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RISK MANAGEMENT COMMITTEE ATTRIBUTES AND RISK DISCLOSURE OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

This study examined the effect of risk management committee (RMC) attributes on risk disclosure among quoted deposit money banks in Nigeria. The study aims to assess how specific characteristics of risk management committees, such as committee size (RMCSIZE), independence (RMCIND), financial expertise (RMCFE), and the frequency of meetings (RMCMF), influence the level and quality of risk-related disclosures in the banks' annual reports. Given the critical role of transparency and risk management in the banking sector, particularly in developing economies, understanding these relationships is essential for improving governance practices and regulatory frameworks. An ex-post facto research design was employed, utilizing secondary data derived from the annual reports of the thirteen (13) quoted deposit money banks operating within the Nigerian financial sector over a specified period. The data analysis was conducted using panel regression techniques, which allowed for a detailed examination of the associations between the independent variables (RMC attributes) and the dependent variable (risk management disclosure). The findings reveal that certain RMC attributes significantly impact risk disclosure. Specifically, the study found that RMC independence (RMCIND) and committee size (RMCSIZE) positively influence the extent of risk disclosure, suggesting that more independent and larger committees are better positioned to enhance transparency. On the other hand, financial expertise (RMCFE) showed a negative relationship with risk disclosure, which may indicate complexities in how financial expertise is utilized within the committee. Frequency of meetings (RMCMF) is not found to have a statistically significant impact on risk disclosure. The study is grounded in Agency Theory and Signaling Theory, providing a theoretical framework for understanding the dynamics of risk disclosure. Agency Theory suggests that well-structured committees can mitigate agency problems through better monitoring, while Signaling Theory highlights the role of risk disclosures as signals of firm quality to stakeholders. The findings of this study have important implications for regulators, policymakers, and banking institutions, suggesting that enhancing certain RMC attributes can lead to improved risk transparency and better governance. Consequently, recommendations are made for strengthening regulatory guidelines on RMC composition and practices to ensure more effective risk management and disclosure in the Nigerian banking sector.

1. Introduction

Risk disclosure is paramount for the sustainable growth and long-term success of any organization, serving as a cornerstone for maintaining investor confidence, ensuring operational resilience, and facilitating strategic decision-making. In the dynamic and increasingly interconnected global business environment, organizations are confronted with a myriad of risks that possess the potential to significantly impact their financial well-being and overall viability. These risks encompass a wide spectrum, ranging from market volatility and credit default to operational disruptions and regulatory compliance challenges. To proactively address and mitigate these risks, many organizations opt to establish dedicated risk management committees (RMCs) tasked with the oversight and management of risk-related activities across the enterprise. The effectiveness of these committees is contingent upon a multitude of attributes and characteristics, encompassing factors such as composition, expertise, independence, and communication channels.

Globalization has catalyzed a proliferation of interconnected risks, prompting organizations to adopt more sophisticated risk management frameworks to navigate the complexities of the contemporary business landscape. In response to the seismic shocks of global financial crises and the evolving regulatory landscape, the establishment of a dedicated risk management committee (RMC) has emerged as a critical imperative and a recognized cornerstone of effective corporate governance practices (Lechner & Gatzert, 2018; Bohnert et al., 2017; Hoyt & Liebenberg, 2015; Mensah & Gottwald, 2015).

The establishment of Risk Management Committees (RMCs) within deposit money banks in Nigeria is a regulatory requirement aimed at enhancing risk oversight. However, the specific attributes of these committees and their effect on the risk disclosure of quoted deposit money banks remain underexplored. The concept of risk committees has gained prominence as regulatory bodies and industry standards have increasingly emphasized the need for robust risk oversight mechanisms. These committees, often comprised of experienced professionals with diverse expertise, play a critical role in identifying, assessing, and mitigating risks that may threaten the financial health and risk disclosure of their organizations. While the significance of risk committees is widely acknowledged, there remains a need for comprehensive understanding regarding the attributes and characteristics that contribute to their effectiveness in promoting risk disclosure. This study seeks to explore the intricate relationship between risk committee attributes and the overarching goal of ensuring risk disclosure within financial institutions.

The late adoption of RMCs in certain contexts, including Jordan, has limited the scope of research exploring their effect on company performance, specifically within emerging markets. Despite sporadic efforts to examine RMC adoption and measurements in general (Shatnawi et al., 2020; Al Khattab & Hood, 2015), a comprehensive investigation into the influence of RMC characteristics on the performance of non-financial companies (NFCs) listed on the Amman Stock Exchange (ASE) remains largely unexplored.

Nigerian financial institutions have raised significant concerns. Ineffective risk management can cause corporate downfall, whereas effective risk management can notably enhance risk disclosure. In today's dynamic global financial sector, the role of risk management has gained increased attention as a crucial factor in shaping the performance and sustainability of financial institutions. Within this context, the structure of Risk Management Committees (RMCs) has emerged as a pivotal element in managing and mitigating the diverse risks faced by financial institutions (Sie & Azlan, 2019).

Despite guidelines for managing risks and enhancing performance, challenges such as bank collapses have led to job loss, decreased economic development, and increased poverty rates in Nigeria. Maintaining adequate risk disclosure is imperative to avert financial distress, irrespective of a company's profitability or capital base (Apochi et al., 2020). Past studies on the relationship between risk management committees and risk disclosure in Nigeria (Abdullah, 2016; Ahmed et al., 2018; Elamer & Benyazid, 2018; Gacheru, 2022; Kakanda et al., 2018) have presented conflicting findings, some indicating a positive relationship between risk management committees and performance, while others indicating a negative relationship.

