Risk management rules-based or values-based?

For effective risk management to occur, the current landscape must see a paradigm shift in risk management from a rules-based approach to a values-based approach without detracting from the intent of regulations. This will result in a win-win situation for both insured and insurer.

Risk management has been driven by compliance with some form of legislation and rules that give effect to the regulations. Far too often risk managers and risk surveyors tend to depend on the enforcement of legislation to manage the risk as a means to overcome a perceived lack of adequate funding.

Rule forming rationale

The rules forming part of a standard is just one way to satisfy the intent of the regulation, and in the written form does not always suit the business model of the organisation. Risk management must shift away from the dogmatic approach of laying down the law. Successful risk management requires a synergistic approach from risk managers, risk surveyors and senior management for solutions to fit the business environment.

Other perceived obstacles to effective risk management include political uncertainty and local authority approvals. Larger organisations tend to separate the political risks from the operational risks, and they manage them in parallel by finding workable solutions to minimise employee disruption due to civil dissatisfaction with the government. At the same time, they maintain ongoing risk management to minimise operational risks. Stringent legislation giving rise to strikes and work stay-away can increase business risks.

Local authority approvals tend to be a challenge facing risk management in the insurance industry. Primarily, local authority approvals are based on life safety, and not on property protection, and can be approved in isolation without considering its impact on the overall building.

This approach ignores protection of key risk areas such as plant rooms and utilities because there is minimal human activity taking place in these locations. It is here that fires develop with catastrophic consequences. Insurers have attempted to address this by presenting lectures to local authorities without the desired impact. These lectures were not sustained.

The key role of the intermediary

Communication to the insured by insurers is governed by legislation and has to be via an intermediary. Hence the role of the intermediary is of critical importance in the risk management process.

Information loss and distortion is likely to occur if relayed through a communication channel with vested interests and amendments. This is starting to change, and there has been greater interest from businesses to liaise directly with insurers with approval from intermediaries.

Looking into Africa

International markets tend to be very much rules-based as they indirectly tend to write their own set of guidelines for application by their clients. These are based on some form of national legislation. This is the basis for alternative risk solutions in organisations. South Africa may lack some level of detail in the practicality of implementation, but the standards can be used internationally. Large multinationals implement international standards when operating in the African region and these include the South African standards in their host country significantly improving the quality of the risk.

Challenges facing the African region may include the availability and speed of delivery of risk management goods and expertise, the lack of suitably qualified providers of these goods and services, and the laissez-faire approach to risk management at times.

Effective communication and value-add solutions are critical in adapting local risk management techniques within the African region.

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