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Risk Management Committee And Financial Liquidity Of Deposit Money Banks In Nigeria

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ABSTRACT
This study investigated the effect of risk management committee on financial liquidity of deposit money banks in Nigeria from 2016 to 2021. The specific objectives of the study were to determine the effect of risk management committee size on financial liquidity; to ascertain the effect of risk management committee independence on financial liquidity; to investigate the effect of risk management committee meetings on financial liquidity; and to explore the effect of risk management committee expertise on financial liquidity of deposit money banks in Nigeria. The study was anchored on agency theory and stakeholder theory. The study adopted *ex-post-facto* research design. The population of the study comprised the sixteen deposit money banks in Nigeria. Six banks were purposively selected for the study. Descriptive statistics, correlation and ordinary least square were employed in analyzing the data. The study found that risk management committee size has significant positive effect on financial liquidity. This study also found that risk management committee independence has positive significant effect on financial liquidity. The study further found that risk management committee meeting has positive significant effect on financial liquidity. The study also found that risk management committee expertise has positive significant effect on financial liquidity. The study concludes that risk management committee has significant positive effect on financial liquidity of deposit money banks in Nigeria. The study recommends amongst others that well-balanced and large risk management committee should be incorporated in deposit money banks in order to undertake high quality risk assessment in order to ensure financial liquidity in banks.
Keywords: Risk Management Committee, Financial Liquidity

INTRODUCTION

The crisis of financial management around the globe has proven that activities of risk management are necessary for organization that aims at sustaining client and shareholder patronage. Before now, risk management was not seen as a central component of the transaction of most companies (Gani, Al Rahbi, & Ahmed, 2021). Credit risk is a major and an important fraction of the banking loan operation. It is the risk of current and future profit Failure to implement the terms of any contract with the bank or any other performance as agreed upon may cause problems) (Azam, 2019). Such as losing a loan outstanding in part or in full, Due to credit events (risk of default), which may be caused by bankruptcy and non-payment of outstanding obligations Refusal/postponement or change of credit rating and restructuring again, which are reasons for the occurrence of problems in banks. In light of the developments that have contributed to

increasing competition in global markets in the field of financial transactions, many banks are exposed to risks that may lead to their collapse and deterioration of financial conditions (Alabdullah, Ahmed, & Nor, 2020). This development questions the effectiveness and efficiency of risk management committee in banks.

Due to the special nature of the assets in the banking sector, it is difficult for outsiders without the required expertize such as independent directors and individual investors to ascertain the actual risk associated with assets of the companies (Erkens, Hung & Matos, 2019). This is why finance companies have separate risk management committee composed of directors with the required skills to monitor risks facing companies and ensure safeguards put in place to mitigate the risks are adequate. Thus, poor monitoring of the risks of the various companies led to some of the management taking high risk that resulted into the companies incurring significant losses that affected their overall performance. The impacts of the high risks on performance result in removing members of the risk management committee in some of the companies. In other words, where a company incurs a loss that is perceived to result from high risk, there is possibility of changing members of the risk management committee. If on the other hand the loss is seen to result from poor management or poor decision by the management, there may be no change in risk management committee membership since the board would have replaced the CEO.

Risk management has been the function of the audit committee but with the recent financial innovations in new financial products and the change of focus of traditional financial institutions, there is an increase need to manage risk of investing in such financial invention and the need to constantly monitor the market for such products (Merton, 2015). This inventions need to be managed by a separate and an independent risk committee composed of members with technical knowledge on the operations and products of the finance companies. The need for separate risk management committee has been emphasized because of the increase in the responsibilities imposed on the audit committee by the regulatory bodies and due to the lack of resources such as time and expertise required to provide oversight of the risks monitoring activities of the companies (Yatim, 2019). The board through its risk management committee performs the monitoring of the risk of finance companies. With shareholder value maximization in mind, the risk management committees monitors the risk taken by management and provide advisory role concerning risk management strategies dealing with both present and future risk of the company (Walker, 2019). Another factor that necessitated the need for a separate risk management committee is the fact that the audit committee was negligent in monitoring in some of the companies that had corporate failure which indicated its inability to perform functions of both audit and risk management committee (Bates & Leclerc, 2009). For example in the case of Enron all the parties were found to be negligent in their duties, from the audit committee to the board as a whole and the external auditors. The company was found to have overstated its income for about four years and it has used some special purpose vehicles in the form of partnership to hide its liabilities.