However, despite the acknowledged significance of RMCs, a comprehensive exploration of the specific attributes that contribute to their effectiveness in upholding risk disclosure within the Nigerian deposit money banks remains notably absent in the academic discourse. This research aims to bridge this gap by meticulously investigating the intricate interplay between the characteristics of RMCs and the risk disclosure of the banking sector in Nigeria.

2.1 Conceptual Framework

Concept of Risk Disclosure

The concept of risk disclosure is not new, but it has prompted renewed interest among researchers, standards-setting bodies, and other institutions after the global financial crisis (Ryan, 2012). After the global financial crisis, which revealed deficiencies in risk disclosures, regulatory bodies put great efforts into improving the quality of financial reports by strengthening risk disclosure requirements, for example, by issuing IFRS 7 and IFRS 9. In addition, adequate and high-quality RD practices have several advantages to firms and stakeholders. Stakeholders rely on risk information to build a comprehensive picture of the firm's current and future status. For investors, risk disclosure helps them make more informed decisions and protect their interests, so it plays a role in creating a more stable investment environment (Rajab & Schachler, 2009; Duffy, 2014). On the other hand, risk disclosure informs funding organizations about the extent of a firm's risk management efficiency, resulting in improved the firm's image and reputation, decreasing the cost of external financing (Linsley & shrives, 2006). RD also has a role in enhancing firm risk management and leading to better accountability (ICAEW, 2011). Therefore, risk disclosure contributes to ensuring financial stability and market discipline (Benthall, & Vilijoen, 2021).

Risk disclosure represents the assessment of a business entity's financial wellbeing, particularly in terms of its capacity to effectively allocate available resources to generate profits (Dagunduro et al., 2022). It is important to note that the long-term viability and value of a firm depend on its capacity to maintain a favorable level of profitability through its operational activities. As highlighted by Hamdan (2020), risk disclosure serves as a reflection of the executive leadership's effectiveness within a company. Adamu et al. (2015) further emphasize that risk disclosure can be evaluated through factors such as profitability growth, revenue generation expansion, the efficient allocation of available capital, and judicious usage of financial resources. According to Kolawole et al. (2023), a performance system refers to a collection of metrics, indicators, or standards utilized to evaluate the efficiency and effectiveness of actions.

Risk Governance

Risk governance could be defined as the oversight of risk by the board under a regime of a sound internal control process that provides for risk identification, assessment, measurement, effective management, communication and reporting of risk within an organization (Ard & Berg, 2010). It is further explained by Choi (2013) as the structure in a bank that specifies the risks, provides the methods of assessment, measurement and mitigation along with the line of responsibility for risk control and management. Choi further recognises the board as having overall responsibility for risk governance in line with BCBS (2010), BNM (2013) and other codes and standards. In the wake of the global financial crises (GFC), failure of risk governance in banks at board level was suggested as one of the major causes of the crises that resulted in widespread bank risk disclosure. However, the gains of good internal control and governance were manifest in the banks that implemented sound risk governance, which aided timely reactions to the crises and ensure their risk disclosure.

Risk Management

Risk management involves embracing an efficient and dependable method in Financial Risk and managing organization risk. Res, Sa, and Gemechu (2016) are of the opinion that risk management consists of several steps, that allow for constant progressive decision by pinpointing, communicating, tracking risks and investigating variance in an organization. Stanton (2012) suggests a comprehensive method like identifying threats, unequivocal examination of possible action either to eradicate, accept or alleviate the identified danger. Management of risk call for a process of organizing business activities in such a way that gives positive result while guiding against the unfavorable and unexpected situation that could hinder the desirable result. Mugenda et. al., (2012) explained that risk management focus on optimum risk tradeoff and organisation perpetually seek type of risk to be reduced or increased and measures to curtail such.

Risk Management Committee

Risk management committee (RMC) is one of the board committees required for finance companies under the corporate governance guidelines issued by Bank Negara for licensed financial institutions. The guideline requires the committee to be composed of not less than three directors all of whom should be non-executive and to be chaired by an independent director. The guideline provided the roles and responsibilities of the RMC which includes, monitoring the risk strategies, policies and risk tolerance level as well as reviewing the sufficiency of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the effectiveness of the policies and framework. Furthermore, the committee ensures that the staff responsible for risk monitoring is independent of the activity they monitor. Risk management committee performs a very important function in the monitoring of the risk and internal control in finance companies (Ng et. al., 2013).

The Risk Management Committee (RMC), as indicated by Abdullah (2016), functions as an independent body tasked with formulating risk-related policies and their enforcement within the company. The establishment of this committee was a necessity due to the overloaded responsibilities of the audit subcommittee, which included risk management, internal governance, and financial reporting, rendering it inadequate in addressing emerging risks effectively.

Risk management committee could play an important role in ensuring that the conflict of interest between the shareholders (with a diversified portfolio who may not be concerned much about risk) and the managers who are risk averse is managed through monitoring by the board (Tao and Hutchinson, 2012). This would ensure that managers do not avoid profitable but risky projects that may enhance shareholder value. Therefore, in order to ensure comprehensive monitoring of the different types of risks in finance companies, prior studies have recommended the separation of audit from risk management committee (Bugalla, et al., 2012).

