



ACTUARIAL SOCIETY 2015 CONVENTION

Aligning organisational culture with Enterprise Risk Management

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Agenda

1. Introduction
2. Enterprise Risk Management (ERM)
3. Organisational culture
4. Linking organisational culture to ERM
5. Survey findings
6. Conclusion

Introduction

- SAM: organisational culture should embed risk management policies and procedures
- link between organisational culture and ERM implementation
- provide Chief Risk Officers an initial framework to categorise an organisation's culture...
 - ... to allow them to practically link culture characteristics and ERM principles
- broad investigation into organisational culture and the SA insurance industry

Enterprise Risk Management (ERM)

Committee of Sponsoring Organizations (COSO) of the Treadway Commission defines ERM as:

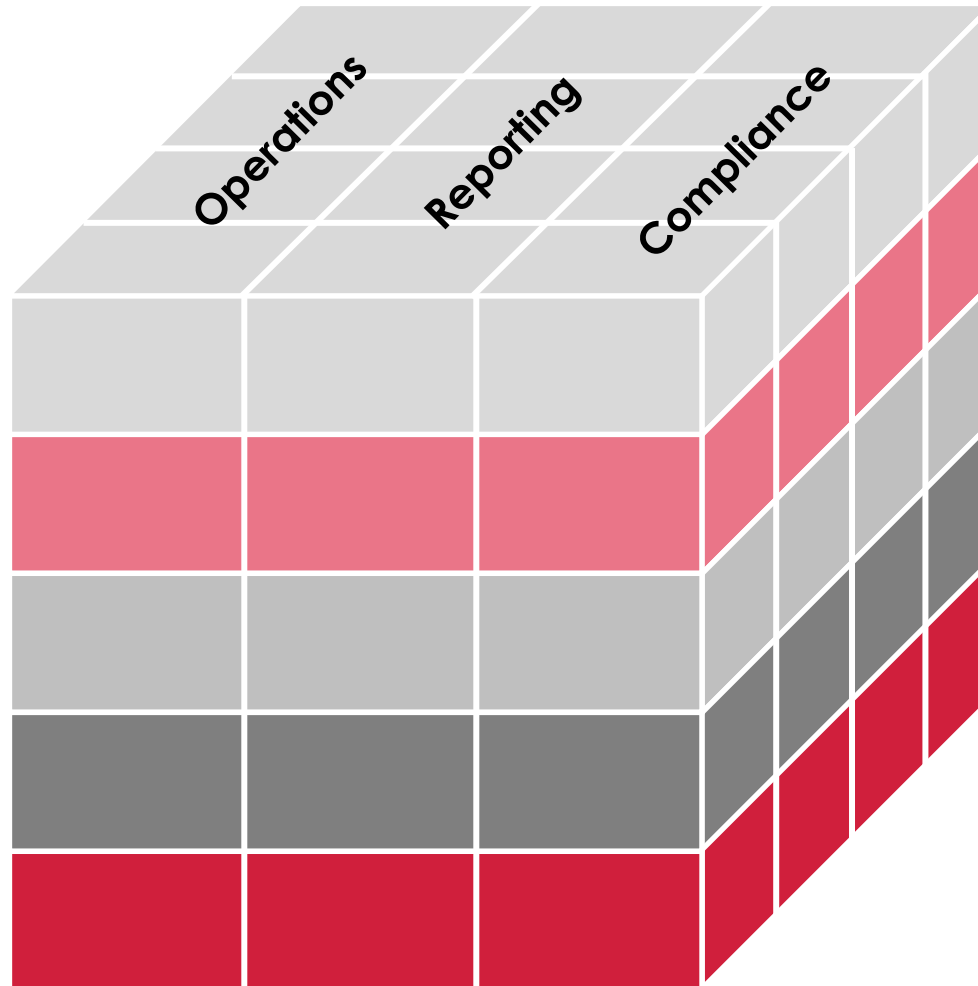
a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

Enterprise Risk Management (ERM)

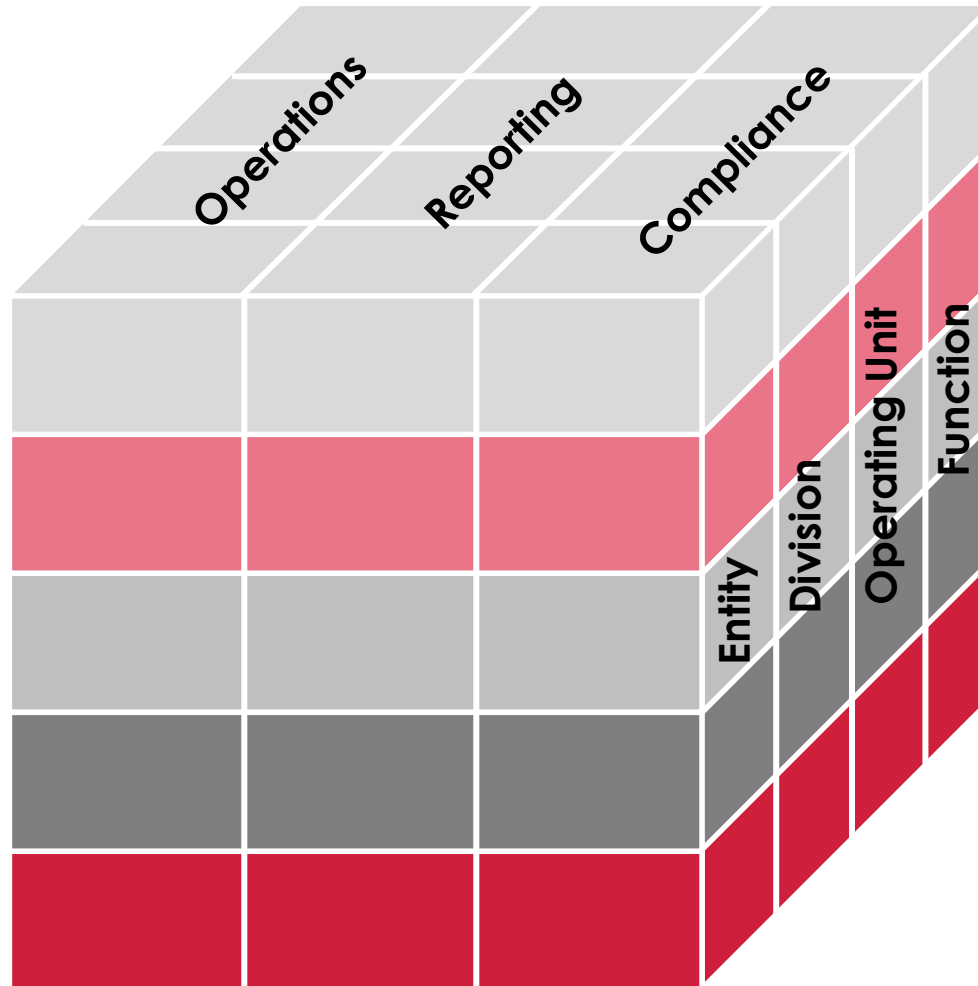
SAM defines the Own Risk and Solvency Assessment (ORSA) as:

the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks an insurance undertaking (and insurance group) faces or may face and to determine the own funds necessary to ensure that insurers (and groups) overall solvency needs are met at all times and are sufficient to achieve its business strategy.

Enterprise Risk Management (ERM)



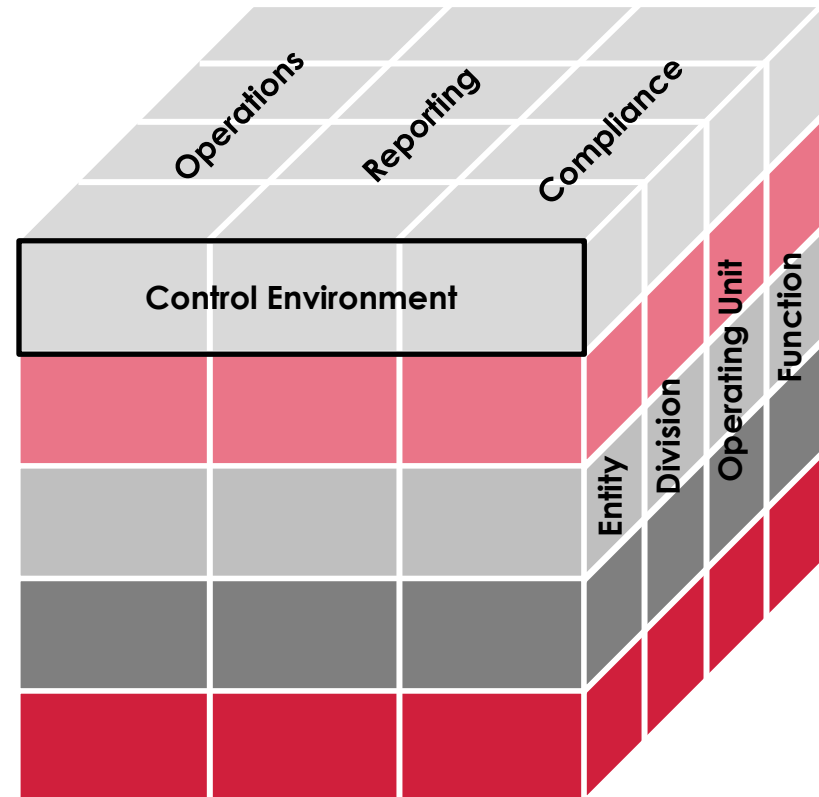
Enterprise Risk Management (ERM)



Enterprise Risk Management (ERM)

2. the board of directors demonstrates independence and oversight

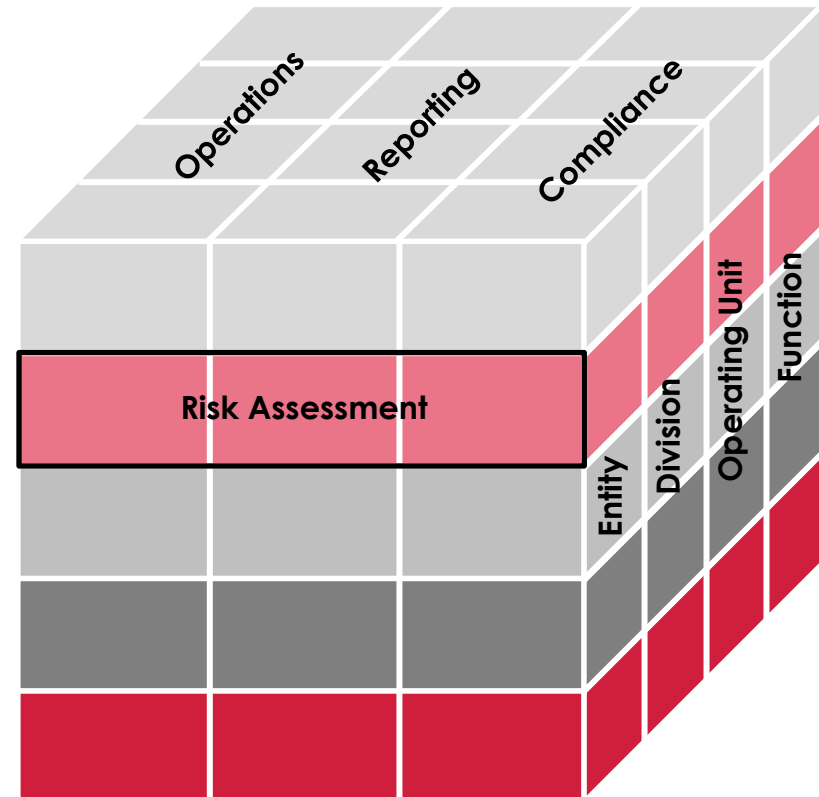
... to achieve the organization's objectives