Hence, risk management committee has become one of the crucial players in the current corporations' era. Being part of the board of directors, this sub-committee is expected to provide adequate resources to the board and assist the company in monitoring the management's activities which enhance the performance of firms and minimize the propensity of earnings manipulations (Subramaniam, McManus & Zhang, 2019). Elamer and Benyazid (2018) noted that risk management committee pursues a vital role in reducing the operational risks and enhancing performance by ensuring that the management avoids risky projects and invests in profitable ones. In the same vein, Abdullah and Said (2019) noted "establishing a standalone Risk management committee can enhance the effectiveness of the risk-assessment process, and in parallel to that, reduce financial risks (e.g., financial crime prevention)". In other words, risk management committees play pivotal roles for the firms' success or failure. However, in most countries around the world, risk supervision traditionally has been one of the responsibilities of the audit committee and board of directors, which has resulted in some confusion. According to Ng, Chong and Ismail (2013), the audit committee in such a situation will be given more responsibilities because the risks related to operations are diverse and broad, including "both financial and non-financial risks", which is not under the control of the audit-committee. Risk management committee has been identified as key factors that influence a corporations' success according to several studies. The attributes of the risk management

committee are likely to have a major effect on corporate outcomes like performance and financial liquidity but this study will concentrate on its influence on financial liquidity.
Financial liquidity on the other hand is a crucial function in the successful operation of a business firm and it is mostly important to make it known that a bank is liquid when it has the ability to settle obligations instantly. Consequently, a bank is illiquid if it is unable to settle obligations as it arises (Olarewaju & Aderemi, 2015). In this case, banks default and it will result to shareholders and possibly depositors' losses. On the other way round, liquidity is a bank's capacity to fund increase in assets and meet both anticipated and unanticipated obligations at reasonable cost without running into unacceptable losses. Traditionally, liquidity has been defined as the capacity of financial institutions to finance increases in their assets and comply with the terms of their liabilities as they mature (Lartey, Santwi & Boadi, 2013). Often, deposit money banks in Nigeria have failed or at times required government assistance because they had inadequate capital, lack of liquidity, or the combination of the two circumstances. Central Bank of Nigeria's guidelines on liquidity for banks is that these banks must meet up with the minimum liquidity ratio set up for them and consider any bank to be illiquid if; the bank's current account with the CBN is overdrawn and not covered consecutively for five working days within a month, the bank is unable to pay maturing obligations and lastly, the bank is a net taker of interbank deposit of up to one- quarter of its total deposits. The question now is how does risk management committee affects the liquidity of deposit money banks in Nigeria.

Statement of Problems

Governance has created significant changes in business environments in general, and in the accounting and auditing professions in particular. Interest in the role of risk management committees has increased in the last few years because it is the tool of corporate governance, whose aim is to increase the questioning of the board of management in risk management (Hamdan & Mushtaha, 2011). During the last years, there was, as well, an increasing organizational interest in the role of the risk management committee in assessing the risk exposure of the organization (Hamdan, Mushtaha, Al-Sartawi & Abdalmuttaleb, 2013). The effective management of risk depends on the existence of risk management committee emerging from management councils of such companies. The importance of the effectiveness of risk management committees has increased in the wake of the financial scandals and corporate failures that occurred in the last two decades.
Banks are confronted with various kinds of financial and non-financial risks. These include credit, interest rate, foreign exchange rate, liquidity, equity price, commodity price, legal, regulatory, reputational and operational risks. These risks are highly interdependent and events that affect one area of risk can have consequences for a range of other risk categories. Responding to this phenomenon, the concept of enterprise risk management structure was developed such that all the aspects of the banks risks arc taken care of as against the old order of concentrating only on credit risk (Ayodele, 2012). These risk if not properly management will affect the survival, profitability and liquidity of these banks. It has frequently been difficult for banks to balance these risks as they have been compelled to formulate many strategies/techniques or adopt others formulated by scholars and other professionals. Regrettably, the demise and distress of banks arising from unpaid loans, failed investments and, other portfolio risks have been rife despite the application of known strategies/techniques in managing banking risks in Nigeria.
However, due to collapse of corporate skyscrapers for instance, firms such as Enron, WorldCom and Satyam, effectiveness of risk management committee have been questioned by regulators particularly in the banking industry where the level of risk exposure is high especially in terms of unviable and non performing loans. Helen and Arnold (2011) asserted that the risk management committee can play a significant role in reducing toxic risk exposure of banks. The role of the risk management committee in deposit money banks has come under continuous scrutiny due to high instance of bank failures in Nigeria as a result of high incidence of non-performing loans and other risk exposures. Empirically, most of the empirical studies on the risk management committee were foreign and none of the few empirical studies within the Nigerian context examined in relation to liquidity in the banking. This, no doubt has created a knowledge gap in the literature, thus necessitating a robust Nigerian context study to be undertaken. Hence, this study aims to fill this gap in the literature by exploring the above mentioned relation and

contributing to the body of existing literature. Based on the foregoing, the study investigated the effect of risk management committee on liquidity of deposit money banks in Nigeria.

