

Chapter 8

Common Language and Strategies

The Lord said “If as one people
speaking the same language
they have begun to do this, then
nothing they plan to do
will be impossible for them”

The Holy Bible, Genesis 11:6

If language is not correct,
then what is said is not what is meant,
if what is said is not what is meant,
then what must be done remains undone

Confucius 551 - 479BC

8.1 Introduction

Chapter 7 addressed two of the six phases within the corporate risk management methodology. Chapter 8 will continue by providing insight on the phases relating to the adoption of a common risk management language, setting of tolerances and the establishment of suitable risk management strategies.

The absence of a consistent language leads to miscommunication and oversights. Within a corporate risk management programme a common language affords the following significant benefits to the administrator:

- Provides employees and other affected stakeholders with the ability to not only perceive risk as negative but also as possible areas of opportunity not previously considered.
- Allows the organisation to aggregate risk exposures across multiple processes and business functions.
- Provides the board with the assurance that the shared risk management vision can be attained as all stakeholders perceive key risk management terms in the same light.
- Allows for the effective identification and assessment of exposures while ensuring that potential sources of uncertainty are capitalised upon (De Loach, 2000: 59).

In 1963, one of the earliest contributions to the field of risk management was made. The authors, Mehr and Hedges, in their book titled *Risk Management in the Business Enterprise* defined the following as the three primary rules of risk management (Mehr *et al.*, 1963: 16-26):

- Do not risk more than can be lost;
- consider the odds; and
- do not risk a lot for a little.

These are timeless principles that are applicable to the setting of tolerances and the adoption of the most appropriate risk management

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strategies. Risk management tolerances involve the establishment and communication of the risk appetite of the administrator while risk management strategies exist to assist the board and management in suitably optimising their approach towards the unique risks faced.

8.2 Aim

The chapter aims at providing the reader with an understanding of common language and how risk management tolerances are determined and applied. It concludes with details on accepted risk management strategies that may be used in the private healthcare administration company.

Suitable empirical study results will also be presented.

