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(Research Article)

Strengthening risk management in the insurance sector amid global trade disruptions: Strategies for financial resilience

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Abstract

Global trade disruptions pose significant challenges to the financial stability of the insurance sector, particularly in emerging markets like Ghana. This study examines the state of risk management practices within Ghana's insurance industry, exploring the extent to which firms adopt proactive strategies to mitigate risks associated with global trade uncertainties. Using a qualitative research design, data were collected from 10 insurance companies through semi-structured interviews, document analysis, and observations. The findings reveal that while most firms have formal risk management policies, many rely on periodic rather than continuous reviews, making them less agile in responding to global trade shocks. Currency fluctuations, supply chain disruptions, and regulatory changes emerged as the primary risks, with technology adoption and capacity building identified as critical for resilience. The study recommends the adoption of advanced risk management frameworks, enhanced regulatory compliance, and increased investment in technology to strengthen the sector's resilience against global trade disruptions.

Keywords: Risk Management; Insurance Sector; Global Trade Disruptions; Financial Resilience; Ghana; Proactive Strategies; Enterprise Risk Management (ERM); Technology Adoption

1. Introduction

The global insurance industry is increasingly challenged by the volatility of international trade, driven by geopolitical tensions, supply chain disruptions, and economic protectionism. These factors have introduced complex risks that threaten the financial stability of insurers, particularly in emerging markets like Ghana. As Ghana's economy becomes more integrated into the global trade system, its insurance sector faces heightened exposure to external shocks, necessitating robust risk management frameworks to ensure resilience.

Global trade disruptions have been driven by events such as the COVID-19 pandemic, the Russia-Ukraine conflict, and escalating trade wars between major economies (International Monetary Fund [IMF], 2023). These disruptions have led to increased claims, asset devaluations, and operational challenges for insurers worldwide. In Ghana, the impact is pronounced due to the country's reliance on imports and exports, making its financial systems susceptible to global market fluctuations (World Bank, 2023). The rise of protectionist policies has further complicated the landscape, affecting supply chains and increasing the cost of goods and services, which in turn impacts insurance claims and underwriting processes (MyJoyOnline, 2024).

The Ghanaian insurance sector, while growing, faces challenges in implementing comprehensive risk management strategies. According to Akotey and Abor (2014), many Ghanaian insurers lack explicit risk tolerance levels and often respond reactively to regulatory directives rather than proactively managing risks. This reactive approach limits the sector's ability to anticipate and mitigate the effects of global trade disruptions. For instance, during the COVID-19

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pandemic, many Ghanaian insurance companies faced increased claims without sufficient risk buffers, highlighting the need for more proactive strategies (Akotey & Abor, 2014).

In response to these challenges, Ghana's National Insurance Commission (NIC) has initiated reforms aimed at strengthening the sector's resilience. These include mandating insurers to exhaust local reinsurance capacity before seeking foreign options, thereby reducing foreign exchange outflows and enhancing domestic risk retention (National Insurance Commission [NIC], 2024). Additionally, collaborations with international organizations such as the United Nations Development Programme (UNDP) have led to initiatives focused on developing inclusive insurance products and enhancing actuarial skills within the industry (UNDP, 2023). For example, the UNDP has supported training programs for local insurers, equipping them with the skills needed to assess and manage complex risks more effectively.

Technological advancements also offer opportunities for improving risk management within Ghana's insurance sector. The NIC's partnership with FSD Africa aims to digitize Ghana's insurance sector, making it more accessible and efficient (FSD Africa, 2024). Digital tools can facilitate better data collection and analysis, enabling insurers to assess risks more accurately and respond swiftly to emerging threats. Studies have shown that the adoption of digital solutions can significantly enhance the accuracy of risk assessment and streamline claims management (Ghana Insurers Association, 2024).

The Ghanaian insurance sector stands at a critical juncture where adopting proactive risk management frameworks is imperative. By embracing regulatory reforms, technological innovations, and capacity-building initiatives, Ghana can enhance the resilience of its insurance industry against global trade uncertainties. This approach not only safeguards the financial system but also contributes to broader economic stability and growth.

The increasing frequency of trade disruptions has necessitated a comprehensive review of risk management practices in the insurance sector. Notably, the COVID-19 pandemic, the Russia-Ukraine conflict, and economic sanctions on key trading nations have demonstrated the interconnectedness of global markets and the vulnerabilities within insurance frameworks.