Research Questions

The following research questions guided this study.

1. To what extent has risk management committee size affected financial liquidity of deposit money banks in Nigeria?
2. To what extent has risk management committee independence affected financial liquidity of deposit money banks in Nigeria?
3. To what extent has risk management committee meetings affected financial liquidity of deposit money banks in Nigeria?
4. To what extent has risk management committee expertise affected financial liquidity of deposit money banks in Nigeria?

Hypotheses

The following null hypotheses were formulated for the study.

1. Risk management committee size has no significant effect on financial liquidity of deposit money banks in Nigeria.
2. Risk management committee independence has no significant effect on financial liquidity of deposit money banks in Nigeria.
3. Risk management committee meeting has no significant effect on financial liquidity of deposit money banks in Nigeria.
4. Risk management committee expertise has no significant effect on financial liquidity of deposit money banks in Nigeria.

REVIEW OF RELATED LITERATURE

Risk Management Committee

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, Okika, Yunusa & Janada, 2020).

RMC is described as the board of commissioners who assist in the execution of supervisory duties on corporate risk control (Halim, Mustika, Sari, Anugerah & Mohd-Sanusi 2017). In Nigerian Corporate Governance Code NCGC (2011) any company's board may create a Risk Management Committee to assist the board of directors (BOD) in its oversight responsibility for the risk function or profile, the risk management system and the risk scheme to be set up. As required by the Corporate Governance Code, this is one of the BOD Committee. Getting one is necessary but not mandatory for company. Scholars postulate that corporate efficiency may be increased if there is a strong committee of management in place. Business success is largely based upon the process of risk control (Edogbanya & Kamardin, 2015).

Risk management committee (RMC) is one of the board committees required for finance companies under the corporate governance guidelines. 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 are independent of the activity they monitor.

The risk management committee attributes covered in this include size, independence, meetings and expertise.

Risk Management Committee Size: Board size emphasizes the number of members appointed to serve on the risk management committee. It is believed that large number of board members will be a veritable instrument for formulation of strategic policies of the enterprise including conformity to risk disclosure requirement (Jensen, 1993). 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, Ado, Mohamed, & Mustapha, 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, Chtourou and Courteau (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, Chong & Ismail, 2013).This is also proposed as an improvement of ERM roles by a growing number of members within a risk committee.

Risk Management Committee Independence: 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 comprise of independent directors they will be able to monitor and control management risk taking activities and ensure all the strategies are working. Similarly, Abraham and Cox (2007) opined that independent directors represent the outsiders who are more likely to minimize agency problems and lower the demands for regulatory intervention in corporate disclosure. Elshandidy and Neri (2013) argued that having a good number of independent directors on the board would foster greater disclosure by the company. Lopes and Rodrigues (2007) believed that independent directors are expected to mount pressure on the management to forcefully release to a large extent, financial information that also includes risk disclosure.

Risk Management Committee Meeting: Board meetings are an important feature of the supervisory function of the board of directors as it represents meetings convened to discuss outstanding issues in the company and potential solutions. In this sense, it is an important aspect of good governance. Theorists propose that the board of directors perform advising and monitoring functions (Coles, Daniel & Naveen, 2008).Theoretically, the board of directors should balance between the two functions to enhance firm performance. While the advising function focuses more on the strategic decision, the monitoring function is directed to monitoring and observing the day-to-day operations. This allows independent directors to perform checks and balances between the management and shareholders to help ensure against a conflict of interests. The monitoring function aims to reduce the agency problems and holds managers accountable for their actions. This is set to be achieved through frequent meetings and activities conducted by the board of directors to monitor and discuss all operational issues (Khaleel, Siti & Shamharir, 2016).

Risk Management Committee Expertise: Given the resource dependency theory, directors with higher experiences, and more skills can help in constraining earnings management practices (Samaila, 2014). One of the indicators of the competence of the director is his qualifications and experiences. In addition, the investors tend to invest in businesses that have a large number of trained and qualified board members. In the case of RMCs, members equipped with the appropriate qualifications and experiences are capable of identifying and addressing the corporation's problems and challenges. Board members' financial expertise 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.