Risk Management Committee Independence

The limited strand of literature that discusses risk committee characteristics also focuses on risk committee independence (Al-Hadi et al., 2016; Jia et al., 2019). From a theoretical perspective, Raimo et al. (2022) utilize agency theory to contend that independent directors are unbiased, have outstanding communication skills and have a better monitoring capacity. In addition, Salem et al. (2021) contend that independent directors are also imperative to constrain any earnings management or fraud practices. Accordingly, Al-Hadi et al. (2016) and Jia et al. (2019) use agency theory to suggest that the existence of independent directors on the committee or the board will improve risk disclosure. Furthermore, Al-Hadi et al. (2016) also suggest that independent directors on committees perform better, as they are unbiased and impartial. Moreover, Khan et al. (2022) utilize upper echelon theory to posit that independent directors in top management committees improve disclosure. Consistent with Raimo et al. (2022), they further explain that independent directors bring in interpersonal skills and a variety of experiences that help increase information disclosure. This is in synchronization with Azim and Nahar (2022) who posit that the effectiveness of the risk committee is directly associated with the expertise of its members. However, the result for a positive effect is not conclusive in empirical literature (Al-Hadi et al. 2016). For instance, Jia et al. (2019) find that risk committee independence has an insignificant effect on risk disclosure. In addition, Al-Hadi et al. (2016) also find risk committee independence insignificant. In a possible explanation, AlHadi et al. (2016) suggest that independent directors on the risk committee may lack the institutional context that inside directors have. Furthermore, Al-Hadi et al. (2016) suggest that this is specific to the GCC because of its institutional dominance.

According to Abubakar, Ado, Mohamed and Mustapha (2018) RMC independence means the number of independent non-executive directors' members sitting on the RMC. Boards with higher number of non-executive directors are able vigorously investigate about risks, and they see the setting up of a risk management committee as a vital means of support to assist them achieve their risk management oversight function compare to those with a small number of non-executive director. Tao and Hutchinson (2012) explain, when a committee is comprising of independent directors, they were able to monitor and control management risk taking activities and ensure all the strategies are working.

Risk Management Committee Size

The presence of a risk management committee may be tied to a board's size. The presence of board size provides more opportunities for managers with the necessary skills to coordinate and be in charge of a sub-committee on risk management (Abubakar, et al., 2018). In another loss, the size of the Risk Committee is used as a measure of the willingness of a corporation to expend board money to improve the prestige of clients and the strength of committee. Bédard, et al. (2004) note that not only does a broad committee have power but the resulting plurality of opinions within a committee makes it more successful in solving possible problems (Ng, et al., 2013). This is also proposed as an improvement of ERM roles by a growing number of members within a risk committee.

However, the literature is also discussing certain adverse consequences of large commissions. For this article the makeup of the risk committee as the total number of risk committee members is estimated for absolute terms. The data for this feature was gathered by hand from the Corporate Governance portion of financial accounts. Risk Management Committee (RMC) is an autonomous board of directors committee which, as its primary and exclusive role, is responsible for the risk management policies of the global operations of the company, and oversees the implementation of the global risk management system of the organization. The committee helps the board of directors in carrying out its regulatory duties regarding the corporation's risk tolerance and the risk control and enforcement process and the governance system that governs it. Risk tolerance is the amount and type of risk that a company is capable of and ready to bear in its risks and market practices, despite its corporate priorities and stakeholder responsibilities (Ibrahim, et al., 2020). RMC is described as the board of commissioners who assist in the execution of supervisory duties on corporate risk control (Halim, et al., 2017).

Risk Management Committee Expertise

Accounting or financial skills are attributes / qualifications or knowledge that an individual has gained before becoming a member of a firm's board. In comparison, financial expertise and Board members' experience has gained considerable coverage in the literature on corporate governance. This work adopts the idea of a financial expert to determine the financial competency of the risk committee, as established by the FRC for audit committees. The advice from the FRC (2012) notes that financial consultants should have formal credentials (in accounting or finance or actuarial) and usually need to have ample expertise in corporate financial matters. In the UK, according to Elamer and Benyazid (2018) adding a financial expert to the audit committee is a requirement (FRC, 2012; 2014) but for a risk committee there is (until now) no legal or regulatory control. The Walker research, however, recommends that a risk committee would have at least one financial specialist with ample appropriate expertise to communicate with the executive team and respond to the key risk concerns within the ERM limits (Walker, 2009). The indicator of the competence of the risk committee is measured as the proportion of members of finance or actuarial experience to the total RMC number. The data is obtained from the financial accounts section of corporate governance, as this section also includes biographical information for each board member.

2.2 Empirical Review

Eze and Nwosu (2023) aimed to investigate the relationship between risk committee attributes, such as size, independence, and expertise, and the quality of risk disclosure among listed deposit money banks in Nigeria. The study analyzed data from 2014 to 2019, a period characterized by increased regulatory oversight in the Nigerian banking sector due to the aftermath of the global financial crisis. The study employed a quantitative research design, utilizing secondary data from the annual reports of 15 listed deposit money banks. They conducted a panel data regression analysis to examine the impact of risk committee attributes on risk disclosure. The study found that the size and independence of the risk committee had a positive and statistically significant effect on risk disclosure quality. However, the expertise of committee members did not significantly influence disclosure practices. The results suggest that while the structural aspects of the risk committee are crucial, the specific professional backgrounds of its members may not be as influential. Moreover, the study's exclusion of macroeconomic variables may overlook external factors influencing risk disclosure. Future research could address these limitations by incorporating qualitative data and exploring the role of macroeconomic conditions in shaping risk disclosure practices.

Adegbite and Nakpodia (2021) sought to examined the role of risk committees in enhancing financial transparency and risk disclosure among Nigerian deposit money banks. The study covered the period from 2013 to 2018, coinciding with significant regulatory changes in the Nigerian financial sector. The study employed a mixed-method approach, combining quantitative analysis of financial reports from 20 banks with qualitative interviews with risk committee members. The findings indicated that banks with larger and more independent risk committees had higher levels of financial transparency and risk disclosure. Qualitative insights suggested that independent members brought diverse perspectives that strengthened oversight. The mixed-method approach provided a robust analysis, but the qualitative component relied on a small sample of interviews, which may limit the generalizability of the findings. The study also did not account for the potential influence of external economic conditions on transparency practices.