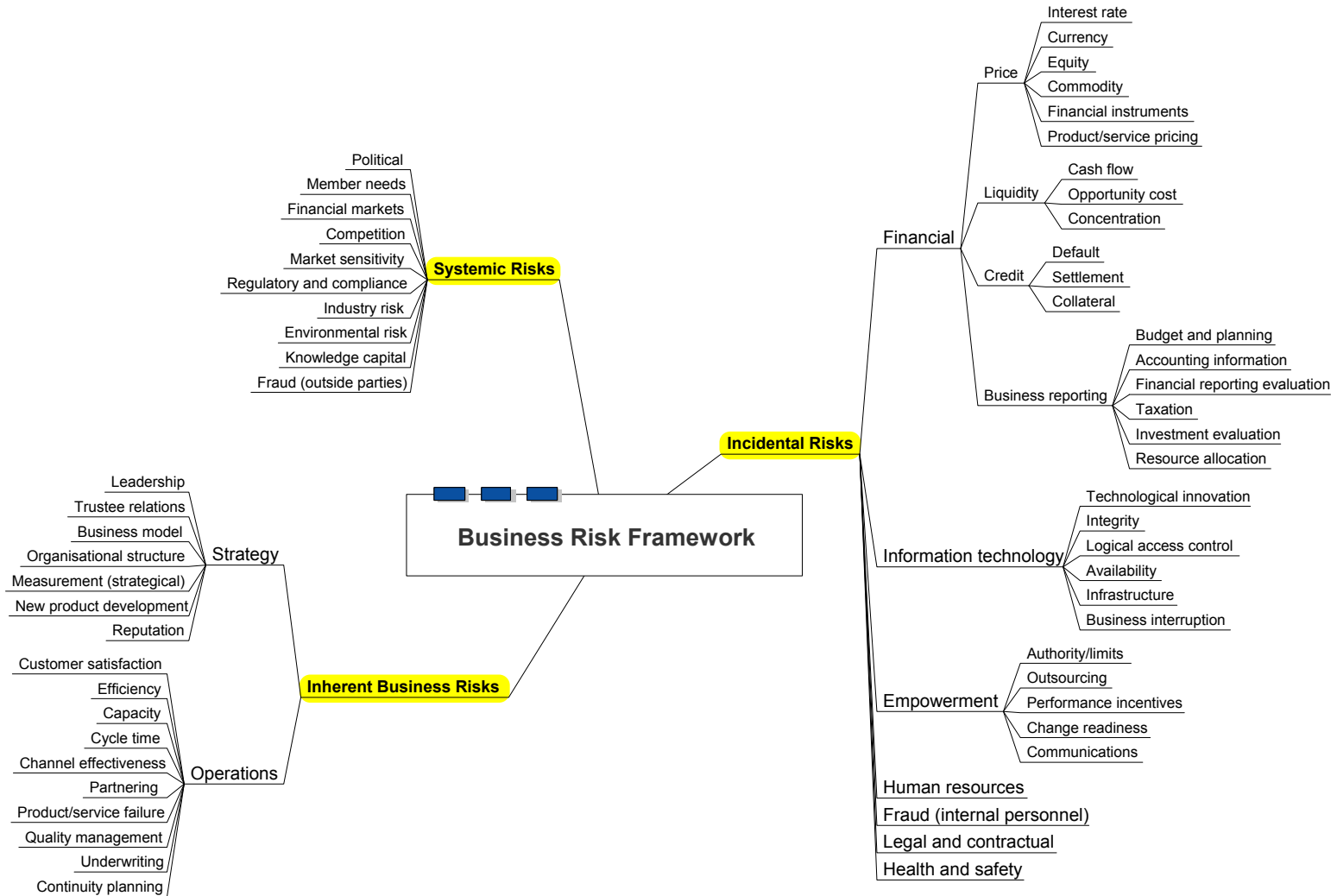
8.3 Common language*8.3.1 Starting blocks*

Earlier the definitions for risk and corporate risk management were set out. These definitions are the starting blocks of a common body of terminology that should be communicated and entrenched into the daily risk management operations of the administration organisation.

8.3.2 Risk frameworks and other terminology

Risk frameworks are a key component of any corporate risk management programme. They provide personnel with a tool to assist in identifying sources of uncertainty. It is imperative that the risk framework be general in nature so that all sources and classifications of risk are included (De Loach, 2000: 52). Figure 8.1 details a suggested risk framework that may be applied by management within the healthcare environment thereby ensuring that key risk types are identified and suitably assessed.

Figure 8.1: Suggested risk framework



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The framework is subdivided into risk categories detailed in table 6.2 of chapter 6 and for completeness, verified against the following source reference: De Loach, 2000.

With regard to other consistent terminology, other definitions and terms will be applied which require similar communication and entrenchment as that of risk. These other terms should form part of the common language dictionary applied throughout the administration organisation. Other terms could include absolute risk levels, controls, residual risk scoring, etc.

Numerous methods and techniques may be applied to increase employee awareness:

- Intranet sites with dedicated risk management sections;
- Regular internal newsletters; and
- Frequent presentations at key management boards and executive committees.

8.4 Risk tolerances

8.4.1 Setting tolerances

Our suggested corporate risk management methodology requires that approved tolerances be set for each of the major risk types faced by the medical scheme.

The maximum risk exposure will vary depending on the nature of the risk at hand. We can summarise the types of exposure into the following three categories (adapted from Young *et al.*, 2001: 175-269):

- *Physical asset exposure*: This category is further subdivided into four elements, viz.:
 - *Fixed and movable property*: This includes land, fixed structures on such land, etc. It is generally accepted that such fixed assets exposure to risk is more constant and knowable than assets whose

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physical location changes. Such portability introduces a new dimension to the nature and character of risk. This element of physical asset exposure does hold a strong insurance influence. Historically, insurers were uncomfortable with assets that moved since it was difficult to ascertain the likelihood of harm. Due to this degree of uncertainty it is believed that the field of insurance developed into two distinct parallels, viz. one dealing with movable property, also known as marine insurance and fixed property insurance such as fire insurance. Although the purchaser of fixed and movable property insurance may not be aware of the differentiation, the problematic distinctions are still manifest in policy language, exclusions, pricing and claims management procedures.

