Enterprise Risk Management maturity - a study of eleven South African insurers

Why ERM...
Effective risk management is fundamental to the prudent management of an insurer. The Risk Management and Internal Controls for Insurers (GOI 3) standard requires insurers to have a board-approved enterprise-wide risk management system. In addition, the King Code on Corporate Governance King IV™ suggests that the organisation should assume responsibility for the governance of risk and that actions should be taken to monitor the effectiveness of risk management and how outcomes were addressed.

Insurance companies should therefore develop and maintain a risk assurance programme to ensure risks are managed in such a way that the interests of all stakeholders are protected. Since risk is the effect of uncertainty on the achievement of the organisation’s objectives, enterprise risk management is a process to effectively and proactively identify, assess, quantify, and mitigate such risks, providing the organisation with reasonable assurance that its objectives will be met through consideration of both the positive and negative effects of the risk.

KPMG’s contribution to the promotion of risk maturity within the insurance industry
The KPMG Enterprise Risk Assessment (ERA) maturity continuum has been developed considering recognised and leading global industry best practice, various governance and risk codes and has reference to the KPMG Global ERM Methodology. It is aimed at guiding organisations in terms of achieving their desired risk maturity status and provides practical and realistic recommendations to achieve higher levels of risk maturity in a structured and formalised manner. Over the last two years, covering the period August 2019 to July 2021, KPMG performed a number of risk maturity assessments which included eleven individual risk maturity assessments for South African insurers. The consolidated results of the eleven individual assessments are presented in this article and reflect the overall maturity levels per element as well as the overall risk maturity score achieved by these insurers.

Rainhard Muller
Senior Manager Internal Audit, Risk and Compliance Services Tel: +27 82 719 6384 Email: rainhard.muller@kpmg.co.za

Source: The Committee of Sponsoring Organizations of the Treadway Commission (COSO)
Elements of our risk management maturity assessment

We used these key components of the DRM process to assess our clients’ risk maturity.

How risk-mature are South African insurers?

In general, the results show that insurance companies’ risk maturity levels are higher compared to those of most other industries. We believe that the following factors contribute to this more favourable score:

- The policies as prescribed by the GOI and as amended by the Prudential Authority have promoted risk management practices and ensured that insurance companies have maintained high risk management standards, which, although not all conform to the principles they enshrined into their businesses.

- Insurers are in the business of risk management by virtue of the services and/ or products they provide. Profitability can only be achieved if risk is managed effectively, so risk management is business as usual and ingrained throughout the strategy and operational practices of the business.

- Insurers conduct risk assessments and stress testing, which contribute to this more favourable score.

- In general, the results show that insurance companies’ risk maturity levels are higher compared to those of most other industries.

The average risk maturity score achieved by the eleven insurance companies included in our population is 3.40 out of 5, representing a mature level of risk practices adopted and implemented by these companies.

The various maturity levels as defined in our framework are described in the table below:

<table>
<thead>
<tr>
<th>Weak</th>
<th>Sustainable</th>
<th>Mature</th>
<th>Integrated</th>
<th>Advanced</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1 - 1.99)</td>
<td>(2 - 2.99)</td>
<td>(3.00 - 3.99)</td>
<td>(4.00 - 4.99)</td>
<td>(5.00)</td>
</tr>
</tbody>
</table>

- Governance policies and processes are in place, but are not consistently aligned with business strategy.
- Risk management activities are not aligned with business strategy.
- Risk management capabilities are defined and consistent across the business.
- The Board and senior management formally consider risk as a source of competitive advantage.
- Risk management objectives and value propositions are aligned with strategic planning, capital allocation, and in decision making.
- Risk management activities are aligned with business strategy.
- Incentive compensation forms are well-considered and allocated.
- Risk management serves as a source of competitive advantage.
- Risk management, capabilities and activities are integrated and effectively managed and measured.
- Risk management is a source of competitive advantage.
In which areas have insurance companies performed well?

- Insurance companies performed well in establishing risk management practices in the following areas:

  - Risks have been considered in an integrated manner to incorporate strategic planning developments, forecasting, scenario analysis and business planning.
  - The Board has been regularly informed of material or top-of-mind enterprise-wide risks.
  - A risk management framework has been developed and approved which articulates the various roles and responsibilities at a management and governance level.
  - Risk has been a recurring agenda item for governance committees and risk is part of ongoing discussions.
  - The Governance Committee responsible for risk has received and discussed risk reporting information on a regular basis and we have well informed perspective on risks profile within the organisation.
  - Roles and responsibilities relating to risk and assurance activities have been defined and formulated as per the various committee charters and mandates.

- And in which areas of risk management could South African insurers do better?

  - More transparent alignment between strategic objectives and the risk profile.
  - Incorporating risk management roles and responsibilities into personal goal setting and performance appraisal of management/individuals responsible for risk management will promote better accountability at all levels.
  - Aligning the maximum risk tolerance levels per individual risk in the appetite statement to the qualitative residual risk ratings determined for the risk to improve the overall monitoring of risks.

In which insurance companies for the respective elements defined in our framework are presented below:

- Utilising risk management software tools and online applications for real-time analysis of trends within the insurance industry.
- Developing systems to maintain the integrity of risk management data; and
- Investing in automated and integrated governance, risk and compliance technologies to store, manage, monitor and report on real-time risk data and information.

Based on the above results it is notable that six of the seven elements resulted in an average score above three and the “data and technology” element resulted in the lowest maturity score of 2.71. On one hand, this result is perhaps not surprising since almost every survey locally and globally shows; and insurance company CEOs admit to the fact that the industry is behind the curve when it comes to making optimal use of technology in many aspects of the business, front and back-end. On the other hand, given that risk management is the essence of what insurers do for a living, it is surprising that sophisticated risk management technology has not been embraced as fully as possible.

Insurers might wish to consider:

- Utilising risk management software tools and online applications for real-time analysis of trends within the insurance industry;
- Developing systems to maintain the integrity of risk management data; and
- Investing in automated and integrated governance, risk and compliance technologies to store, manage, monitor and report on real-time risk data and information.

Conclusion

Any company’s risk management competency evolves over time and this is certainly the case in our insurance industry. A company’s risk management strategy must be shaped by its risk profile, its appetite for risk and the future strategic intent and direction of the organisation as defined by the Board of Directors.

Over the past two years the insurance industry has been challenged with many emerging and unexpected risk exposures, the most obvious being COVID-19, civil unrest and related risks. In order to reap the benefits of effective risk management practices, those insurers that continually evaluate and enhance risk management practices by being agile and informed will be rewarded.

- The use of dashboard reporting to create a holistic overview of actions taken and proposed monitoring interventions to promote risk mitigation at all levels.
- The formal implementation of risk aggregation techniques on a regular basis and the interdependency between roles to promote the assessment of risks and planning developments, forecasting, scenario analysis and business planning.
- The introduction of a coordinated combined assurance approach to reduce duplication of risk mitigation efforts and ensure cost-effective assurance at all levels.
- Extending risk training for management and those charged with governance to increase risk awareness.
- Assessing, and if necessary, creating the risk reporting to the various risk oversight forums to introduce a sharper focus on risk monitoring and risk reporting.
- Expanding the utilisation of risk management software tools within all levels of the organisation to promote and improve risk information, understanding, monitoring and reporting.

- Expanding the utilisation of risk management software tools within all levels of the organisation to promote and improve risk information, understanding, monitoring and reporting.

- Expanding the utilisation of risk management software tools within all levels of the organisation to promote and improve risk information, understanding, monitoring and reporting.