasing auto and health insurance. Furthermore, due to economic and political instability, insurance is not a top priority for Palestinians. Other factors include religious beliefs and living standards. Unfortunately, people view insurance as a burden rather than a safeguard to protect their property.

A reputation crisis can occur for a variety of reasons, including liquidity or solvency risks, which can render the company unable to fulfill its obligations arising from claims, or unable to pay its employees' salaries, causing customers to lose trust in the company. So, when the company implements proper risk management this will help in increasing customer trust and loyalty and improve its reputation within the industry.

The interviews revealed a fundamental flaw that affects the entire industry: businesses market their services and gain new customers by focusing on prices and offering unjustified discounts. Insurance companies are currently concerned with increasing production rates at the expense of quality in order to maintain cash flow, without taking into account the risks that insurance companies face as a result of a severe shortage of risk management and actuarial calculations roles. The decision to take on risk is frequently based on personal judgment and experience rather than thorough and accurate mathematical calculations.

Insurance companies in Palestine lack experience in managing risks and have failed to face the risk of inflation resulting from the COVID-19 pandemic, and are unable to take decisions to confront the general rise in prices in the insurance industry sector due to Palestinian laws that are weak and don’t protect insurance companies and limit the powers of them.

Finally, respondents agree and emphasize the importance of better risk management in mitigating the negative consequences of risk. Risk management requires the full support of the board of directors and top management to effectively enforce the implementation of risk management systems.

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CONCLUSION

The study aimed to clarify the reality of risk management in Palestinian insurance companies and discuss the business performance of insurance companies and how it is affected by risk management. The data have been analyzed using the thematic analysis technique, the findings were gained from the semi-structured interviews and the literature review were taken into consideration for achieving the aims of the study, all of the interviewees confirm the fact of the importance of implementing risk management, unfortunately, however, risk management practices are very poor and immature in the Palestinian insurance companies. Thus, when risk management practices are implemented and effectively enforced, overall business performance improves. This can be accomplished by instilling a risk management culture throughout the organization.

This paper recommends the insurance companies to focus on increasing the insurance culture among the Palestinian community and raise its employee's awareness about the importance of risk management. In order to insure the efficiency and effectiveness of risk management implementation, furthermore make more efforts on employees training because the qualified and highly skilled employees will act as a first line of defense, protecting the organization and reducing the risks that it will be exposed to, build customer care departments to strengthen customer loyalty, and use the risk management in trying to adapt to all the complex political situations and weaknesses of infrastructure and thinking of ways that help solve problems to reach sustainable business performance.

Finally, this paper has some limitations that future studies can address. Firstly, spatial boundaries: Palestine (West Bank). The sample was taken from insurance companies in Palestine. Secondly, time limits: The study was in April 2024. It is therefore recommended to conduct further studies about insurance companies in Palestine, and we hope this study adds value to the scientific community.

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