Enterprise Risk Management (ERM)

7. the organization identifies, analyzes and manages risks appropriately

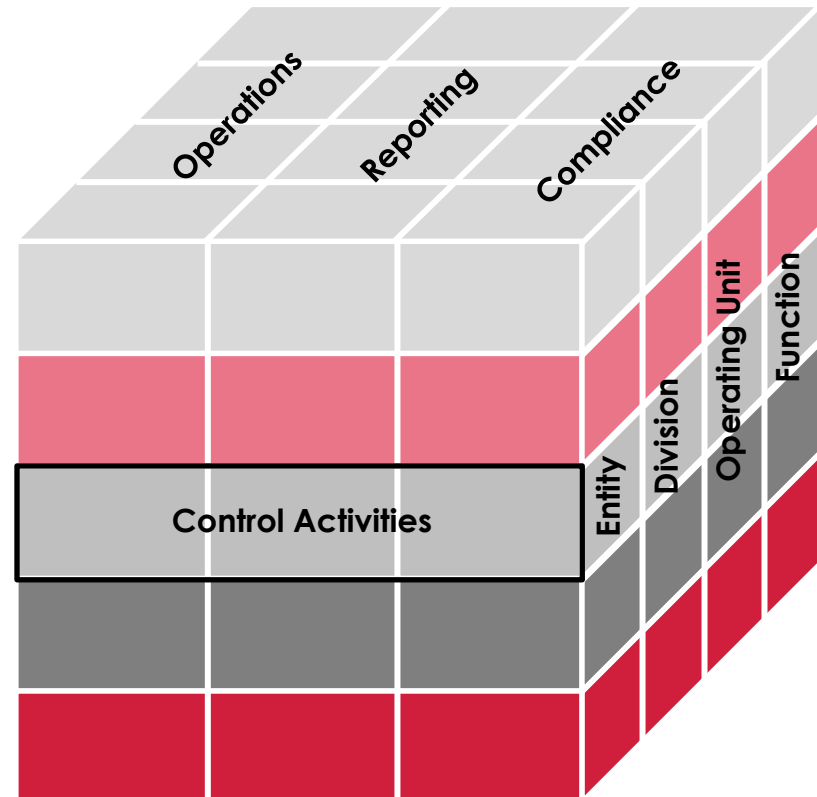
... to achieve the organization's objectives



Enterprise Risk Management (ERM)

10. the organization develops risk control activities

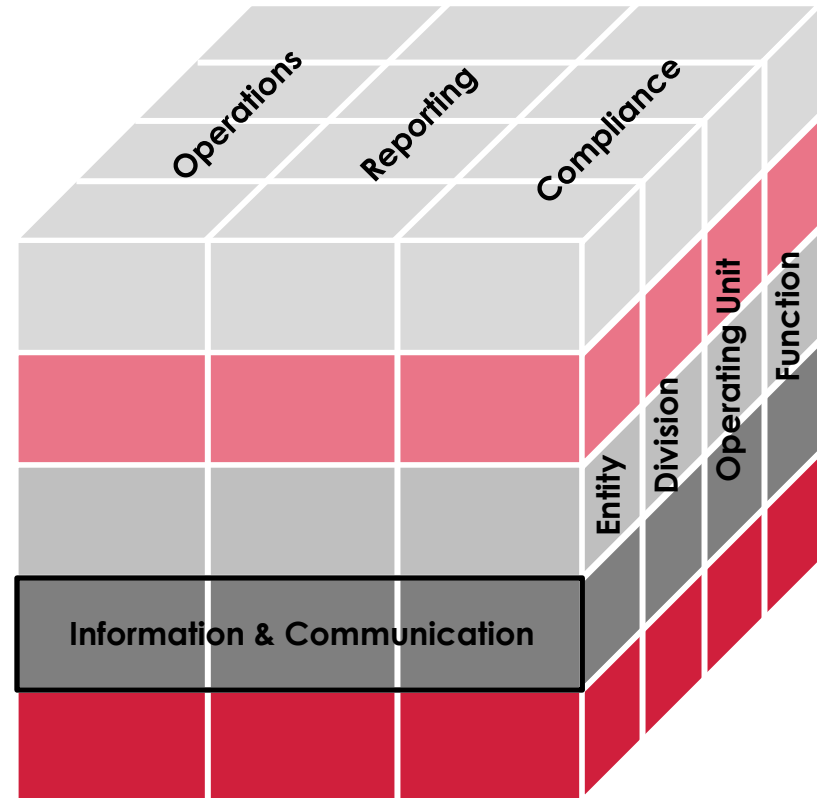
... to achieve the organization's objectives



Enterprise Risk Management (ERM)

