The risk management JIGSAW PUZZLE

In an insurance industry where the dynamics that drive the industry are constantly changing, risk management becomes an important function within companies. While this is an important function, it is becoming increasingly harder for companies to manage this as there is a lack of skills in the industry, and the operating environment is constantly changing.

In order to get deeper insights into the dynamics currently driving risk management within the industry, FAnews caught up with Anand Manilal, Risk Engineer, and Glenn Stoneham, Portfolio Executive at Emerald Risk Transfer.

How must risk management change?

The insurance industry is itself constantly evolving around product offerings, terms of offer and acceptance and differentiation in the face of homogenous goods. Risk assessment and risk management influence some of these decisions on two key aspects: the quality of the risk, and the measurement of the deductible.

Risk assessments and risk management should have a proactive approach at all times by constantly improving the quality of the risk and treating the insurer's recommendations seriously in order to remain an insurable risk.

International influences

The South African insurance industry is largely seen as one of the most developed industries on the African continent, and can in many cases compete with larger international markets. Because of this, there are a lot of external influences which do have a local impact.

Risk assessments have either one of two or both of the following intentions; 'protection of life' or 'protection of property'. The behavior of the former tends to contribute to changes in the latter. Property insurers tend to consider risk assessment with the intent of 'protection of property' as priority irrespective of the method of risk assessment.

Therefore, it is development in the industry and not changes that is the driver in bringing about change in the area of risk assessment and this only becomes an international versus local matter if these developments and products are introduced in the respective territories of operation. These may only be adopted if they are also conducive to the environment. Changes therefore occur all the time as a result of new developments and risk assessment recommendations tend to change accordingly.

The climate change quandary

Climate change had a significant impact on the South African insurance industry in 2012 and 2013. But while 2014 turned out to be a good year for insurers in terms of weather related claims, the threat of climate change is an ever present concern.

Climate change unavoidably increases the frequency and severity of natural disasters, even in areas where such events were previously unheard of. The previously considered 'return period' for events is still a yardstick to assume the probability of an event occurring, yet this can alter due to climate change activity.

It is the magnitude of the consequences that cannot be predicted and more often than not it is assumed that risk managers tend to plan for worst case scenarios. One of the key elements as an obstacle to risk management measures for an unpredicted event is the budget, which then leads the event to being categorised to a lower priority.

Bridging the skills gap

There is no doubt that in the last decade there was a decline in young professionals wanting to join the industry. This was due to, amongst other issues, the 'insurance salesman' stigma and a less than romantic career path for today's highly educated and entrepreneurial youth.

However, with the regulation of the industry over the recent years and the move towards a more professional environment, there has been a change in the way insurers recruit by attracting young, qualified professionals from other fields. This, along with improving the skills in the market today, will also increase our ability to attract future talent.

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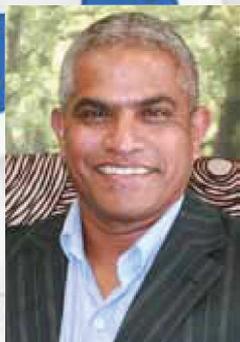
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