- *Gain*: This element considers natural hazard-based or behavioural hazard-based perils. Perils arising from natural hazards are the most simple to understand and include acts of God such as earthquakes, freezing weather conditions, etc. Behavioural hazard-based perils include human acts such as vandalism, riots, and a broad range of social, political and economic phenomenon that arise from collective behavioural influences.
- *Loss*: Loss is defined according to direct impacts and consequential impacts. In the case of direct impacts, this refers to the loss incurred from the actual accident or exposure, e.g. loss of member data due to a system failure or computer virus. Consequential impacts refers to the indirect effects of the actual accident or exposures, e.g. loss of funds, medical scheme's reputation, etc.
- *Interest*: A factor that will significantly affect the medical scheme's physical asset risk exposure and the setting of tolerances will depend on whether the asset is owned, rented or being leased from a third party.
- *Financial asset exposure*: Financial assets possess a feature distinguishing them from physical assets, viz. their value is resultant from another asset (which in many cases is not held by the owner of the financial asset). The most common types of financial assets include an array of different derivative contracts such as options, forwards,

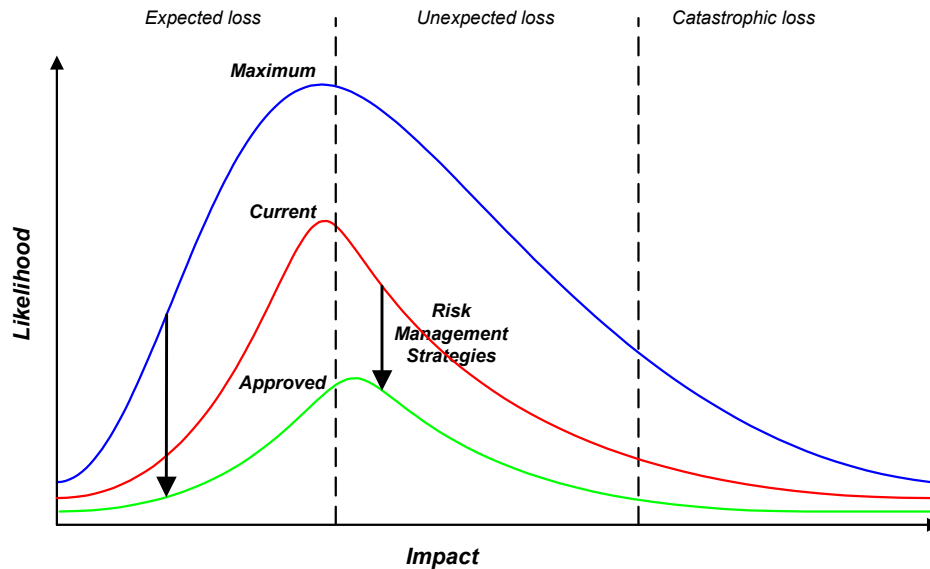
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futures, etc. Exposure to financial assets arises either from holding or issuing them and is described as either being price, credit, interest, rate or currency exchange based.

Even though these types of exposure have existed for hundreds of years, the management of such financial asset exposures has been difficult due to a lack of financial tools. This has, however, improved due to advancements in the area of derivative contracts as well as greater access to the tools of financial risk management and the formation of markets for pooling and distributing financial risks.

- *Human asset exposure*: Knowledge management and the retention of innovative ideas and thoughts is fast becoming one of the most important assets facing exposure within healthcare administration organisations. As one of the key components of the suggested business risk framework referred to in figure 8.1, human asset exposure may be categorised by elements such as poor productivity, fraudulent activity and lack of shared vision. Although extremely difficult to measure it is vital that these potential hazards are identified and that tolerances are implemented, which will allow for the timely identification of out-of-bound practices.