13. the organization uses relevant, quality information

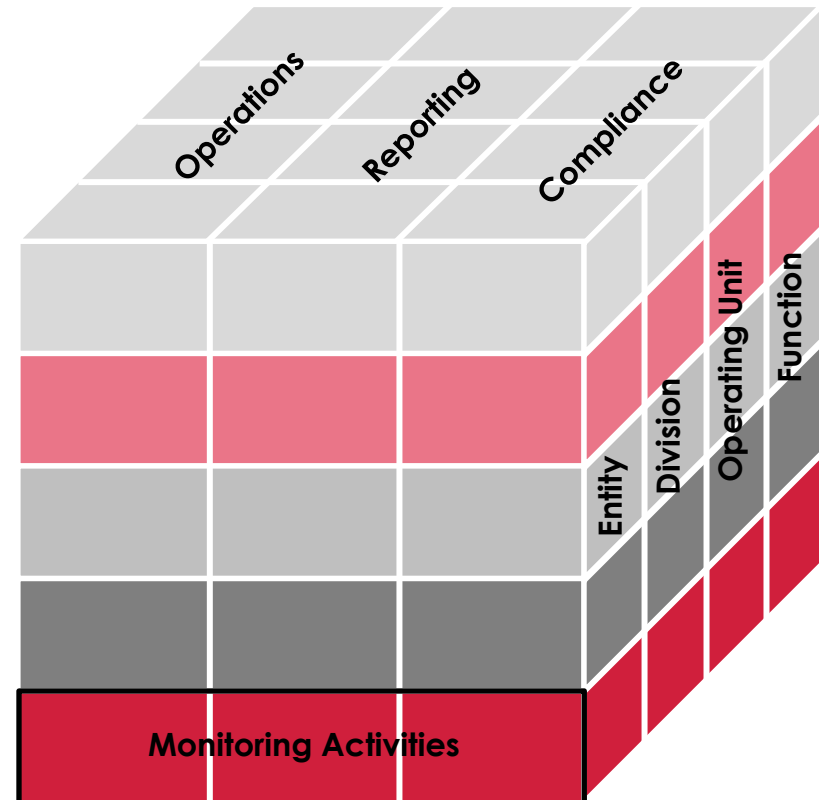
... to achieve the organization's objectives



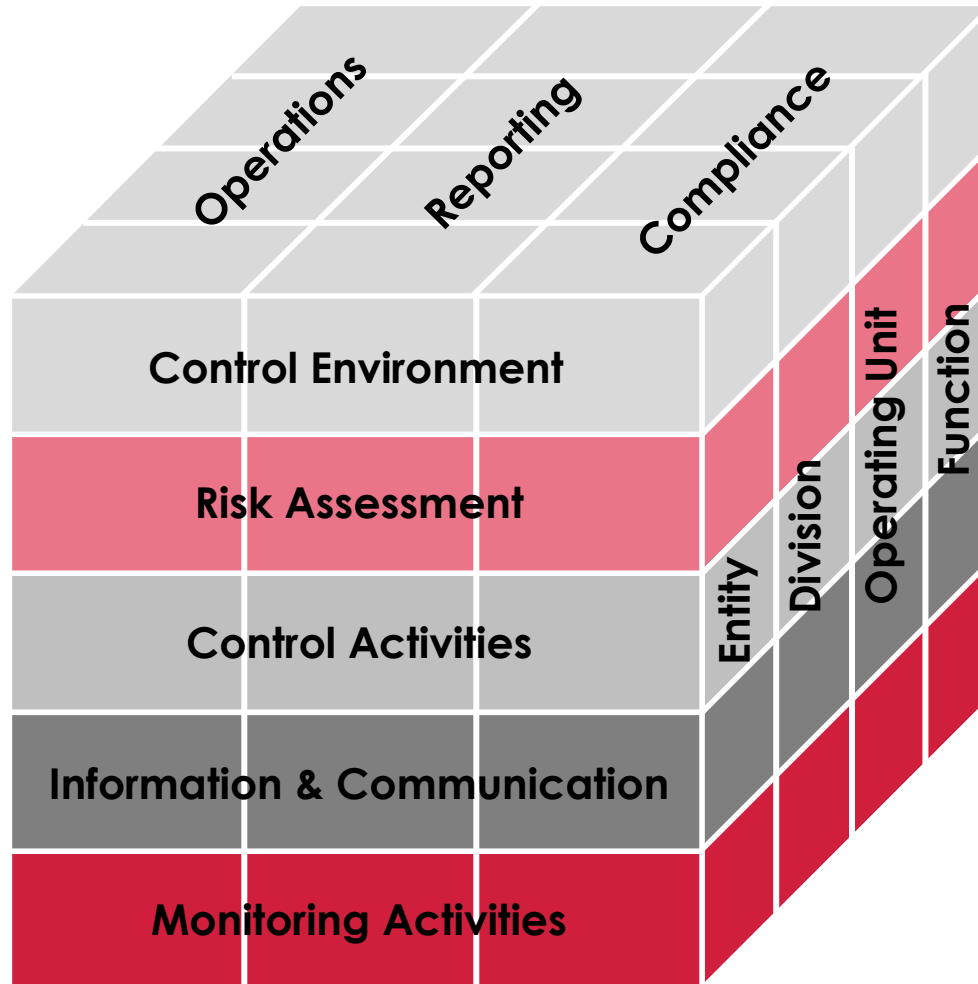
Enterprise Risk Management (ERM)

16. the organization performs appropriate evaluations

... to achieve the organization's objectives



Enterprise Risk Management (ERM)



Organisational Culture

- organisational culture is defined as
 - the values, beliefs, knowledge and customs that are shared by a group of people in an organisation (Schein, 2010).
- freedom of personal expression
- decision making and developing ideas
- the flow of power and information through the organisation's hierarchy
- the commitment of the group towards achieving collective objectives