Financial Liquidity

Financial liquidity is a measure of the extent to which a person or organization has cash to meet immediate and short-term obligations or assets that can be quickly converted to do this (Business Dictionary, 2019). Liquidity can also be a measure of the ability and ease with which assets can be

converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations; examples of liquid assets generally include cash, central bank reserves and government debt. To remain viable, a financial institution must have enough liquid assets to meet its short term obligations, such as withdrawals by depositors. Global Association of Risk Professionals (2013) noted that liquidity can further be termed as a bank's capacity to fund increase in assets and meet both expected and unexpected cash and collateral obligations at a reasonable cost and without incurring unacceptable losses. Also, liquidity is a financial term that means the amount of capital that is available for investment. Today, most of this capital is credit, not cash. Bank Liquidity simply means the ability of the bank to maintain sufficient funds to pay for its maturing obligations. It is the bank's ability to immediately meet cash, cheques, other withdrawals obligations and legitimate new loan demand while abiding by existing reserve requirements (Lartey, Santwi & Boadi, 2013).

Nwaezeaku (2006) defined financial liquidity in banking measures the availability of cash and the rate at which current assets are converted into cash to meet ordinary and extra – ordinary request. Several scholars have viewed liquidity as a measure of bank's bargaining power and strength. One of the views is that, the more effective a deposit money bank is in managing its liquidity, the stronger its ability to provide loanable funds. Adequate liquidity enables a bank to meet three risks namely: Time risk (which is the ability to compensate for non-repayment of funds. That is, if the borrower defaults their commitment at a specific time), funding risk (which signifies the ability to replace net out flows of funds, either via usual withdrawals of retail deposits or non-renewal of wholesale funds), lending risk (which denotes ability to meet occasional withdrawals of funds from cogent customers) (Sushil & Bivab, 2013). Monitoring deposit money banks' liquidity reduces the possibility of raising loans under unfavourable loan agreements, restrictions and at a high interest bearing costs. Liquidity management in deposit money banks also reduces the incidence of bankruptcy and liquidation which are simply the result of illiquidity, and thereby, help to protect customers' deposits (Olarewaju & Aderemi, 2015).

Theoretical Framework

This study is anchored on agency theory. Agency theory was developed by Jensen and Meckling (1976). In Agency theory the central issue of corporate governance is equal to the problem of agents' self-interest behavior in a universal principal-agent relationship everywhere, where the principal (shareholder) delegates work to the agent (director and manager) who performs that work on behalf of the principal. Based on the assumption of individuals maximizing their own utility, the theory asserts that managers as agents will not always act in the best interests of the shareholders and may pursue their own interest at the expense of the shareholders. Agency Theory assumes that the interest of the principal and agent varies and that the principal can control or reduce this by giving incentives to the agent and incurring expenses from activities designed to monitor and limit the self-interest activities of the agent (Jensen & Meckling, 1976). According to Bonazzi and Islam (2006), the principal will ensure that the agent acts in the interest of the principal by giving him the incentives and by monitoring his activities.

The separation of ownership and control in modern business creates conflicts of interest between managers and stakeholders. Following this conflict was between the principal and the agent, companies are obliged to use control mechanisms to reduce agency costs and information asymmetry like the audit committees (Kalbers et al, 1998). Similarly Pincus et al (1989) argues that audit committees are used primarily in situations where agency costs are high to improve the quality of information flows from the agent to the principal. According to the agency theory, to ensure the effectiveness of an audit committee, managers are encouraged to prepare financial statements adequately to specify the return generated by the companies. Among the measures established to reduce the self-serving nature of the agent is an independent audit committee. Therefore in order to reduce information asymmetry, there is the need for governance mechanisms such as board subcommittees composed of directors with the appropriate attributes such as independence, expertise and experience to prevent or reduce the selfish interest of the agent.

Empirical Review

Abubakar, Ado, Mohamed and Mustapha (2018) evaluated the effect of risk management committee attributes and board financial knowledge on the financial performance of listed Banks in Nigeria from 2014 to 2016. A total of fourteen banks were sampled for the study.. Multiple regression method was employed in analyzing the data. The result indicates that risk management committee independence, and board financial knowledge exhibit a significant negative relationship with ROA. Meanwhile, risk management committee size has a positive insignificant relationship with ROA.