Figure 8.2 below depicts the two various tolerance levels faced by the scheme during the corporate risk management process, viz. maximum and approved.

Figure 8.2: Risk tendencies (adapted from source: Arthur Andersen, 2001)

In setting tolerances, the trustees of the medical scheme will be most concerned with defining the maximum risk level or capacity to bear risk. This capacity is often difficult to determine since it is a function of many factors such as human resources, information technology, legislative compliance and earnings sensitivity (De Loach, 2000: 213). Certain writers prefer to envisage such maximum tolerances as markers that trigger senior management discussion since the process of determining them is so complex (Pickford, 2000: 304).

Maximum tolerances used in company-wide assessments will represent “no go” areas for the administrator. Management, with the assistance of the risk management committee, should ensure that all assessments conducted clearly identify when such “no go” areas are being breached. It is vital that operational management and employees are made fully aware of these maximum tolerances so that proactive steps and meaningful measures may be implemented to ensure that they are not exceeded.

In terms of escalated reporting, any breach of such tolerances should be communicated to the trustees and appropriate risk management strategies

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implemented to negate further non-compliance. Risk management strategies are discussed in section 5 below.

This process of setting maximum tolerances should be determined whenever any new initiatives or projects are being considered. Since new projects introduce a plethora of new risk types, the administrator should seek to define these before new initiatives become operational. Again, the communication of updated or new risk tolerances should take place (Chong: 2000).

Approved risk tolerances indicate where return on investment is maximised and no further risk management strategies are required to address unacceptable levels of risk. In such instances where these tolerances are attained, management should seek to maintain them. In many cases the administrator may choose to link satisfactory risk management performance to employees' remuneration (Harvard Business Review, 2002a: 16-17).

In most instances, non-compliance will represent areas between the maximum and approved tolerances such as that depicted by the current level in figure 8.2. Such instances will require the implementation of a suitable risk management strategy and will be actioned as part of the uniform risk management process detailed in Chapter 9.

The setting of tolerances should not hinder operational flexibility but provide management with the ability to innovate and maximise return within acceptable boundaries (De Loach, 2000: 203).

8.4.2 Risk aggregation

Risk aggregation or neutralisation (Young *et al.*, 2001: 147), is a key trait that differentiates corporate risk management from previous approaches. With this approach, the medical scheme will look at managing the total

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pool of risk rather than the individual risk categories. This approach provides the following benefits (De Loach, 2000: 200-201):

- Risk owners have the ability to understand whether risks are increasing or decreasing as conditions change in the aggregate versus the scheme's established risk tolerances.
- Provides senior management and trustees with the necessary assurance that decisions are being made based on a holistic view of the medical scheme's activities.
- Improved and simplified management reporting thereby allowing the effective allocation of limited organisational resources.

The process of risk aggregation is complex and requires that each risk be assessed, quantified and linked to other common risk types. Choosing the most appropriate level of aggregation will depend on the organisational level at which final risk management reporting is aimed (ibid), i.e. senior management requires more strategic reporting while operational reporting for lower level personnel will focus on detail.

Risk aggregation can allow for individual risks within the same risk pool to be completely or partially offset against each other (Pickford, 2000: 70). This aggregation allows the trustees and management to then implement strategies that focus on the net exposure of the risk. This will then in turn allow management to seek the most effective risk management strategy thereby ensuring costs are reduced and the effectiveness of operations maximised. Such aggregation has proved successful in many industries (Pickford, 2000: 71):

"In 1997, the technology products group, Honeywell, purchased an insurance contract. This contract, the first of its kind, combined protection against traditionally insurable risks such as property casualty and foreign exchange risk, a financial market risk more typically managed through derivative securities.