Culture Components

Sociability

- encouragement of teamwork
- frequent communication, both formal and informal
- an open platform for innovation, criticism and discussion
- shared ideas, attitudes, interests and values
- evidence of informal relationships between employees

Solidarity

- task-orientated and output-based
- single-minded dedication to the organization's objectives
- work roles are clearly defined and understood
- everyone is held to high standards
- communication is very formal
- quick response to changes in the environment

The Four Cultures

- Networked
 - high in sociability and low in solidarity
 - the talkers
- Mercenary
 - high in solidarity and low in sociability
 - the walkers
- Fragmented
 - low in both components
 - the odd balls
- Communal
 - high in both components
 - the talkative walkers

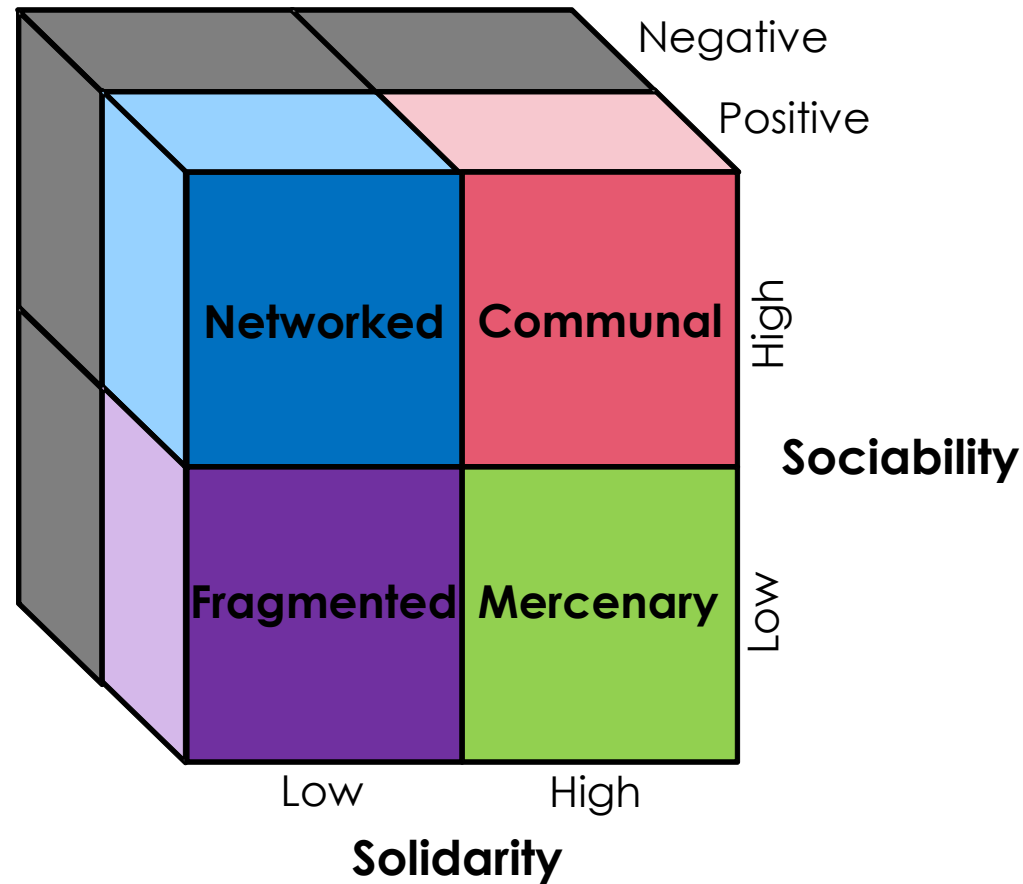
WALKT

WALKER

WALKER

TALK

The Double S Cube



The Double S Cube (Goffee & Jones, 1998)

Linking Organisational Culture to ERM

- Example
 - ERM Principle:

The organisation selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Two phases
 1. Assess the two components of the Double S framework independently of each other
 2. Combine the two to determine the culture

Linking Organisational Culture to ERM

- Phase 1
 - a. Choose the first organisational culture component
 - b. Consider the extent to which each of the key characteristics of the component is vital to meet the ERM principle and allocate a mark out of five for each characteristic

Linking Organisational Culture to ERM

The organisation selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Sociability		Solidarity	
Encouragement of teamwork		Task-orientated and output-based	
Frequent communication		Single-minded dedication	
An open platform		Clearly defined work roles	
Shared ideas, attitudes, interests and values		Everyone is held to high standards	
Informal relationships		Communication is very formal	
		Quick response to environmental changes	
		Members compete to meet objectives	

Linking Organisational Culture to ERM

Sociability		Solidarity	
Encouragement of teamwork	3	Task-orientated and output-based	4
Frequent communication	4	Single-minded dedication	5
An open platform	5	Clearly defined work roles	3
Shared ideas, attitudes, interests and values	2	Everyone is held to high standards	3
Informal relationships	2	Communication is very formal	1
		Quick response to environmental changes	3
		Members compete to meet objectives	2

Linking Organisational Culture to ERM

Phase 1 (continued)