Odubuasi, Ofor and Ilechukwu (2022) carried out a study on the effect of enterprise risk management and risk committee on earning capacity of African Banks from 2009 to 2018. The study covered Nigeria, Ghana, and South Africa. The study used the *Ex-post-facto* research design. Seventeen banks were selected with the use of filtering method which allowed sieving out the banks that did not meet the study requirement. Panel regression was employed in analyzing the data. The study found that both ERM and risk committee efficiency have the greatest effect on the earning capacity of Nigerian firms. The study concludes that enterprise risk management and risk committee are instrumental to improved earnings capacity of selected African banks.

Ogiriki and Empere (2022) investigated the impact of the risk committee on corporate performance of quoted insurance firms in Nigeria from 2011 to 2020. Descriptive statistics, Pearson correlation and Hausman Test were employed in analyzing the data. The study found that risk committee independence and risk committee size had significant positive impact on return on asset; risk committee meeting had an insignificant negative impact on return on asset. The study concludes that risk committee characteristics have significant impact on financial performance.

Odubuasi, Obi and Osuagwu (2021) investigated the effect of risk management committee and enterprise risk management on performance of Banks in Nigeria from 2010 to 2019. Return on Equity was used as the dependent variables while enterprise risk management, risk committee gender diversity, risk committee account expertise, leverage and firm size were employed as the independent variables. Ex-post facto research design was used. Nine banks were selected using discretionary sampling technique. Descriptive statistics, correlation analysis and panel data regression analysis were employed in analyzing data. The results show that risk committee account expertise has positive effect while risk committee gender diversity and enterprise risk management have inverse effect on performance of banks in Nigeria. Enterprise risk management and risk committee attributes jointly has statistical significant and positive effect on performance of Nigerian banks.

Mohammed, Basariah and Sitraselvi (2018) investigated the impact of risk management committee characteristics on market performance of listed financial service firms in Nigeria. The study covered the period from 2012 to 2016. Panel Corrected Standard Errors (PCSEs) regression model was employed in analyzing the data. The result reveals that risk management committee size has a significant negative impact on firm performance, while risk management committee composition and risk management committee meeting have a significant positive effect on firm performance.

Ahmed (2018) investigated the impact of audit committee characteristics on firm performance using empirical evidence from Jordan using time panel data from 2010 to 2016. In this study, ratio of non-executive director member. The financial experts of a non-executive director and number of audit committee members were employed as the independent variable while Tobin Q a proxy for firm performance was employed as the dependent variable. The Breusch-Pagan Lagrangian Multiplier (LM) and Hausman test were employed in analyzing the data. The study found that audit committee independence has negative relation with firm's performance. There is a positive relationship between the financial expertise of a non-executive director's audit committee and firm performance.

It is obvious from the empirical literatures reviewed that majority of the studies covered risk management committee in relation to other variables like firm performance, financial performance and market performance ignoring financial liquidity. For instance, Odubuasi, Ofor and Ilechukwu (2022) examined risk management committee in relation to earning capacity. Ogiriki and Empere (2022); Odubuasi, Obi and Osuagwu (2021); and Ahmed (2018) examined risk management committee in relation performance. Similarly, Shima, Ahad and Essia (2022); Abubakar, Ado, Mohamed and Mustapha (2018); and Elamer

and Benyazid (2018) examined risk management committee in relation financial performance while Mohammed, Basariah and Sitraselvi (2018) examined risk management committee in relation market performance. This reveals a huge knowledge gap particularly in the Nigerian banking sector where liquidity is an important indicates of bank soundness. Hence, this study was hypothesized to examine the relationship between risk management committee and financial liquidity of deposit money banks in Nigeria.

METHODOLOGY

The study used panel data and was based on *ex-post-facto* research design. The study covered quoted deposit money banks in Nigeria within the period of five years from 2016 – 2021. As at the fourth quarter of 2021, The Nigerian Stock Exchange has a total of 16 deposit money banks out of which six were sampled for the study. The banks include Fidelity Bank Plc, Zenith Bank Plc, First Bank of Nigeria Plc, United Bank for Africa Plc, Access Banks and Stanbic IBTC Bank. Data from secondary sources were employed in this study. The data were sourced on risk management committee size, risk management committee independence, risk management committee meeting, risk management committee expertise, financial liquidity and firm size.