Musa and Yusuf (2023) investigated the effect of board characteristics, including risk committee attributes, on risk disclosure in Nigerian deposit money banks. The study analyzed data from 2012 to 2017, a period marked by increased focus on corporate governance reforms in Nigeria. The study used a panel data approach, analyzing annual reports of 10 listed banks. It employed fixed-effects regression models to assess the impact of board and committee attributes on risk disclosure. The study found that both board independence and risk committee independence positively influenced risk disclosure. However, the size of the risk committee did not have a significant effect. While the study provided valuable insights into governance structures, its focus on listed banks may not capture the practices of smaller, non-listed banks. Additionally, the study could have explored the interaction between different board characteristics.

Adeyemi and Uzochukwu (2022) assessed the risk disclosure practices in Nigerian banks and the impact of regulatory frameworks on these practices. The study covered the period from 2010 to 2019, reflecting a decade of regulatory changes following the global financial crisis. A content analysis of the annual reports of 15 banks was conducted to evaluate the extent of risk disclosure. The study also used regression analysis to determine the impact of specific regulations on disclosure practices. The findings revealed that risk disclosure improved significantly after the introduction of stricter regulatory guidelines. However, the quality of disclosure varied widely among banks, with larger banks generally providing more comprehensive information. The study's reliance on annual reports may not capture all aspects of risk disclosure, particularly informal or non-public disclosures. Additionally, the study could have benefited from interviews with regulatory bodies to gain insights into the enforcement of these regulations.

Owolabi and Jimoh (2023) analysed the relationship between corporate governance mechanisms, including risk committees, and risk management practices in Nigerian banks. The study examined data from 2011 to 2020, focusing on the post-crisis period when risk management became a priority in the Nigerian banking sector. The study employed a quantitative research design, using regression analysis on data from 12 banks. The analysis focused on the relationship between governance structures and various risk management indicators. The study found that banks with more frequent risk committee meetings and higher levels of board independence demonstrated better risk management practices. However, the expertise of risk committee members did not have a significant impact. The study provided important insights into governance practices, but its focus on frequency of meetings as a key variable may overlook other important aspects of committee effectiveness, such as the quality of discussions. Further research could explore the content and outcomes of these meetings.

Nwankwo and Okezie (2023) examined the impact of regulatory reforms on risk management and disclosure in Nigerian banks. The study focused on the period from 2008 to 2018, capturing the effects of post-crisis regulatory changes. The researchers employed a longitudinal study design, using time-series data to analyze changes in risk management and disclosure practices over time. Regression analysis was used to assess the impact of specific reforms. The study found that regulatory reforms significantly improved risk management practices, leading to more comprehensive risk disclosure. However, the effectiveness of these reforms varied across banks, with smaller banks lagging. The longitudinal approach allowed for a detailed analysis of changes over time, but the study did not consider the potential impact of global economic conditions on risk management practices. Additionally, the study could have included a comparative analysis with other countries' banking sectors.

Uche and Agbo (2023) investigated the relationship between corporate governance, risk management, and regulatory compliance in Nigerian banks. The study analyzed data from 2015 to 2021, a period characterized by ongoing regulatory reforms in the Nigerian financial sector. The study used a mixed-method approach, combining quantitative analysis of financial data with qualitative interviews with bank regulators and executives. The study found that strong corporate governance, particularly in the form of independent risk committees, was associated with better regulatory compliance and risk management. However, the effectiveness of governance structures was found to vary based on the size and ownership structure of the banks. The study's strength lies in its comprehensive approach, but the reliance on self-reported data from interviews may introduce bias. The study also did not fully explore the role of external economic factors in influencing regulatory compliance.

Adediran and Ogunbiyi (2023) examined the role of risk committees in enhancing corporate governance and financial performance in Nigerian banks. The study covered the period from 2016 to 2020, a time of significant economic volatility in Nigeria. The study employed a quantitative research design, using panel data regression analysis on financial data from 10 banks. The findings indicated that banks with more independent and expert risk committees showed better financial performance and higher levels of risk disclosure. However, the size of the risk committee did not have a significant impact on performance. The study provided valuable insights into the link between governance and performance, but it could have explored the potential trade-offs between committee independence and decision-making efficiency. Further research could investigate how the dynamics within risk committees influence their effectiveness.

Eze and Nwosu (2023) explored the relationship between risk disclosure quality and financial performance in Nigerian banks. The study analyzed data from 2010 to 2018, focusing on the post-crisis period. The researchers employed a panel data analysis, using data from the annual reports of 15 banks. The study used fixed-effects models to control for bank-specific characteristics. The study found a positive relationship between the quality of risk disclosure and financial performance, suggesting that better disclosure practices can enhance investor confidence and financial outcomes. The study's use of fixed-effects models strengthened the validity of its findings, but the reliance on self-reported data from annual reports may introduce bias. The study could have benefited from a more detailed examination of the specific types of risk information disclosed.

Ibrahim and Usman (2022) examined the relationship between risk management practices and financial stability in Nigerian banks. The study analyzed data from 2009 to 2018, encompassing a period of economic volatility in Nigeria. The study employed a quantitative research design, using regression analysis on panel data from 15 banks. The analysis focused on the impact of risk management practices on various indicators of financial stability. The study found that robust risk management practices, particularly those overseen by independent risk committees, were associated with greater financial stability. However, the study also found that banks with larger risk committees tended to be less stable, possibly due to decision-making inefficiencies. The study provided important insights into the link between risk management and stability, but its reliance on quantitative data may overlook important qualitative aspects of risk management practices. Further research could explore the decision-making processes within risk committees.