- c. Find the average score
- d. Repeat the process for the remaining component

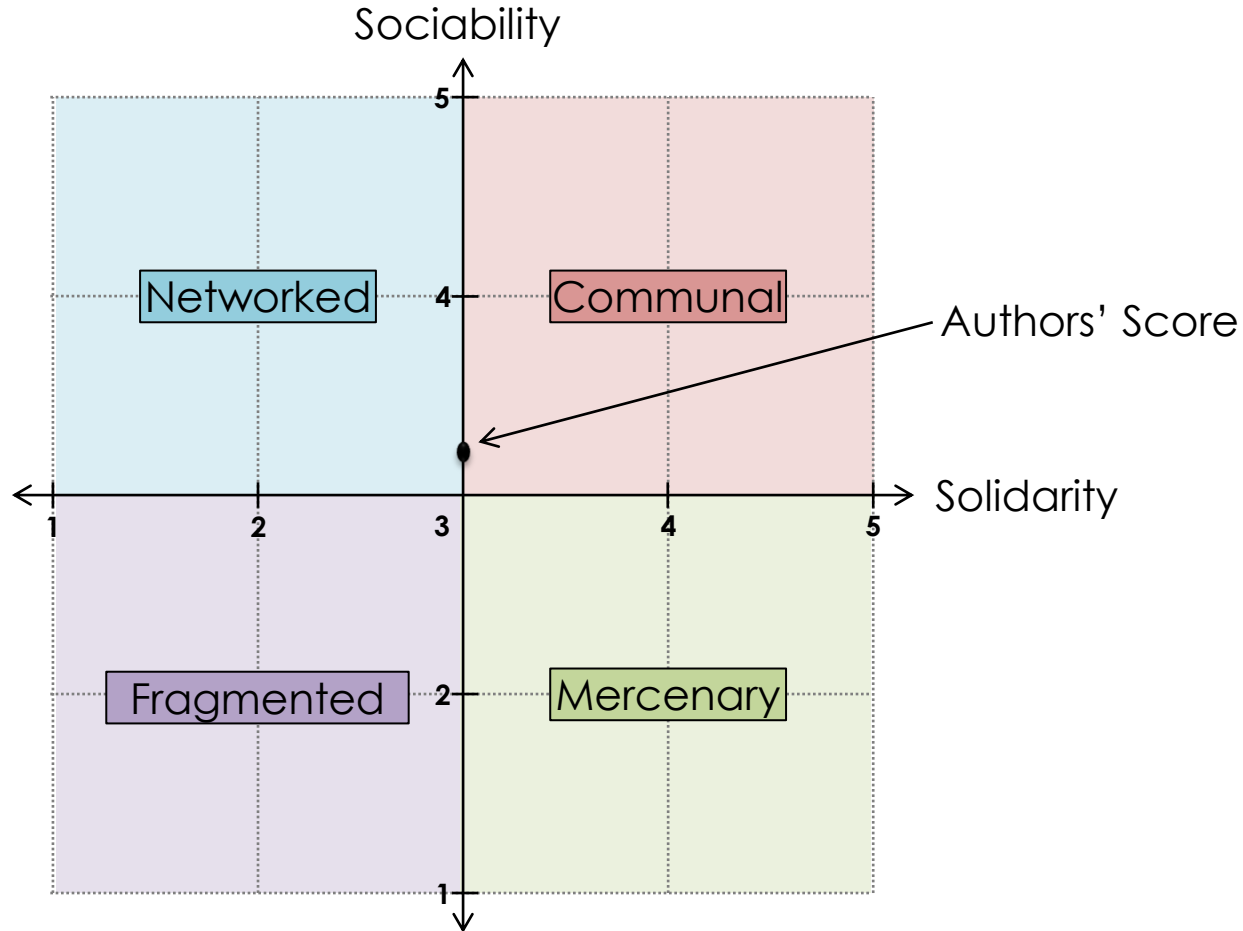
Sociability - 3.2

Solidarity - 3

Phase 2

- Plot the average values to the Double S Cube framework

Linking Organisational Culture to ERM

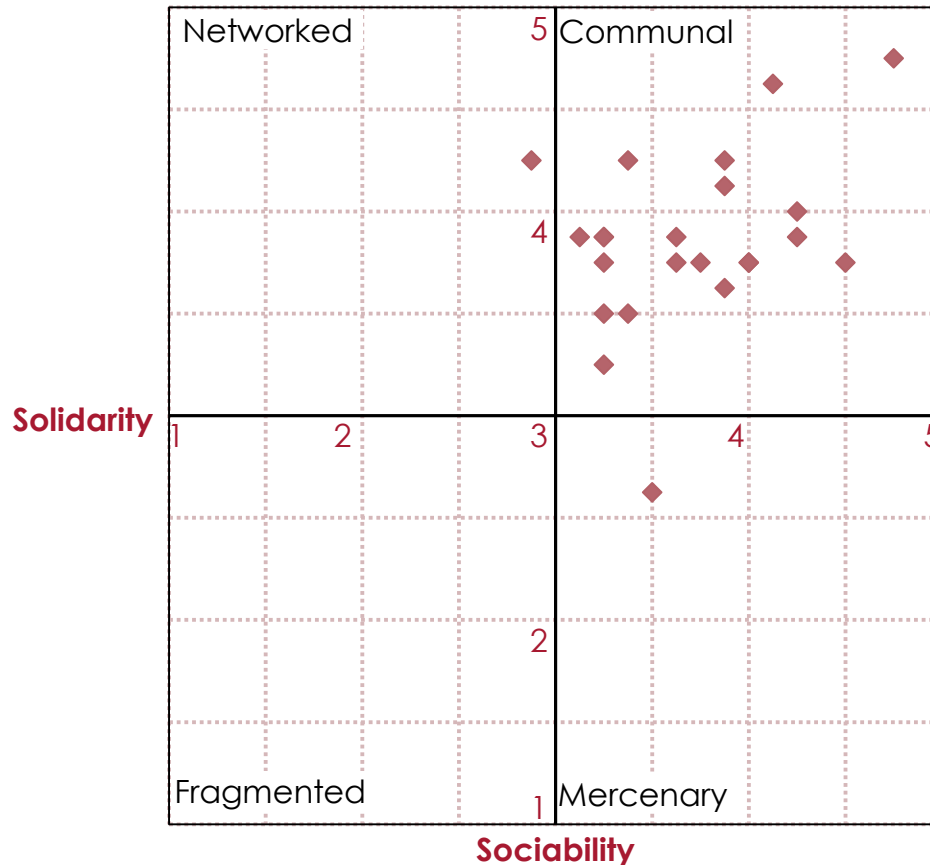


Survey Findings

- 23 South African insurers and reinsurers participated
- represented 89% of market share
- only 1 primary market leader did not respond
- CRO or similar standing
- **FRAMING ISSUES!**

