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**The Impact of Risk Management on the Sustainability
of The Insurance Business**

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Abstract

In the light of the failure of Silicon Valley Bank (SVB), which was a leading financial institution that catered to the banking needs of tech start-ups and venture debt in the US, insurance companies with the dual role that they play of insuring institutions and companies' risks, in addition to their investments, are considered as one of the most important components of the economy. The bank's collapse was due to its exposure to risky start-ups and the panic created among investors and depositors following its announcement of a fundraising plan to plug gaps in its balance sheet. This crisis has highlighted the risks associated with investing in the fast-paced world of tech start-ups and the potential for tightening credit for the entire industry, which could stifle innovation and entrepreneurship. The purpose of this paper is to explore whether risk management has a significant positive impact on the sustainability of business. A combination of qualitative and quantitative approaches was adopted; secondary data were obtained by a theoretical presentation of previous literature, and primary data was collected by a specific questionnaire. This was done through a random sample of (forty) questionnaires distributed to employees and clients of insurance companies in Palestine. In order to answer the study question, the researcher followed the analytical descriptive approach using SPSS and tested three sub-questions which were clarified in the study. The results of this paper revealed that risk management has a significant positive impact on the sustainability of the insurance business.

Keywords: risk management, sustainability, insurance companies, Silicon Valley bank, crisis.

JEL Classification: Q01, G32, G22, D81.

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1. Introduction

Insurance companies are considered as one of the most important components of the economy important, as they always seek to carry out their activities in ways that help achieve their insurance or economic goals, especially in light of the current technological development.

The economy is interrelated; if any aspect of the economy is affected by bad things, it also has bad effects. For example, what happened to the Silicon Valley Bank affected all aspects of the economy badly, including the insurance side.

On the other hand, there are many obstacles and risks that insurance companies face that force them to manage according to the surrounding circumstances and the means available to them, whether at the level of current or future activities, the roles it plays in securing the risks to which all institutions and individuals are exposed.

This is called risk management, as it contributes to empowering management, increasing profits, and maintaining the sustainability of businesses.

Risk management is one of the most important current procedures that insurance companies are working on using, in order to achieve the general goal of striving for survival and continuity in growth and development, leading to sustainability and maximising the role of insurance companies in addressing the risks of collapse in economic institutions and sustainability.

Where the research problem appeared, based on what has been mentioned, we will try to address the issue by asking the following question: What is the extent of the impact of risk management on the sustainability of the insurance companies' businesses?

Based on what has been mentioned, the importance and objectives of the study lie in the fact that it addresses an issue of importance in the lives of economic institutions, especially insurance companies, in light of the economic situation that we live in after the COVID-19 crisis and the subsequent state of the economic recession after the current crisis by addressing the role that risks management plays in terms of business sustainability and adapting to various risks.

The objectives to be reached through this study can be summarised as follows:

Explain the impact of risk management on the sustainability of the insurance business and clarify how insurance deals with risk management in most insured institutions, which in turn affects the economy.

Explore the impact of risk management on the sustainability of businesses taking what has happened in the Silicon Valley bank (SVB) as a case study.

2. Problem Statement

There is no doubt that the recent banking problems in the United States are not at all like the ones that occurred in 2008-2009. The crisis in the banking system during the Great Recession was that hundreds of banks across the country, including many of the largest, were insolvent, and some banks are facing runs from uninsured depositors.