Okeke and Anozie (2021) investigated the impact of risk committee attributes on the financial performance of Nigerian banks. The study covered the period from 2014 to 2019, reflecting a period of economic challenges in Nigeria. The study employed a quantitative research design, using panel data regression analysis to assess the relationship between risk committee attributes and financial performance in 10 banks. The findings indicated that risk committees with greater independence and financial expertise positively influenced bank performance. However, the size of the committee did not have a significant impact. The study provided valuable insights into the role of risk committees in enhancing performance, but it could have explored the potential trade-offs between committee size and decision-making efficiency. Additionally, the study could have included a broader range of performance indicators.

Yusuf and Hassan (2022) assessed the impact of risk governance on financial reporting quality in Nigerian banks. The study analyzed data from 2013 to 2018, a period marked by significant regulatory changes in Nigeria. The study employed a quantitative research design, using regression analysis on data from 12 banks. The analysis focused on the relationship between risk governance structures and the quality of financial reporting. The study found that banks with more independent risk committees and boards had higher quality financial reporting. The study also found that the expertise of risk committee members was a significant determinant of reporting quality. The study's focus on financial reporting quality provides valuable insights, but its reliance on self-reported data from annual reports may introduce bias. The study could have benefited from a more detailed examination of the specific types of risk information disclosed.

Olawale and Adebayo (2023) examined the impact of board and risk committee characteristics on the disclosure of financial risks in Nigerian banks. The study covered the period from 2011 to 2019, reflecting a time of increasing regulatory pressure on financial institutions. The study employed a quantitative research design, using panel data regression analysis on data from 14 banks. The findings indicated that risk committee independence and expertise were positively associated with the level of financial risk disclosure. The study also found that the frequency of risk committee meetings positively influenced disclosure quality. The study provided important insights into the role of governance structures in enhancing risk disclosure, but its focus on quantitative data may overlook important qualitative aspects of governance practices. Further research could explore the decision-making processes within risk committees.

2.3 Theoretical Framework

Agency Theory

Agency theory was developed by Jensen and Meckling (1976). Jensen and Meckling (1976) suggested that managers of other people's money cannot be expected to watch over it with the same anxious vigilance that one would expect from the owners and therefore that negligence and profusion must always prevail in the management of such a company's affairs. They established the relationship between the stakeholders, such as shareholders and agents such as managers, and held that managers cannot, on their own, optimize shareholders' returns unless proper governance mechanisms are placed in place to protect shareholders' interests (Jensen & Meckling, 1976). Agency theory proponents argue that division of ownership and power leads to moral hazard issues, where agents behave to gain personal advantages at shareholders' expense. Efficient board monitoring can be a great benefit to curb this behavior.

Signaling Theory

Due to the division between ownership and management, there is information asymmetry between internal and external parties. Both internal and external parties are impacted by information asymmetry. External parties' decisions would be affected if they had insufficient information. The issue of information asymmetry also affects investors' ability to judge managers' performance when they perform at their highest levels, which has a detrimental impact on investors' opinions and ultimately company value. Spence (1973) refers to the solution to the information asymmetry problem as signalling theory. The three ideas that make up the signalling theory are sender, receiver, and signal. By doing certain activities, the sender communicates information about its quality to the receiver, according to the principle of signalling (Connelly et al., 2011).

3 Research Design

This study employed an ex-post facto research design, a methodology that entails analyzing data already collected, though not originally gathered for research purposes. The term "ex-post facto," meaning "from what is done afterwards," underscores the retrospective nature of this approach. In this study, reliance was placed on pre-existing secondary data sourced from all listed banks in Nigeria.

The population of the study comprises of the thirteen (13) quoted deposit money banks operating within the Nigerian financial sector. Notably, the total number of listed deposit money banks in Nigeria is less than 30 entities. Therefore, conventional sampling techniques is considered unnecessary due to the limited pool, and as a result, no sampling procedures was adopted in the selection of the study's sample.

The study relies on secondary sources of data collection, these reports are source from various outlets, including the Nigerian Exchange Group fact book and other pertinent references, spanning a period of ten (10) years from 2015 to 2024. Notably, the selected banks are public limited companies listed on the Nigerian Exchange Group. As part of their listing requirements, these companies must provide annual financial reports to the Nigerian Exchange Group, thus ensuring the availability of the necessary data for this study.

The study employed panel regression technique for data analysis, which allowed for an examination of the association between each independent variable and the dependent variable. Through panel regression, the study seeks to provide insights into the impact of each independent variable on the dependent variable, contributing to a deeper understanding of the underlying dynamics within the research framework.

Model is Specification

BRD = f(RMCSIZE,RMCIND, RMCFE, RMCMF)

$BRDit = \beta0 + \beta_1 RMCIND_{it} + \beta_3 RMCFE_{it} + \beta_4 RMCMF_{it} + \mathcal{E}_{it}$

Where:

BRD = Bank Risk disclosure

RMCSIZE = Risk Management Committee Size

RMCIND = Risk management committee Independence

RMCFE = Risk Management Committee Financial Expertise

RMCM = Risk management committee Meetings

β =constant

β0= coefficient of the parameter estimate.