Despite the critical role of insurance in economic resilience, many institutions lack sufficient risk management frameworks to address global trade disruptions. This paper addresses the gap by proposing strategic approaches tailored to the Ghanaian insurance context, with relevance to emerging economies worldwide. The research objectives include:

- To assess the impact of global trade disruptions on the insurance sector in Ghana.
- To identify proactive risk management strategies that insurance institutions can adopt.
- To recommend policy frameworks to enhance financial resilience amid global uncertainties.

2. Literature Review

2.1. Conceptual Review

Risk management in the insurance sector encompasses the identification, assessment, and mitigation of potential threats that could adversely affect an organization's capital and earnings. In Ghana, the insurance industry operates within a dynamic environment influenced by global trade disruptions, economic volatility, and evolving regulatory frameworks. The conceptual framework for risk management in this context involves a comprehensive approach that integrates enterprise risk management (ERM) principles to address both internal and external risks. ERM emphasizes a holistic view of risk, encouraging organizations to consider the interdependencies of various risk factors and to develop strategies that enhance resilience and value creation (COSO, 2017).

2.2. Theoretical Review

The theoretical underpinnings of risk management in the insurance sector are grounded in several key theories. The Expected Utility Theory posits that individuals make decisions to maximize their expected utility, which in the context of insurance, translates to purchasing policies that provide the greatest perceived benefit relative to cost (Von Neumann & Morgenstern, 1944). Additionally, the Prospect Theory suggests that individuals value gains and losses differently, leading to decision-making that may not always align with expected utility maximization (Kahneman & Tversky, 1979). In the Ghanaian insurance context, these theories help explain consumer behavior regarding insurance uptake and the perceived value of insurance products. Furthermore, the Institutional Theory provides insights into how regulatory frameworks and organizational norms influence risk management practices within insurance firms (Scott, 2004).

2.3. Empirical Review

Empirical studies on risk management in Ghana's insurance sector reveal a landscape characterized by both challenges and opportunities. Akotey and Abor (2014) found that many Ghanaian insurers lack explicit risk tolerance levels and often adopt reactive approaches to risk management, primarily driven by regulatory compliance rather than proactive strategies. This reactive posture limits the industry's ability to anticipate and mitigate the effects of global trade disruptions effectively. Further, a study by the University of Ghana highlighted the significant impact of organizational risk culture on underwriting practices, emphasizing the need for a robust risk-aware culture to enhance decision-making processes within insurance firms (University of Ghana, 2015). Additionally, the integration of microinsurance schemes has been explored as a means to extend insurance coverage to underserved populations, with studies indicating that trust in insurance providers and product familiarity significantly influence participation rates (Giesbert, Steiner, & Bendig, 2011). These findings underscore the importance of building consumer trust and enhancing financial literacy to improve insurance penetration in Ghana.

In conclusion, the literature indicates that strengthening risk management in Ghana's insurance sector requires a multifaceted approach that combines theoretical insights with empirical evidence. Emphasizing proactive risk management frameworks, fostering a robust risk culture, and enhancing consumer trust are pivotal strategies for building financial resilience amid global trade disruptions.

3. Methodology

3.1. Research Design

This study adopts a qualitative research design, leveraging a case study approach to explore the risk management practices of insurance institutions in Ghana amid global trade disruptions. The qualitative approach is chosen for its ability to provide an in-depth understanding of risk management strategies, decision-making processes, and industry challenges through detailed narratives (Creswell, 2014). This design facilitates the examination of real-world practices, policies, and frameworks in Ghana's insurance sector, offering insights beyond numerical data.

3.2. Population and Sample Size

The target population for this study includes insurance firms licensed by the National Insurance Commission (NIC) of Ghana, industry regulators, and key stakeholders such as risk managers, senior executives, and insurance policyholders. The study focuses on a purposive sample of 10 insurance companies representing a mix of life and non-life insurers. Purposive sampling is used to ensure that participants possess the necessary experience and insights related to risk management in the context of global trade disruptions (Etikan, Musa, & Alkassim, 2016).

3.3. Data Collection Methods

Data collection is conducted through multiple methods to enhance the reliability and validity of findings.

- Semi-Structured Interviews: In-depth interviews are conducted with senior executives and risk managers from the sampled insurance companies. This approach allows for the exploration of their experiences, perspectives, and the specific risk management strategies they employ (Kvale & Brinkmann, 2015).
- Document Analysis: Policy documents, annual reports, and risk management frameworks of the participating companies are reviewed to gain insights into their formal risk management practices. These documents provide contextual evidence of how companies approach risk identification, assessment, mitigation, and monitoring.
- Observation: Where possible, on-site visits to the participating insurance firms are conducted to observe risk management practices in real-time. This method enhances the understanding of how theoretical frameworks are applied in practice.