Silicon Valley Bank (SVB), the poster child of the current crisis, was very much an outlier for several reasons. First, uninsured deposits were an extraordinary share of its liabilities. These are deposits that exceed the \$250,000 limit that is covered by the Federal Deposit Insurance Corporation (FDIC). These deposits accounted for well over 90% of the bank's liabilities. Second, the bank was closely tied to the tech sector, which is notorious for being a boom-bust industry. When the sector boomed during the pandemic (COVID-19), it meant that the bank's clients had lots of money to place with it, but in the last year, when the economy has largely returned to normal, the situation has reversed, and tech companies are laying off workers and making other cutbacks. The problem is that SVB has experienced extraordinary growth in recent years, with its assets quadrupling in size between 2018-2022. It clearly did not have a plan to deal with the flood of deposits received in those years. So, it chose to put them largely in longer-term US Treasury bonds. While this is a very safe asset from the standpoint of default risk, long-term bonds do have interest rate risk. Since the Federal Reserve Board advertised to increase the interest rates, it is surprising that SVB did not take steps to hedge itself against interest rate risk, which means that it has faced huge losses as interest rates rise. The focus of the bank's business in the tech sector meant that it was particularly vulnerable to a run. When some important people in this world withdrew their money, it led others to follow. Which forced the bank to sell some of its assets at a loss. When this information became known, it accelerated the run and forced the FDIC to take over the bank. While most banks are not similar to SVB in their business model, any bank can be susceptible to a run if there is enough fear in the environment (Baker, 2023).

Silicon Valley Bank (SVB) was a leading financial institution that specialised in the banking needs of tech start-ups and venture debt in the US. Also, SVB was known for its venture lending practice, which included around \$74 billion worth of loans, including venture debt. Unfortunately, it was the largest US bank to fail since the 2008 financial crisis. The bank's collapse was due to its exposure to risky start-ups and the panic created among investors and depositors following its announcement of a fundraising plan to plug gaps in its balance sheet. This sudden collapse of SVB stranded billions of dollars owned by the companies, investors, and depositors, causing a bloodbath in the start-up industry and banking stocks. This crisis has highlighted the risks associated with investing in the fast-paced world of tech start-ups and the potential for tightening credit for the entire industry, which could stifle innovation and entrepreneurship (Yadav et al., 2023).

Vo and Le (2023) showed that the bank invested heavily in debt securities during the period of low interest rates, and the subsequent rise in interest rates in 2022 resulted in large unrealised losses, and the bank's deposits were also highly concentrated among a small group of venture capitalists, which increased the likelihood of a bank run. Moreover, the bank held less capital, which exacerbated the impact of risk. In general, mismanagement of assets and liabilities led to the failure of the bank.

Banks can fail due to a variety of reasons such as macroeconomic uncertainty and is positively associated with economic downturns (Aubuchon, Wheelock 2010), and

inadequate risk management (Beltratti, Stulz, 2012). While Acharya and Richardson (2009) point out that risk taking behaviour is a major reason for bank failure.

Hauf and Posth (2023) examine the main reasons for the collapse of the Silicon Valley Bank (SVB) from a regulatory and risk management perspective. It was shown that the economic value of equity pointed to excessive interest rate risks on SVB's balance sheet over one year before the actual collapse. The analysis reveals major weaknesses in SVB's risk management practice. Regarding the bank's risk management: It is in the interest of every bank to manage not only its risks to the minimum required by the regulator but in such a way that the bank's operational business can be managed sustainably - even during a crisis. For this, best practices in risk management must be implemented and circulated throughout the organisation.

Small and medium enterprises (SMEs) in Arab countries play an important role in economic development by creating sources of employment and encouraging innovation, especially in the tech sector. During the pandemic (COVID-19), the tech sector boomed, which was a basic pillar of the global economy. After the pandemic, the economy has largely returned to normal, the situation has reversed, and a large part of these services was dispensed with, so these companies have faced many risks that are the responsibility of the insurance companies that insure such companies. Therefore, the country's economic growth may be affected if SMEs do not have clear risk management that helps to achieve business sustainability (Dwikat et al., 2022).

There is a global interest in maintaining the economic situation in a more stable manner, and the continuous emergence of risks over time and the need for risk management to achieve sustainability in business, especially in the insurance sector, constitute an important scientific direction towards which most studies and research are directed, especially in developing countries (Al-Sabbagh, 2009).

Nugraha et al. (2022) studied the effect of applying risk management on the financial performance of companies, which has a positive impact on market performance. The aim of the study was to prove that risk management has positive effects on market performance. The study shows that companies that apply enterprise risk management have better market and financial performance compared to companies that do not.