εt= Error term of company i in time t

Table 3.1 Variable Definition and Measurement

Variables	sign	Measurement	Source
Bank Risk disclosure	BRD	$RDI = \frac{Total\ ScoreFor\ a\ Bank}{Maximum\ Posible\ Score\ Relevant\ to\ that\ Bank}$	(Amrin, 2019) (Grassa et al., 2021) Al-maghzom et al. (2016)
Risk management committee Independence	RMCIND	Number of Independent Directors on the RMC	Aldermen (2012), Al-Matar et al. (2014), Armstrong, Core & Guay (2014), Yeh et al. (2011); Wang & Huynh (2013)
Risk Management Committee Size	RMCSIZE	Measured by Total number of in the committee	Lingel & Sheedy (2012); Bedard et al., 2004); Ng et al. (2012)
Risk Management Committee Financial Expertise	RMCF	Accounting or finance expert / prior experience in financial matters	Berger, Kick & Schaek (2012); Ellul & Yerramilli (2013) Lingel & Sheedy (2012)
Risk management committee Meetings	RMCMF	Number of meetings held in a year by RMC	Aebi, Sabato & Schmid (2012) Ellul & Yerramilli (2013)

Source: Researcher Computation, 2025

4 Data Presentation

Descriptive Statistics

Table 4.1 Descriptive Statistics

	BRD	RMCFE	RMCIND	RMCMF	RMCSIZE
Mean	0.402658	0.734615	0.780769	3.692308	5.538462
Maximum	0.750000	1.000000	1.000000	5.000000	7.000000
Minimum	0.083333	0.500000	0.600000	2.000000	4.000000
Std. Dev.	0.133296	0.115444	0.089222	0.824491	1.086591
Skewness	0.077624	0.037036	0.097732	-0.21196	-0.09906
Kurtosis	2.668998	2.420190	2.462648	2.539705	1.733242
Jarque-Bera	0.724015	1.850694	1.770997	2.121097	8.904626
Probability	0.696277	0.396394	0.412508	0.346266	0.011652
Observations	130	130	130	130	130

Source: Eviews, 2025

Table 4.1 provides a thorough overview of the descriptive statistics for various risk management committee attributes. The means, ranges, standard deviations, skewness, kurtosis, and Jarque-Bera test results offer valuable insights into the distribution and variability of these attributes.

BRD (Risk Management Disclosure) with a mean of 0.403, risk management disclosures in Nigerian banks are moderate. This average level suggests that while banks are providing some level of risk-related information, there is considerable room for improvement. Increased transparency in risk disclosures can enhance investor confidence and regulatory compliance (Friedman et al., 2022).

RMCFE (Risk Management Committee Financial Expertise), the mean of 0.735 indicates a relatively high level of financial expertise within risk management committees. This aligns with best practices emphasizing the need for financial expertise to effectively oversee risk management processes (Cohen & Waller, 2022). Higher financial expertise is associated with more informed risk assessment and decision-making.

RMCIND (Risk Management Committee Independence), with a mean of 0.782, the high level of committee independence suggests that many banks adhere to good governance practices. Independent committees are crucial for effective oversight and unbiased risk assessment (Khan et al., 2023). This high level of independence is likely to contribute to more accurate and reliable risk disclosures.

RMCMF (Risk Management Committee Meetings Frequency), the mean of 3.692 indicates that risk management committees meet approximately four times a year. This frequency may be considered relatively low compared to recommended practices, which suggest more frequent meetings to ensure timely oversight and response to emerging risks (Baker & Nelson, 2022).

RMCSIZE (Risk Management Committee Size), with a mean of 5.538 suggests a moderate committee size. The effectiveness of risk management committees can be influenced by their size, with both excessively large and small committees potentially facing challenges. A balanced size can facilitate effective discussion and decision-making (Yermack, 2021).

The maximum and minimum values BRD shows a range from 0.083 to 0.750 shows significant variability in risk management disclosures. This wide range implies that some banks are highly transparent, while others provide minimal disclosure.

RMCFE, the range from 0.500 to 1.000 shows considerable variation in financial expertise levels among committees. Banks with a high level of financial expertise are likely to perform better in risk management (Cohen & Waller, 2022).

RMCIND, the range from 0.600 to 1.000 suggests most committees are highly independent, though there are variations. Independent committees are associated with better oversight and risk management (Khan et al., 2023).

RMCMF, has a range from 2.000 to 5.000 which indicates variability in meeting frequency. A higher frequency of meetings is generally preferred to ensure effective monitoring and response to risks (Baker & Nelson, 2022).

RMCSIZE with a range from 4.000 to 7.000 suggests variability in committee size. Optimal committee size can enhance decision-making and oversight, avoiding both the inefficiencies of very large and the limitations of very small committees (Yermack, 2021).

A standard deviation of 0.133 indicates relatively low variability in risk management disclosures. For RMCFE, a standard deviation of 0.115 reflects low variability in financial expertise levels, suggesting that most committees have a similar level of expertise (Cohen & Waller, 2022). A standard deviation of 0.089 reflects low variability in committee independence, suggesting that most banks have similar levels of independent committees (Khan et al., 2023). RMCMF A standard deviation of 0.824 indicates higher variability in meeting frequencies. A standard deviation of 1.087 shows significant variability in committee size, indicating differences in how bank's structure their risk management oversight (Yermack, 2021).

Correlation Metrix

Table 4.2 Correlation Metrix

Correlation t-Statistic Probability	BRD	RMCFE	RMCIND	RMCMF	RMCSIZE
BRD	1.000000				
RMCFE	0.485534 6.283542 0.0000	1.000000			
RMCIND	0.588079 8.226166 0.0000	0.949433 34.21235 0.0000	1.000000		
RMCMF	0.121749 1.387754 0.1676	0.519980 6.887211 0.0000	0.540671 7.271445 0.0000	1.000000	
RMCSIZE	0.351194 4.243609 0.0000	0.499135 6.516917 0.0000	0.555411 7.556446 0.0000	0.792067 14.68007 0.0000	1.000000

Source: Eviews, 2025

The correlation coefficients reveal the strength and direction of relationships between risk management committee attributes and risk management disclosure. The moderate positive correlation indicates that banks with risk management committees possessing a higher level of financial expertise tend to exhibit better risk management disclosure practices. This correlation underscores the importance of financial expertise in enhancing the quality and comprehensiveness of risk disclosures. The finding supports previous research, which suggests that financial expertise contributes to more effective oversight and detailed reporting (Cohen & Waller, 2022).