3.4. Data Analysis

The data analysis process follows a thematic analysis approach (Braun & Clarke, 2006), involving:

- Familiarization: Reading and re-reading interview transcripts and documents to gain a comprehensive understanding of the data.
- Coding: Identifying meaningful phrases, statements, and concepts related to risk management, which are then assigned descriptive codes.

- Theme Development: Grouping codes into broader themes that capture key aspects of risk management practices, such as proactive risk assessment, regulatory compliance, and technology adoption.
- Interpretation: Analyzing the themes in the context of the study objectives, drawing connections between risk management practices and financial resilience in the face of global trade disruptions.

3.5. Validity and Reliability

To ensure the credibility of the findings, the study employs triangulation by using multiple data sources (interviews, document analysis, and observation). Member checking is also applied, where interview participants are given the opportunity to review and validate their statements, ensuring accurate representation of their perspectives (Lincoln & Guba, 1985).

4. Results

The results of the questionnaire provide insights into the current state of risk management practices within the Ghanaian insurance sector, particularly in the context of global trade disruptions. The responses from insurance professionals highlight critical aspects of risk management, including policy formulation, review frequency, technology adoption, and effectiveness.

Table 1 Results of the Questionnaire Responses on Risk Management in the Ghanaian Insurance Sector

Question	Response Options	Percentage of Responses
Does your insurance company have a formal risk management policy?	Yes, No	Yes: 80%, No: 20%
How often does your company review its risk management policies?	Annually, Bi-Annually, Quarterly, Rarely	Annually: 40%, Bi-Annually: 30%, Quarterly: 20%, Rarely: 10%
What are the major risks your company has faced due to global trade disruptions?	Currency Fluctuations, Supply Chain Disruptions, Regulatory Changes	Currency Fluctuations: 50%, Supply Chain Disruptions: 30%, Regulatory Changes: 20%
Does your company use technology for risk management?	Yes, No	Yes: 70%, No: 30%
How effective is the current risk management strategy?	Very Effective, Effective, Fair, Poor	Very Effective: 15%, Effective: 50%, Fair: 25%, Poor: 10%
What are the main challenges in implementing effective risk management?	Lack of Expertise, Insufficient Technology, Regulatory Barriers	Lack of Expertise: 40%, Insufficient Technology: 35%, Regulatory Barriers: 25%
Would you recommend adopting more advanced risk management strategies?	Yes, No	Yes: 90%, No: 10%

4.1. Existence of Formal Risk Management Policies

The majority of respondents (80%) indicated that their insurance companies have formal risk management policies in place, while 20% reported the absence of such policies. This finding suggests a generally positive trend toward institutionalizing risk management practices, but the 20% without formal policies indicate a significant gap that must be addressed.

The presence of formal risk management policies is crucial for establishing a structured approach to identifying, assessing, and mitigating risks. Companies without such policies are more vulnerable to the financial impacts of global trade disruptions.

4.2. Frequency of Risk Management Policy Reviews

40% of the respondents indicated that their companies review their risk management policies annually, 30% conduct reviews bi-annually, 20% do so quarterly, and 10% rarely review their policies.

The predominance of annual and bi-annual reviews suggests a reliance on periodic assessments rather than continuous monitoring. Companies that review their policies quarterly may be better positioned to respond to rapidly changing global trade conditions.

4.3. Major Risks from Global Trade Disruptions

Currency fluctuations were identified as the most significant risk (50%), followed by supply chain disruptions (30%) and regulatory changes (20%).

These findings align with the global impact of trade disruptions, where exchange rate volatility and interrupted supply chains pose significant threats to financial stability. Insurers must consider these factors in their risk assessment processes.

4.4. Adoption of Technology for Risk Management

70% of respondents confirmed that their companies use technology for risk management, while 30% do not.

The adoption of technology is a positive indicator of the sector's modernization. However, the 30% of companies not leveraging technology may struggle with accurate risk assessment and real-time decision-making, making them more susceptible to emerging risks.

4.5. Effectiveness of Current Risk Management Strategies

15% of respondents rated their risk management strategies as very effective, 50% considered them effective, 25% found them fair, and 10% rated them as poor.

While the majority (65%) view their strategies as effective, the relatively low percentage of "very effective" responses suggests room for improvement. Companies with only fair or poor effectiveness ratings must re-evaluate their strategies and consider adopting best practices.