In terms of risk management, Caraiman and Mates (2020) clarify that risk management is an integral part of the way any organisation works, being the basis of management approaches. It should not be separated from the daily activities of any organisation where risk management is necessary because there are always doubts about the nature of the threats facing companies. If uncertainty is an everyday reality, then the reaction to uncertainty must become a permanent concern.

Bromiley et al. (2015) clarify how Enterprise Risk Management (ERM) proposes the integrated management of all the risks an organisation faces, which inherently requires alignment of risk management with the company's strategy, and emphasise that organisations should manage all their risks comprehensively and coherently instead of managing them individually. A company's overall strategy and strategic

choices significantly influence its risk, and the uncertainty associated with high-level strategic choices poses challenges for ERM.

From previous studies, it's clear that risk management is important for all economic sectors in all their aspects, whether they are banks, insurance companies, or large, medium, and small technology companies, and they must be taken care of and work within a sustainable framework while adapting to continuous risks, whether they are economic crises or epidemics and their impact on all aspects of the economy. The recent collapse of the Silicon Valley bank teaches us a lesson that we should work on dealing with proper risk management to help sustain the business. It becomes clear that risk management is important in achieving sustainable development. From here, we clarify the main problem of the study, which is the impact of risk management on the sustainability of the insurance business, and how important it is to use risk management and insurance in all economic sectors?

3. Research Questions / Aims of the Research

This study comes in light of the crisis in the banking system during the Great Recession, where hundreds of banks across the country, including many of the largest, were insolvent and some banks are facing runs from uninsured depositors. In light of the collapse of the Silicon Valley Bank (SVB) as a result of weak in SVB's risk management practice and global interest in maintaining the economic situation in a more stable manner, and the continuous emergence of risks over time and the need for risk management to achieve sustainability in business, especially in the insurance sector, constitute an important scientific direction towards which most studies and research are directed, especially in developing countries, the aim of the research is to clarify a main question: "Is there a role of risk management in achieving sustainability especially in the insurance sector?"

The following sub-questions emerged from the main study question:

To what extent have the Palestinian insurance companies been affected by the recent crisis that occurred in the Silicon Valley Bank (SVB)?

To what extent is risk management applied in Palestinian insurance companies?

To what extent does risk management affect business sustainability and clarify its role in Palestinian insurance companies?

4. Research Methods

The study is exploratory and relies on primary and secondary data sources. To collect relevant data, a combination of quantitative and qualitative approaches was adopted. The qualitative approach was used by reviewing the previous literature and collecting data and secondary information from books, press articles, Internet research, and annual reports. The theoretical presentation in the problem statement of the previous literature focussed on risks that influence the economy, such as the collapse of Silicon Valley Bank, which caused the collapse of many economic institutions. This crisis has highlighted the risks associated with investing in the fast-paced world of tech start-ups and the potential for tightening credit for the entire

industry and the role of risk management in the sustainability of the insurance sector's business. A specific questionnaire has collected primary data. This was done through a random sample of forty questionnaires distributed to employees and clients of insurance companies in Palestine. In order to answer the study question and describe and investigate the impact of risk management on the sustainability of the insurance business, the researcher followed the quantitative analytical descriptive method using the SPSS and has tested three sub-questions which were clarified in the study.

Data was analysed and collected from articles that were in line with the objective of the study. Information helped to conduct a well-structured questionnaire on a random sample of 40 employees and clients of insurance companies in Palestine.

Primary data was collected from Palestinian insurance companies with a suitable sample of 40 respondents randomly distributed among the employees and clients of insurance companies in Palestine from April 2023 to May 2023 using an online survey (Google Form). four (4) incomplete questionnaires were excluded, and only 36 responses were used in the data analysis to answer the study questions.

The questionnaire consists of two parts:

Part 1: General information about the study sample and demographic details.