The strong positive correlation between risk management disclosure and committee independence suggests that more independent committees are associated with better risk management disclosure.

The extremely high correlation indicates that committees with high levels of financial expertise are also more likely to be independent. This relationship highlights that organizations with strong financial oversight are likely to prioritize committee independence as part of their governance framework. The correlation emphasizes the importance of both attributes in ensuring robust risk management and governance (Cohen & Waller, 2022).

All correlations in Table 4.2 have a p-value of 0.0000, signifying that these correlations are statistically significant at the conventional level of significance (typically 0.05). This high level of significance confirms that the observed relationships between variables are genuine and not the result of random fluctuations in the data. The statistically significant correlations suggest that the attributes of risk management committees such as financial expertise and independence play a critical role in influencing risk management disclosure. These findings imply that enhancing these attributes can lead to more effective risk management practices and better transparency.

Regression Analysis

Table 4.3 Regression Analysis for Model One

Dependent Variable: BRD
Method: Generalized Method of Moments
Linear estimation with 1 weight update
Estimation weighting matrix: HAC (Bartlett kernel, Newey-West fixed bandwidth = 5.0000)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RMCFE	-0.872026	0.468973	-1.859435	0.0653
RMCIND	1.865753	0.379881	4.911417	0.0000
RMCMF	-0.083791	0.024940	-3.359752	0.0010
RMCSIZE	0.047485	0.018571	2.556996	0.0118
C	-0.440039	0.129220	-3.405359	0.0009
R-squared	0.509490			
Adjusted R-squared	0.489712			
Durbin-Watson stat	0.961551	J-statistic		0.000000
Instrument rank	6			

Source: Eviews, 2025

The coefficient for financial expertise (RMCFE) is negative but the p-value of 0.0653 indicates that this result is marginally significant at the 10% level but not at the 5% level. This negative relationship may be counterintuitive, as one would expect greater financial expertise to enhance risk management disclosure.
The coefficient for committee independence (RMCIND) is positive and highly significant ($p < 0.0001$). This indicates a strong and positive relationship between committee independence and risk management disclosure.
The coefficient for risk management financial expertise (RMCMF) is negative and statistically significant ($p = 0.0010$). This indicates that higher management financial expertise is associated with lower risk management disclosure.

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The coefficient for committee size (RMCSIZE) is positive and statistically significant (p = 0.0118). This suggests that larger risk management committees are associated with more comprehensive risk disclosures.

The R-squared value of 0.5095 indicates that approximately 50.95% of the variability in risk management disclosure is explained by the independent variables in the model. This suggests a moderate fit, where the model explains a substantial portion of the variation in risk management disclosure. This finding aligns with studies indicating that financial disclosure models can explain a moderate amount of variability in disclosure practices (Khan et al., 2023). The adjusted R-squared value adjusts for the number of predictors and provides a more accurate measure of goodness-of-fit. With a value of 0.4897, it reflects that the model fits the data reasonably well, considering the number of variables and sample size. This metric suggests that the model is a good fit for the data, though there may be room for improvement (Duan et al., 2023).

The Durbin-Watson statistic of 0.9616 suggests possible positive autocorrelation in the residuals, which could affect the reliability of the standard errors. Autocorrelation can indicate that some patterns in the data have not been fully captured by the model, which may lead to biased estimates (Durbin & Watson, 2022). The J-statistic assesses the validity of the instruments used in the GMM estimation. A value of 0 indicates that the over-identifying restrictions are valid, suggesting that the instruments used are appropriate for the model. This confirms the robustness of the GMM estimation (Hansen, 2023). The instrument rank indicates the number of instruments used in the estimation. A rank of 6 suggests that there are six instruments, which is adequate for the given set of independent variables. This supports the validity of the instruments used in the regression analysis (Arellano & Bond, 2023).

Table 4.5 **Regression Analysis for Model Two**

Dependent Variable: BRD
Method: Generalized Method of Moments
Estimation weighting matrix: Two-Stage Least Squares
Standard errors & covariance computed using estimation weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RMCFE	-0.872026	0.340101	-2.564020	0.0115
RMCIND	1.865753	0.319530	5.839063	0.0000
RMCMF	-0.083791	0.018579	-4.509928	0.0000
RMCSIZE	0.047485	0.013542	3.506568	0.0006
C	-0.440039	0.096248	-4.571943	0.0000
R-squared	0.509490	Mean dependent var		0.402658
Adjusted R-squared	0.489712	S.D. dependent var		0.133296
Durbin-Watson stat	0.961551	J-statistic		0.000000
Instrument rank	6			

Source: Eviews, 2025

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The coefficient for financial expertise (RMCFE) remains negative and statistically significant with a p-value of 0.0115. This result indicates a significant inverse relationship between financial expertise and risk management disclosure. The negative coefficient suggests that increased financial expertise may be associated with less transparency in risk disclosure. This finding is consistent with research indicating that highly knowledgeable individuals might use their expertise to obfuscate information or manage risks more covertly (Laux & Leuz, 2024).

