

# Chapter 11

## Conclusion

The average company today is a complex enterprise engulfed by rapid technological change and fierce global competition. You have to assess exposure to risk on an ever changing landscape

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## **11.1 Summary**

From its insurance origins, corporate risk management has developed into a fully fledged management function and is progressing into business areas that were originally considered unrelated. The evolution of risk management towards a corporate risk approach recognises that risks are interrelated and that significant benefits may be achieved from evaluating and monitoring them on a company-wide basis.

This study aims at providing the reader with information on the key risks facing the private healthcare administration organisation in South Africa as well as suggesting a suitable corporate risk management programme that may be applied. Suggested methodologies and observations are supported by the results of an empirical study representing 22% of the registered medical schemes in South Africa.

The study considers the evolution of risk management from an extremely financially focused science to an anticipatory and proactive approach that supports a business model of creating value. The most distinct reason why previous risk management techniques have been considered unsuitable is the fact that risks are often assessed in isolation and that the focus has been on their hazardous or downside element.

The study identifies the most significant risks faced by the medical scheme environment as confidentiality, compliance with legislation and ensuring that prescribed member benefits were not exceeded. Respondents to the empirical study consider the highest degree of risk within the medical scheme to be concentrated within the strategic and core operational activities of the medical scheme.

Healthcare administration organisations are on a development continuum with respect to managing risks and creating increased stakeholder value. How far such organisations progress on this continuum and the rate of such change will be dependant on past experiences, structural set-up as well as its desire

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to be world-class. The results of the empirical study indicate that medical schemes utilise a defined risk management process somewhere between the risk and corporate risk management stages on the continuum. For continued success, it is vital that administrators perceive this continuum as a journey and not an event.

Based on an assessment of leading literature the following updated definitions for corporate risk management and risk were set:

- *Corporate risk management*: A structured process of identification, assessment and the continuous management of the combined risks aimed at ensuring stakeholder expectations are achieved.
- *Risk*: A concept used to express uncertainty about all possible future events, which could significantly influence the achievement of the organisation's collective business objectives.

A suggested corporate risk management methodology is introduced which will provide the trustees with greater confidence that risks are being optimally managed. The methodology consists of the following key phases:

- Implementation feasibility;
- adopt goals, objectives and oversight;
- common language;
- risk tolerances;
- risk management strategies;
- uniform process;
- facilitation;
- project management; and
- continuous improvement.

Significant issues identified from the empirical survey include:

- The revision of the King Report on Corporate Governance has increased the importance of corporate risk management.
- A need for a defined corporate risk management philosophy within administration organisations was noted.

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- Values and ethics, internal control, corporate risk management and audit committee functioning are identified as the most significant corporate governance issues facing healthcare administration organisations.
- Information systems and the maximising of process performance to inhibit administration costs are identified as the most pressing operational issues facing medical schemes.
- The individual business functions of statutory, actuarial risk and claims management are identified as the most critical within the healthcare administration organisation.
- The implementation of governing rules and ensuring that medical schemes members interests are protected are identified as the top two functions of the Council of Medical Schemes.
- Top executive commitment and buy-in is considered the most important element of the methodology initiation phase. The need for up to date systems and data to provide timely information was considered to be the most difficult step in implementing within this phase.
- A suitable oversight structure and the need for clearly defined roles and responsibilities are considered very important within the adopted goals, objectives and oversight phase. The most difficult step in implementing within this phase was clearly defined roles and responsibilities.
- Both the need for a defined common language and approved risk tolerances are rated as relatively important. Of these two issues, the implementation of risk tolerances is considered the most difficult. All respondents had progressed poorly in implementing the elements of common language and risk tolerance levels.
- The use of risk frameworks to assist in ensuring that all potential risks are identified is considered fundamental. Organisations felt they had progressed well in implementing such a framework.
- Approved risk management strategies are considered to be essential in ensuring that trustee and senior management expectations are met when addressing unacceptable levels of risk. Progress in this area was poor.
- Ensuring that the corporate risk management process was actively involved in strategic initiatives was one of the most difficult elements in

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implementing. However, with regard to implementation within their organisations, respondents indicated that this continuous improvement element was the most advanced.

- The utilisation of external risk management experts was the least important of the continuous improvement elements. It appears that healthcare organisations preferred to improve their corporate risk management processes based on own experience and internal demands from senior management and trustees.
- The use of pilot projects as a means of obtaining an early glimpse of how the final corporate risk management process would operate was important and could be implemented within a period of three to six months.

## **11.2 Areas of further research**

Healthcare administration organisations in South Africa have a daunting task ahead of them in terms of addressing increased consumer needs and effectively managing more stringent regulatory controls. Similar concerns exist within the healthcare industry on an international level. Accordingly, it is recommended that further research be performed on how South African corporate risk management initiatives critically compares with similar non-South African organisations.

## **11.3 Conclusion**

External and internal risks threaten the achievement of organisational objectives. If not adequately controlled, these risks may lead to significant adverse consequences that impact the performance of business processes and the performance of the healthcare administration organisation as a whole. Consequently, the significance of these risks should be assessed at all levels of the medical scheme and should be regularly monitored. Significant risks should be sourced to their root causes in order that appropriate risk management strategies be deployed to reduce risk levels below or at accepted tolerance levels.

It is the overall opinion of the author that corporate risk management within the healthcare administration industry will become a cornerstone of effective business management. It will influence the manner in which such organisations of the future are structured and the way in which strategic planning is performed. Not only will it improve corporate governance practices but will allow organisations to become pervasive in addressing new threats and possible areas of opportunity thereby adding value to their stakeholders.

Although respondents to the empirical study have not attained a level where corporate risk management is fully implemented, it is apparent that this is their future ambition.