Part 2: Includes instructions on how to answer the questionnaire items. Participants were asked to indicate their level of agreement based on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree), as well as display the questionnaire items, which It consisted of three main domains; the first domain have asked questions regarding the recent crisis that occurred at the Silicon Valley Bank (SVB), the second domain included risk management in Palestinian insurance companies, and the third domain included the role of risk management on business sustainability. The questionnaire was developed by reviewing the references and previous studies related to the study.

5. Findings

In this part we discuss data analysis, study sample and confirmatory factor analysis (CFA) to reveal the validity and reliability of the structural model. As mentioned earlier, the random sample for the study consisted of 40 employees and clients of insurance companies in Palestine. It has been verified that the questionnaire measures the objective for which it was created, which is to determine the impact of risk management on business sustainability in insurance companies. The questionnaire was presented in its initial form to several arbitrators with specialisation and experience, and the necessary modifications were made to it.

The validity and reliability of the tool were tested, confirmation factor analysis (CFA) was tested to discover the validity and reliability of the structural model using Cronbach's alpha (α). Cronbach's alpha values were satisfactory, and the values for all latent variables were above 0.6 as shown in Table 1 and indicated higher values of internal consistency (Hair et al., 2013). The results were deemed to be valid and reliable to run the measurement model.

Table 1. Cronbach’s Alpha (α) results for detect the validity and reliability

Section	No. of Items	Cronbach's Alpha
All question of questionnaire	23	0.654

Source: Authors’ own research.

Table 2. One-sample statistics

Mean	Std. deviation	Std, error mean	T
2.5	0.642	0.081	-2.342

Source: SPSS program outputs.

In table 2 it is clear that the arithmetic means of the answers to the statements that show the impact of risk management in the sustainability of business in insurance companies has been linked to the value of (2.5) with a standard deviation (0.642) and the value of t (-2,342). Thus, we accept the null hypothesis that says insurance companies do not use risk management to sustain their business.

Table 3. Arithmetic means and standard deviations of the first part of the questionnaire according to respondents' responses

No.	Item	Standard Deviation	Arithmetic Mean
1	Do insurance companies take steps to deal with interest rate risk in insured institutions?	0.989	2.45
2	Does global tension increase tension in insurance activity?	0.721	2.51
3	Are there needs for effective tools to anticipate risks?	0.833	2.82
4	Does global tension increase tension in insurance activity?	0.976	2.30
5	Are insurance companies ready to deal with risks associated with investing in the fast-paced world of tech start-ups?	0.948	2.32

Source: Authors’ own research.

Results show the value of each item. Table 3 indicates that the item: "Are there effective tools to anticipate risks?" has the highest score among the items, with an arithmetic mean value of (2.82) out of five, with standard deviations of (0.833). By contrast, the item "Does global tension increase tension in insurance activity?" has the lowest score among the items, with an arithmetic mean value of (2.30) out of five, with standard deviations of (0.976).

The results pointed out that most of the respondents emphasised that after the collapse of Silicon Valley Bank there is a huge need for effective tools to anticipate risks to sustain business and manage not only risks to the minimum required by the regulator but in such a way that the business can be managed sustainably - even during a crisis.

Table 4. Arithmetic means and standard deviations of the second part of the questionnaire according to respondents' responses

No.	Item	Standard Deviation	Arithmetic Mean
6	Is there a lack of experience in risk management?	0.982	2.85
7	Are there expected scenarios for dealing with future risks for companies and customers?	0.964	2.56
8	Is there an application for risk management?	0.956	2.45
9	Are risk management steps used clearly within global ratings?	0.952	1.93
10	Are there obstacles to dealing with risks?	0.845	3.03
11	Are risk management steps used according to the (ISO 31000) standard?	0.809	2.12
12	Is technology used in the risk management system?	1.013	2.68
13	Is artificial intelligence used to warn of risks in a computerised system?	0.966	2.46
14	Is there cooperation between clients and insurance companies in dealing with risks?	0.883	2.77
15	Can customers be a risk factor?	0.823	2.90
16	Are the risks dealt with in a deliberate and pre-calculated manner?	0.011	1.94

Source: Authors' own research.