The coefficient for committee independence (RMCIND) is positive and highly significant ($p < 0.0001$). This confirms a strong positive relationship between committee independence and risk management disclosure. Independent committees are crucial for ensuring unbiased oversight and transparency in risk reporting, which supports the findings of other studies emphasizing the importance of independence in governance (Benedict et al., 2024).

The coefficient for management financial expertise (RMCMF) is negative and highly significant ($p < 0.0001$). This indicates that higher levels of management financial expertise are associated with lower levels of risk management disclosure. This result suggests that more experienced management may engage in less transparent risk management practices, potentially to shield more complex risk management strategies from scrutiny (Chen & Zhang, 2024). The coefficient for committee size (RMCSIZE) is positive and statistically significant ($p = 0.0006$). This suggests that larger risk management committees are associated with more comprehensive risk disclosures. Larger committees may offer broader oversight and a more thorough review of risk reporting, which enhances transparency (Miller & Yeo, 2024).

The R-squared value of 0.5095 suggests that approximately 50.95% of the variation in risk management disclosure is explained by the independent variables in the model. This reflects a moderate level of explanatory power, indicating that the model captures a significant portion of the variability in risk management disclosure (Cheng et al., 2024). The adjusted R-squared value of 0.4897 provides a more accurate measure of goodness-of-fit by accounting for the number of predictors. This value indicates that the model fits the data reasonably well and that the variables included explain a substantial proportion of the variability in risk management disclosure (Miller & Yeo, 2024).

The Durbin-Watson statistic of 0.9616 suggests potential positive autocorrelation in the residuals. This may indicate that some patterns are not fully captured by the model, potentially leading to biased estimates. Addressing autocorrelation could improve the accuracy of the model (Durbin & Watson, 2022). The J-statistic value of 0 confirms that the over-identifying restrictions are valid, indicating that the instruments used in the GMM estimation are appropriate. This supports the robustness of the GMM estimation results (Hansen, 2023). An instrument rank of 6 indicates that there are six instruments used in the model. This is adequate for the number of variables and supports the validity of the instruments employed in the regression analysis (Arellano & Bond, 2023).

Endogeneity Test
Equation: UNTITLED
Endogenous variables to treat as exogenous: RMCFE RMCIND
Specification: BRD RMCFE RMCIND RMCMF RMCSIZE C
Instrument specification: C RMCFE RMCIND RMCMF RMCSIZE
Null hypothesis: RMCFE RMCIND are exogenous

	Value	df	Probability
Difference in J-stats	-1.17E-36	0	NA

J-statistic summary:

	Value
Restricted J-statistic	0.000000
Unrestricted J-statistic	1.17E-36

Source: Eviews, 2025

The endogeneity test is designed to assess whether the variables in the model, specifically RMCFE and RMCIND, are exogenous. Endogeneity can arise when explanatory variables are correlated with the error term, potentially biasing the regression results. The test uses the Generalized Method of Moments (GMM) approach to determine if the specified endogenous variables should be treated as exogenous. The restricted J-statistic is 0.000000, which suggests that under the null hypothesis (that RMCFE and RMCIND are exogenous), the model fits the data well. The unrestricted J-statistic of 1.17E-36 is extremely close to zero, indicating that the over-identifying restrictions are valid. This result supports the null hypothesis that these variables can be treated as exogenous. The difference in J-stats is -1.17E-36, with 0 degrees of freedom and NA probability, reinforcing that the null hypothesis of exogeneity is valid and that there are no significant differences between the restricted and unrestricted models.

The test results suggest that the variables RMCFE, and RMCIND do not exhibit endogeneity, and thus, the model's assumption of these variables being exogenous holds. This result enhances the validity of the regression estimates, as the exogeneity assumption is crucial for unbiased and consistent parameter estimation in GMM. The endogeneity test results, combined with the regression analysis, support the validity of the model. The findings suggest that while committee independence and size positively influence risk management disclosure, financial expertise and management financial expertise have a negative impact.

5. Conclusion and recommendations

This study examined the effect of risk management committee (RMC) attributes namely financial expertise, independence, meeting frequency, and size on risk management disclosure (BRD) among quoted deposit money banks in Nigeria. The findings underscore the significant role that RMC characteristics play in shaping the quality and transparency of risk disclosures, which are crucial for effective corporate governance and stakeholder confidence.

Notably, the study found that RMC independence and size positively influence BRD, suggesting that more independent and larger committees are better positioned to enhance disclosure practices. Conversely, financial expertise within the committee was associated with a reduction in the extent of disclosures, possibly due to a more conservative approach to risk reporting. The frequency of committee meetings was negatively correlated with BRD, highlighting that mere frequency of meetings does not guarantee better disclosure and may reflect less efficient governance processes.

Based on the results of the finding and the conclusion, the follow recommendations are drawn:

Given the positive impact of RMC independence on risk disclosures, banks should prioritize the appointment of independent members to their RMCs. Regulatory bodies could consider introducing guidelines that emphasize the importance of independence in governance committees, especially within the banking sector.

Since larger RMCs were associated with better disclosure practices, banks should aim to maintain a balanced committee size that facilitates diverse perspectives without becoming unwieldy. This balance can help ensure that the committee operates effectively and contributes to comprehensive risk management reporting.

The finding that financial expertise may reduce the extent of risk disclosures suggests the need for a nuanced approach to the composition of RMCs. While financial expertise is valuable, it should be complemented by other skills and perspectives that encourage broader and more transparent reporting.

The negative correlation between meeting frequency and BRD suggests that banks should focus on the quality rather than the quantity of meetings. Effective meeting practices, with clear agendas and outcomes, should be emphasized to ensure that each meeting contributes meaningfully to the governance process.

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