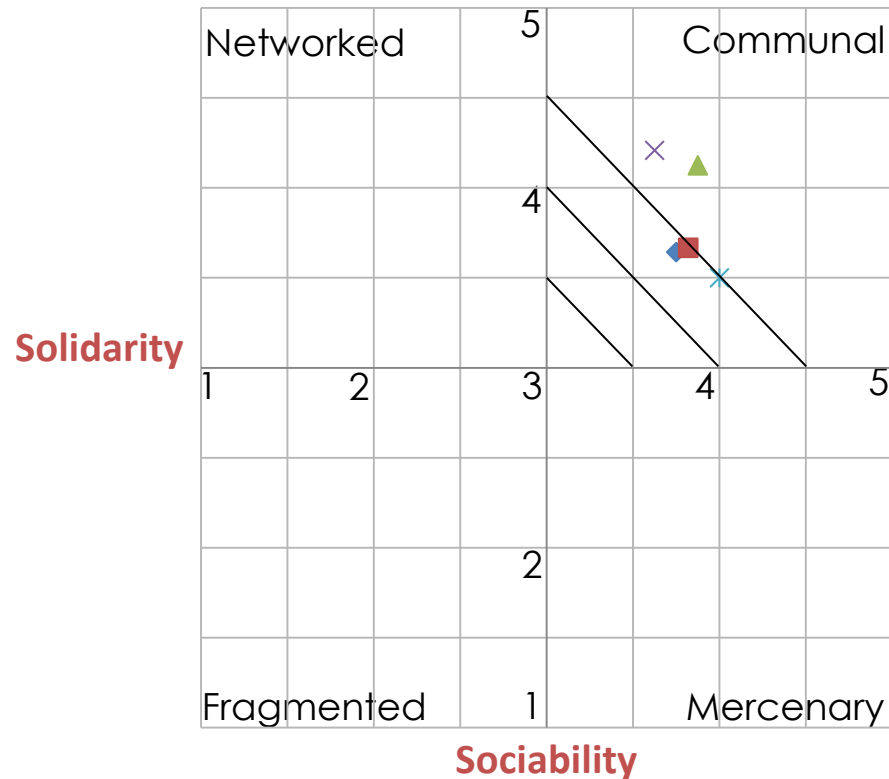
Survey Findings

Insurance Industry's Organisational Culture



Survey Findings

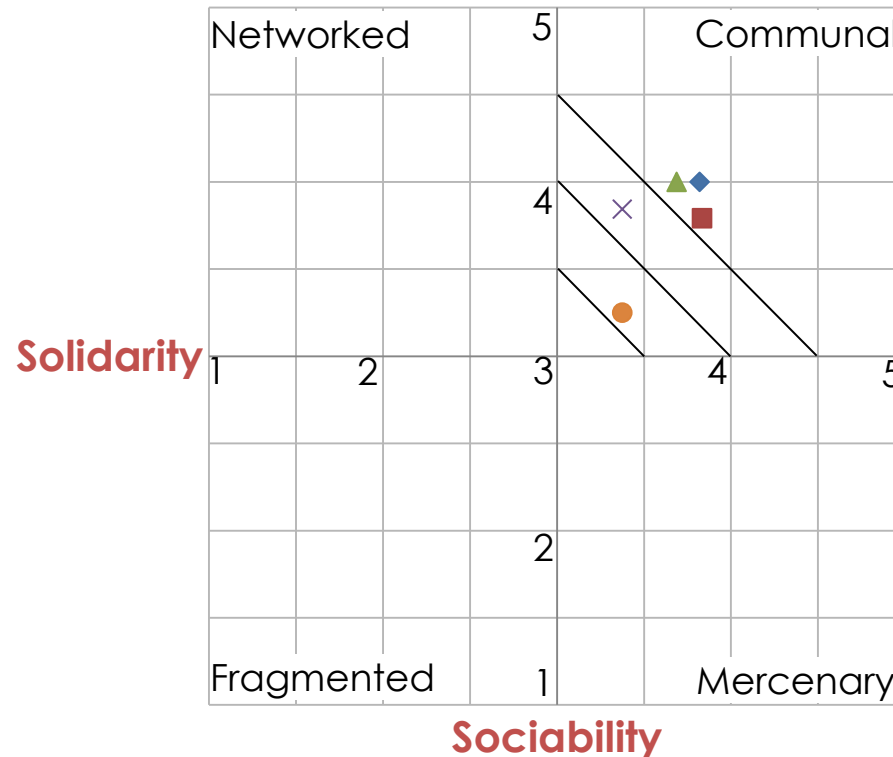
Organisational Culture and Number of Employees