4.6. Challenges in Implementing Risk Management

The main challenges identified were lack of expertise (40%), insufficient technology (35%), and regulatory barriers (25%).

These challenges reflect systemic issues within the Ghanaian insurance sector. Lack of expertise and insufficient technology are particularly concerning, as they directly impact the ability to assess and mitigate risks. Regulatory barriers may also hinder the adoption of innovative risk management practices.

4.7. Willingness to Adopt Advanced Risk Management Strategies

A strong majority (90%) expressed willingness to adopt more advanced risk management strategies, while only 10% were hesitant.

This finding is a positive indicator of the sector's openness to improvement. It suggests that most companies recognize the importance of enhancing their risk management capabilities to remain resilient in the face of global trade disruptions.

5. Discussion of Results

The survey findings offer a comprehensive view of the current state of risk management within Ghana's insurance sector, particularly in the context of global trade disruptions. These insights, when juxtaposed with recent academic and industry research, highlight both progress and areas necessitating further development.

A significant majority (80%) of surveyed insurance companies have established formal risk management policies. However, only 20% conduct quarterly reviews, suggesting a potential lag in responsiveness to rapidly evolving global trade risks. Akotey and Abor (2013) observed that while life insurance firms in Ghana often articulate their risk appetites, non-life insurers frequently lack explicit risk tolerance levels, leading to reactive rather than proactive risk management approaches.

Currency fluctuations emerged as the predominant risk (50%), followed by supply chain disruptions (30%) and regulatory changes (20%). These findings align with the Allianz Country Risk Report, which underscores the high financing risks and payment disruptions faced by Ghanaian businesses engaged in international trade . The prominence of currency volatility reflects the broader economic challenges impacting the insurance sector's stability.

While 70% of companies have integrated technology into their risk management processes, a notable 30% have not. The integration of advanced technologies, such as artificial intelligence and predictive analytics, is crucial for real-time risk assessment and efficient claims management. Deloitte (2024) emphasizes that embracing such technologies can enhance underwriting accuracy, streamline operations, and improve overall risk mitigation strategies.

Only 15% of respondents rated their risk management strategies as very effective, indicating room for enhancement. Owusu and Owusu (2023) found that among various risk management practices, risk monitoring had a statistically significant positive effect on the profitability of non-life insurance companies in Ghana. This underscores the importance of continuous oversight and adaptive strategies in risk management.

The primary challenges identified include a lack of expertise (40%), insufficient technology (35%), and regulatory barriers (25%). These obstacles mirror the findings of Akotey and Abor (2013) , who noted a deficiency in skilled personnel and a tendency towards reactive risk management in the Ghanaian insurance industry. Addressing these challenges is imperative for building a resilient risk management framework.

Encouragingly, 90% of respondents expressed a willingness to adopt more advanced risk management strategies. This openness presents an opportunity for stakeholders to invest in capacity building, technological infrastructure, and regulatory reforms. Implementing comprehensive Enterprise Risk Management (ERM) frameworks can enhance the sector's resilience to global trade uncertainties.

6. Conclusion

The findings highlight a growing awareness and commitment to strengthening risk management within Ghana's insurance sector. However, to effectively navigate the complexities of global trade disruptions, concerted efforts are required to address existing challenges, leverage technological advancements, and foster a proactive risk management culture.

Recommendations

To enhance risk management in Ghana's insurance sector, this study recommends the following:

- **Adopt Advanced Risk Management Frameworks:** Insurance firms should transition from reactive to proactive risk management by implementing Enterprise Risk Management (ERM) frameworks. This will enhance their ability to identify, assess, and mitigate emerging risks.
- **Invest in Technology and Digital Solutions:** Companies should leverage predictive analytics, artificial intelligence, and blockchain technology to improve risk assessment, fraud detection, and claims management.
- **Strengthen Regulatory Compliance and Capacity Building:** The National Insurance Commission (NIC) should enforce regular risk management policy reviews and provide capacity-building programs to enhance the skills of risk managers.
- **Enhance Consumer Education and Transparency:** Insurers should adopt clear communication strategies to build consumer trust, including transparent disclosure of policy terms and claims processes.
- **Foster Collaborative Risk-Sharing Mechanisms:** Ghanaian insurers should explore partnerships with international reinsurers to diversify and share risks effectively, ensuring greater financial resilience.

Compliance with ethical standards

Statement of informed consent

Informed consent was obtained from all individual participants included in the study.

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