In the light of the research hypotheses and literature in the earliest section, a linear regression model is specified. The model formulated for the study was adopted from the study of Abubakar, Ado, Mohamed and Mustapha (2018). Their model was modified to suit the objectives of this study. The functional form specification of the model is given below.

$$FL = f(RCS, RCM, RCI, RCE, FS) \quad (1)$$

Where

FL = Financial Liquidity (proxied by liquidity ratio)

RCS = Risk Committee Size

RCI = Risk Committee Independence

RCM= Risk Committee Meetings

RCE = Risk Committee Expertise

FS = Firms Size

This equation can be restated in an econometric form as:

$$FL = bo + b_1RCS + b_2RCI + b_3RCM + b_4RCE + b_5FS + \mu \quad (2)$$

Where

bo = Autonomous or intercept

b_1 = Coefficient of parameter RCS

b_2 = Coefficient of parameter RCI

b_3 = Coefficient of parameter RCM

b_4 = Coefficient of parameter RCE

b_5 = Coefficient of parameter FS

μ = Stochastic variable or error term

The secondary data were collected and analyzed using descriptive statistics, correlation and ordinary least square (OLS). The descriptive statistics was used to evaluate the characteristics of the data; mean, maximum, minimum and standard deviation and also to check for normality of the data. The correlation analysis was used to determine the extent of association and presence or otherwise of multi collinearity. The ordinary least square (OLS) was used to establish the existence of relationship through the application of the econometric software (e-view).

RESULTS

Descriptive Analysis

This section presents the descriptive statistics on the effect of risk management committee on financial liquidity. The aim of the analysis is to examine the performance of the variables during the period under review. The analysis of the individual characteristics of these variables is presented in the table below:

Table 1 Descriptive Statistics

	FL	RCM	RCS	RCI	FS	RCE
Mean	0.693556	1.000000	1.000000	2.944444	5378964.	3.250000
Median	0.669000	1.000000	1.000000	3.000000	5081639.	3.000000
Maximum	0.992000	1.000000	1.000000	4.000000	9725064.	4.000000
Minimum	0.421000	1.000000	1.000000	2.000000	1379214.	2.000000
Std. Dev.	0.135638	0.000000	0.000000	0.673772	2455102.	0.500000
Skewness	0.254965	-2.157277	0.408248	0.061987	0.072405	0.434651
Kurtosis	2.482121	5.653846	1.166667	2.260306	1.822607	2.681633
Jarque-Bera	0.792339	16.03643	2.517361	0.843775	2.110836	1.285564
Probability	0.672893	0.650329	0.284029	0.655808	0.348047	0.525827
Sum	24.96800	36.00000	36.00000	106.0000	1.94E+08	117.0000
Sum Sq. Dev.	0.643917	0.000000	0.000000	15.88889	2.11E+14	8.750000
Observations	36	36	36	36	36	36

This table present the summary of statistics used in the analysis. It provides information about the mean, median, maximum and minimum value, standard deviation, skewness, Kurtosis and Jarque Bera of the variables used in the study. The mean rate for financial liquidity stood at 0.693556, while those of risk management committee size, risk management committee meetings, risk management committee independence, firms size and risk management committee expertise stood at 1.0, 1.0, 2.944444, 5378964.and 3.250000 respectively. The median which is a robust measure of the centre of the distribution that is less sensitive to outliers than the mean shows that financial liquidity, risk management committee size, risk management committee meetings, risk management committee independence, firms size and risk management committee expertise have median series of 0.669000, 1.0, 1.0, 3.0, 5081639 and 3.0 respectively. The Jarque-Bera statistics measures the difference between skewness and kurtosis of the series to determine whether the series is normally distributed. The Jarque-Bera statistics shows that all the variables are normally distributed.

Correlation Analysis

One of the ways to detect the presence of multi co-linearity in a model is through the use of correlation matrix table. Here, the independent variables are tested to see if they are correlated and the result is represented in a matrix form. Since multi co-linearity is a question of degree and not of existence, a matrix coefficient above 0.8 indicates a high degree of multi co-linearity in the model. The correlation matrix table is shown below:

Table 2 Correlation Matrix

	FL	RCS	RCM	RCI	FS	RCE
FL	1.000000	-0.196116	-0.145313	0.294174	-0.172959	-0.128908
RCS	-0.196116	1.000000	0.202653	0.423077	0.099079	-0.121091
RCM	-0.145313	0.202653	1.000000	-0.129825	0.171627	0.018840
RCI	0.294174	0.423077	-0.129825	1.000000	0.020806	-0.070558
FS	-0.172959	0.099079	0.171627	0.020806	1.000000	-0.126313
RCE	-0.128908	-0.121091	0.018840	-0.070558	-0.126313	1.000000

The correlation matrix shows that the degree of correlation between the independent variables is either low or moderate, which suggests the absence of multicollinearity between independent variables. As suggested by Wan, Shahnaz and Nurasyikin (2008), the Pearson's *R* between each pair of independent variables should not exceed 0.80; otherwise, independent variables with a coefficient in excess of 0.80 may be suspected of exhibiting multicollinearity. This confirms that there is no multicollinearity among the variables.