◆ Less than 100 ■ 100 to 500 ▲ 500 to 1000 × 1000 to 5000 * More than 5000

Survey Findings

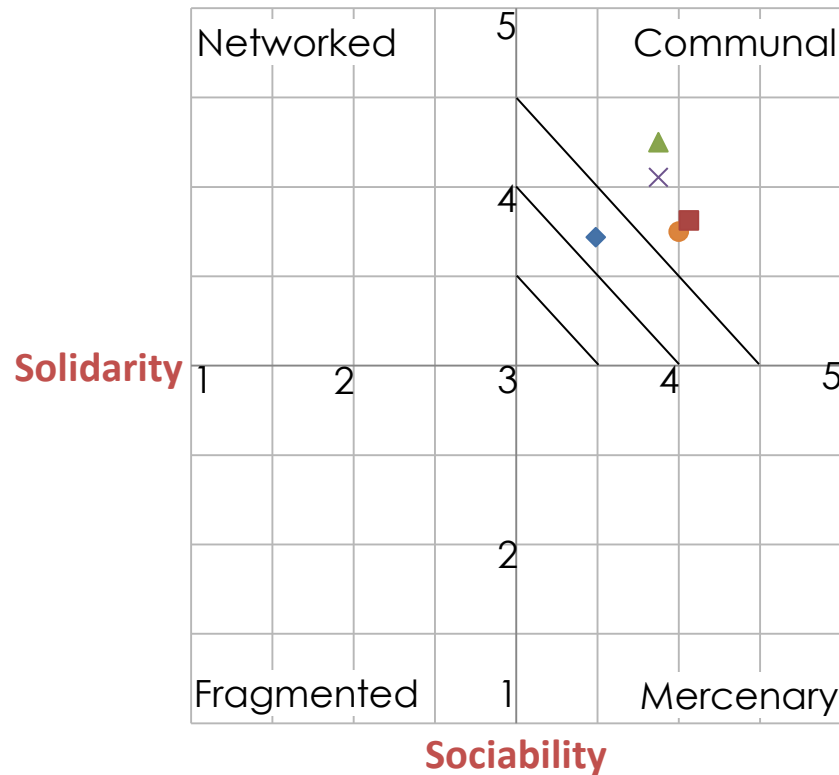
Organisational Culture and Type of Insurer



- ◆ General Insurance
- Life Insurance
- × Reinsurance
- Life and General insurance
- ▲ Linked and market licence

Survey Findings

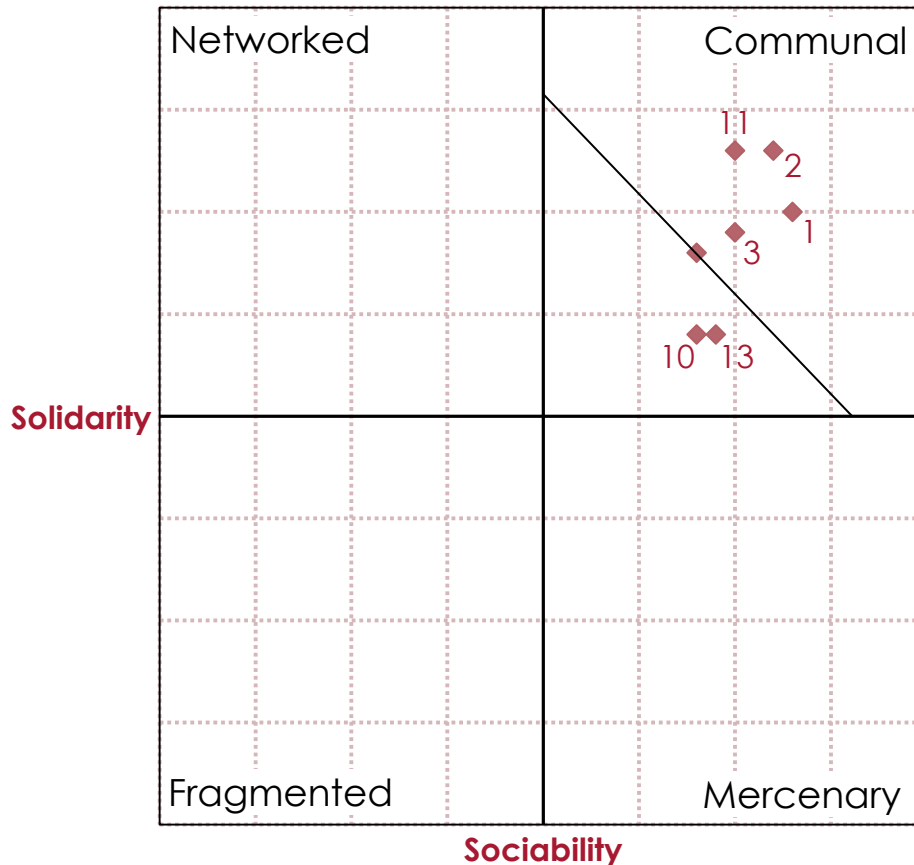
Organisational Culture and ORSA Implementation



- We have not started implementing ORSA
- ◆ We are in the process of designing an ORSA process
- × We have been monitoring the ORSA process for some time and are improving the strategy
- We have an operational ORSA process
- ▲ We have completed the design of an ORSA process and started monitoring its progress

Survey Findings

Linking ERM Principles to Organisational Culture



External environment: control environment
 1 = commitment to integrity and ethical values
 2 = Board independence and oversight
 3 = management establishes structures in pursuit of objectives

Develop the solution: control activities
 10 = selection and development of controls to mitigate risks
 11 = selection and development of controls over IT

Professionalism: information and communication
 13 = obtains, generates and uses quality information

Conclusion

- Goffee & Jones' (1998) Double S Cube framework practically maps organisational culture
- Derived a process to link to COSO's ERM principles
- Resulting in Communal Culture as generally most appropriate to nurture
- As reflected in the SA insurance industry

Questions?

Thank You