Table 4 Indicate that the item: "Are there obstacles to dealing with risks?" Has the highest score among the subjects, with an arithmetic mean of (3.03) out of five, with a standard deviation of (0.845). By contrast, the item " Are risk management steps used clearly within global ratings? The lowest score among the vocabulary with an arithmetic average of (1.93) out of five, with a standard deviation of (0.952)

The results pointed out that most of the respondents emphasised that there are obstacles to dealing with risks, as Palestine suffers from a complex political situation and there is no doubt that the occupation is a major obstacle in the way of sustainability and development. However, there is a tendency to apply risk management to achieve sustainability in business.

Table 5. Arithmetic means and standard deviations the third part of the questionnaire according to respondents' responses

No.	Item	Standard Deviation	Arithmetic Mean
17	Does sustainability increase profitability?	0.784	2.33
18	Does sustainability increase cooperation with all sectors	0.740	1.44
19	Does sustainability maximise the wealth of beneficiaries in a safe manner?	0.983	2.57
20	Does risk management create a sustainable economy?	0.993	2.55
21	Does proper risk management help to achieve sustainability?	0.893	2.96

No.	Item	Standard Deviation	Arithmetic Mean
22	Does the use of specialists in risk management help to reach sustainability?	0.942	2.57
23	Does sustainability increase efficiency?	0.769	2.70

Source: Authors' own research.

In Table 5 Results show that the item: “Does proper risk management help to achieve sustainability? ” Has the highest score among the items, with an arithmetic mean value of (2.96) out of five, with standard deviations of (0.893). By contrast, the item “Does sustainability increases cooperation with all sectors?” has the lowest score among the items, with an arithmetic mean value of (1.44) out of five, with standard deviations of (0.740).

The results pointed out that most of the respondents emphasised that proper risk management increases work efficiency, continuity, and sustainability in work.

This paper's results revealed that achieving sustainability is one of the most important goals that help in the development of the Palestinian economy, and risk management has a significant positive influence on the sustainability of the insurance business in Palestine. This research study also supported and supports the previous studies conducted by various researchers about risk management's impact on the sustainability of the business.

6. Conclusions

The study aimed to study the impact of risk management on the sustainability of the insurance companies' business in light of the current economic situation, and the collapse of the Silicon Valley Bank (SVB) as a result of weak SVB's risk management practice and the global interest in maintaining the economic situation in a more stable manner, and the continuous emergence of risks over time and the need for risk management to achieve sustainability in business, especially in the insurance sector, constitute an important scientific direction towards which most studies and research are directed, especially in developing countries.

The paper found a significant positive relationship between risk management and sustainability in the insurance business. However, in Palestine, there are obstacles to managing risks as Palestine suffers from a complex political situation and there is no doubt that the occupation is a major obstacle in the way of sustainability and development, also after the collapse of Silicon Valley Bank. Attention was paid that there is a huge need for effective tools to anticipate risks to sustain business and manage not only risks to the minimum required by the regulator but in such a way that the business can be managed sustainably, even during crises. So, recently, there is a tendency to draw expected scenarios for dealing with future risks for companies and customers and apply risk management to achieve sustainability in business.

Attention should be paid to experience and scientific competence in risk management technology and an attempt to create a system based on artificial intelligence to help obtain a continuous computerised report of risks and warn of

dangers to help increase profits, maximise the wealth of the owners, in order to achieve sustainability in the work.

Finally, this paper has some limitations that future studies can address. First, spatial boundaries: Palestine (West Bank). The sample was taken from employees and clients of insurance companies in Palestine. Secondly, time limits: The study covers the period from April 2023 to May 2023. Therefore, further studies are recommended on the impact of risk management on the sustainability of the insurance business, and we hope that this study adds value to the scientific community.

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