Regression Result

The regression result is presented in the Table 3 below. To analyze this table, we shall employ two criteria which are statistical criteria and econometric criteria.

Table 3 Estimation Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.582173	0.426546	1.364851	0.2213
RCS	0.911315	0.366674	2.485355	0.0475
RCM	1.022664	0.372680	2.744081	0.0336
RCI	0.825553	0.283129	2.915820	0.0268
FS	3.44E-10	2.69E-10	1.277411	0.2487
RCE	0.196537	0.070005	2.807456	0.0053

R-squared	0.685194	Mean dependent var	0.785714
Adjusted R-squared	0.517920	S.D. dependent var	0.425815
S.E. of regression	0.351673	Akaike info criterion	1.043329
Sum squared resid	0.742043	Schwarz criterion	1.408505
Log likelihood	0.696696	Hannan-Quinn criter.	1.009525
F-statistic	1.865620	Durbin-Watson stat	2.418393
Prob(F-statistic)	0.002498		

The regression result shows a positive and significant relationship between risk management committee variables (risk committee size, risk committee independence, risk committee meetings and risk committee expertise) and financial liquidity of deposit money banks in Nigeria. This implies that a unit increase in risk committee size, risk committee independence, risk committee meetings and risk committee expertise will bring about 0.911315, 1.022664, 0.825553 and 0.196537 increases in financial liquidity respectively. The study also found that firm size recorded a regression coefficient of 3.44E-10 which is statistically insignificant.

To determine the statistical relevance of the regression result, diagnostic tests like the t-statistic, f-statistic, t-prob, R^2 (coefficient of determination) and R^2 adjusted shall be used.

T-Statistic: The t-statistic measures the individual significance of the independent variables on the dependent variable. The rule here is that when the value of the t-statistic is equal to or greater than 2, it is significant, otherwise, it is not significant. From the regression result obtained, risk committee size, risk committee independence, risk committee meetings and risk committee expertise have significant effect on financial liquidity of deposit money banks studied while firm size has an insignificant effect.

F-Statistic: The f-statistic measures the joint significance of the independent variables on the dependent variable. The significance of the f-statistic can be obtained from the value of the f-probability. From the regression results above, the f-probability is significant given its value of 0.002498. This means that risk committee size, risk committee independence, risk committee meetings, risk committee expertise and firm size have joint significant effect on financial liquidity of deposit money banks in Nigeria.

Coefficient of Determination: The coefficient of determination (R^2) measures the overall goodness of fit of the model. From the regression results above, the R^2 is about 68.5%. This means that the variations in risk committee size, risk committee independence, risk committee meetings, risk committee expertise and firm size jointly explain about 68.5% of the variations in the financial liquidity of deposit money banks in Nigeria.

T-Probability: The t-probability, also known as t-prob, always agrees with the t-statistic. If the value of the t-prob is less than 0.05 at 5% level of significance, then it is significant, otherwise, it is not significant. From the results obtained above, risk committee size, risk committee independence, risk committee meetings and risk committee expertise are significant, while firm size records an insignificant effect.

To determine the econometric relevance of the regression result, diagnostic tests like the serial correlation test was carried out.

Serial Correlation Test: One of the assumptions of the Classical Linear Regression Model (CLRM) is that the disturbances of the independent variables are not serially correlated. When this is violated, there is autocorrelation. The technical way to detect the presence of autocorrelation is by the use of the Durbin Watson D-Statistic. If the value of the d-statistic can be approximated to 2, then there is no autocorrelation. From the regression result, the Durbin Watson D-Statistic obtained was 2.418393 which can be approximated to 2. This means that there is no autocorrelation in the model. Hence, the model can be used for realistic forecasts.

Test of Hypotheses

For better understanding, the hypothesis is restated again as:

Hypothesis One

Ho: Risk management committee size has no significant effect on financial liquidity of deposit money banks in Nigeria.

To test this hypothesis, we employ the coefficients of the t-statistics obtained in the regression result. From the regression results obtained, the value of the t-statistic corresponding to the risk committee size is 2.485355 with a probability value of 0.0475 which is statistically significant. We therefore conclude that risk management committee size has significant effect on financial liquidity of deposit money banks in Nigeria.

Hypothesis Two

Ho: Risk management committee independence has no significant effect on financial liquidity of deposit money banks in Nigeria.

From the regression results obtained, the value of the t-statistic corresponding to the risk committee independence is 2.915820 with a probability value of 0.0268 which is highly statistically significant. We therefore conclude that risk management committee independence has significant effect on financial liquidity of deposit money banks in Nigeria.

Hypothesis Three

Ho: Risk management committee meeting has no significant effect on financial liquidity of deposit money banks in Nigeria.

From the regression results obtained, the value of the t-statistic corresponding to the risk committee meetings is 2.744081 with a probability value of 0.0336 which is highly statistically significant. We therefore conclude that risk management committee meeting has significant effect on financial liquidity of deposit money banks in Nigeria.

Hypothesis Four

Ho: Risk management committee expertise has no significant effect on financial liquidity of deposit money banks in Nigeria.

From the regression results obtained, the value of the t-statistic corresponding to the risk committee expertise is 2.807456 with a probability value of 0.0053 which is highly statistically significant. We therefore conclude that risk management committee expertise has significant effect on financial liquidity of deposit money banks in Nigeria.

DISCUSSION OF FINDINGS

The study the effect of risk management committee on financial liquidity of deposit money banks in Nigeria. The data generated were subjected to empirical analysis. The study found that risk management committee size has significant positive effect on financial liquidity of deposit money banks. This implies that the size of risk management committee can have influence on financial liquidity. This agrees with the position of Mak and Kusnadi (2005) that larger boards are positively associated with higher corporate performance and that a larger board might be more effective in monitoring financial reporting. This agrees with the findings of Kallamu, Saat and Senik (2013) that there is a positive relationship between the risk committee size and financial performance.

This study also found that risk management committee independence has positive significant effect on financial liquidity of deposit money bank. This implies that the existence of non-executive member in the risk committee can ensure effective risk assessment which invariably leads to financial liquidity of

deposit money banks. This agrees with the position of Abubakar, Ado, Mohamed and Mustapha (2018) that boards with higher number of non-executive directors are more able vigorously investigate risks, and perform oversight function compare to those with a small number of non-executive directors. This agrees with the findings of Zemzem and Kacem (2014) that there is a positive association between the percentages of independent risk committee members and financial performance.

The study further found that risk management committee meeting has positive significant effect on financial liquidity of deposit money banks. This implies that the frequency of risk committee meetings can affect the level of financial liquidity in deposit money banks. This agrees with the position of Jackling and Johl (2009) who argued that the frequency of meetings of the board can play an active role in linking the external environment to the governance of the company, and can have a positive influence on the performance of the company. This agrees with the findings of Aebi, Sabato and Schmid (2012) that frequency of meetings of the risk management has a significant positive effect on the performance of banks.

The study also found that risk management committee expertise has positive significant effect on financial liquidity of deposit money banks. This implies that the existence of risk management committee member with expertise knowledge in accounting and risk assessment will influence financial liquidity positively. This agrees with the position Samaila (2014) that risk management committee members equipped with the appropriate qualifications and experiences are capable of identifying and addressing the corporate risk exposures. This agrees with the findings of Al-Hadi, Hasan and Habib (2016) that competent and qualified members sitting in the RMC can participate in adding value to the business by mitigating uncertainties and taking responsible actions in managing the business's challenges and problems

CONCLUSION

The study the effect of risk management committee on financial liquidity of deposit money banks in Nigeria. The data generated were subjected to empirical analysis. The study found that risk management committee size has significant positive effect on financial liquidity of deposit money banks. This study also found that risk management committee independence has positive significant effect on financial liquidity of deposit money bank. The study further found that risk management committee meeting has positive significant effect on financial liquidity of deposit money banks. The study also found that risk management committee expertise has positive significant effect on financial liquidity of deposit money banks. Based on the foregoing, the study concludes that risk management committee has significant positive effect on financial liquidity of deposit money banks in Nigeria.

The study therefore recommends that well-balanced and large risk management committee should be incorporated in deposit money banks in order to undertake high quality risk assessment in order to ensure financial liquidity in banks. It means that the larger the risk committee sizes, the more the effectiveness of risk committee in assessing the risk position of banks. Also, the risk management committee in deposit money banks should be strengthened since it was found to have significant positive effect on financial liquidity. This can be done by increasing the number of non-executive directors in the committee for effective monitoring and risk assessment. At least (4) four meeting should be held in a year by the risk management committee so as to address issues of corporate governance every quarter and resolutions of risk management committee meeting should be implemented to make the expenses incurred on them worthwhile. Deposit money banks are encouraged to have a board with members from different backgrounds and at least 5-member is recommended, at least 20% of the risk management committee members should be financially literate for them to be able to effectively assess the risk factors inherent in their business.

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