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The important innovation of the contract was that it covered Honeywell's aggregate losses, meaning that the policy had an aggregate deductible rather than a separate deductible for each risk. By aggregating individual risks and then insuring the total, Honeywell was able to purchase a contract that cost 15% less than its previous contract, since the new policy cost less for underwriter's, American International Group (AIG), to produce."

8.5 Risk management strategies

Once the acceptable risk management tolerances have been set for the specific risk types within the medical scheme environment, it is necessary that suitable risk management strategies be defined to reduce current levels of risk that exceed approved tolerances. Figure 8.2 also depicts the effect that approved risk management strategies can have in reducing maximum and current levels of risk. Management will need to determine whether the individual or pooled risks currently being assessed should be accepted or rejected. An acceptable risk will include those that management believes are necessary to ensure that the strategies and mandate set by the trustees of the scheme are achieved. On the other hand, risks that are considered undesirable represent types that fall outside of the medical scheme's mandate and which should be avoided.

Once the acceptability of each risk or pool of risk is determined, it is then necessary that suitable risk management strategies are applied. This application process will require management to consider the size of the potential loss, its probability and the resources available should the loss materialise. Based then on the best information available and under direction of the risk management policy, a suitable risk management strategy should be adopted (Vaughn *et al.*, 1996: 39).

To ensure that administration costs are minimised, it is necessary that only the technique that represents the lowest cost approach to the individual or pooled risks is applied by management. Also, a given strategy should be

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used only until the last Rand spent achieves a Rand reduction in the cost of risk (Vaughn *et al.*, 1996: 42).

Table 8.1 introduces common forms of risk management strategies, which are applicable in the healthcare administration environment. The following sources have been relied upon in preparing this summary:

- IFAC, 1999: 39
- De Loach, 2000: 130
- Vaughn *et al.*, 1996

Table 8.1 – Risk management strategies

<i>Focus</i>	<i>Strategy</i>	<i>Technique</i>	<i>Description</i>
Risk Rejection	1. Avoid	Divest	By exiting a market or eliminating a product group or business function.
		Prohibit	Unacceptably high-risk activities, transactions, financial losses and asset exposures through appropriate limit structures and corporate standards.
		Stop	Specific activities by redefining objectives, refocusing strategies or redirecting resources.
		Target	Business development and market expansion to avoid pursuit of 'off-strategy' opportunities.
		Screen	Alternative capital projects and investments to ensure member funds are protected.
		Eliminate	At the source by designing and implementing internal preventive processes.
Risk Acceptance	1. Retain	Accept	Risk at its present level taking no further action.
		Reprice	Products/services by including an explicit premium in the pricing, market conditions permitting, to compensate for risk undertaken.
		Self-insure	Risk through: <ul style="list-style-type: none"> • Provisions to the income statement and balance sheet • Trappings of insurance conditions • Borrowed funds (from external sources should a risk event occur) • Reserving losses (under accepted accounting principles) • Participation in a group or an industry captive
		Offset	Risk against others within a well defined pool.
		Plan	For well defined contingencies by documenting a responsive plan and empowering people to make decisions and periodically test and, if necessary, execute the plan.
		2. Reduce	Disperse
	Control		Risk through internal processes or actions that reduce the likelihood of undesirable events occurring to an acceptable level (as defined by management's risk threshold).

Continued...

Focus	Strategy	Technique	Description
Risk Acceptance	3. Transfer	Insure traditionally	Through cost-effective contract with independent, financially capable, party under a well defined risk strategy.
		Reinsure	To reduce portfolio exposure through contracts with other insurers, when such arrangements are available.
		Hedge	Risk by entering into the capital markets, making feasible changes in operations or executing new borrowings.
		Diversify	Financial, physical, customer, employee/supplier and organisational asset holdings used by firm's business model.
		Expand	Business portfolio by investing in new industries, geographic areas and/or customer groups.
		Create	New value adding products, services and channels.
		Redesign	The firm's business model, i.e. its unique combination of assets and technologies for creating value.
		Reorganise	Processes through restructuring, vertical integration, outsourcing, re-engineering and relocation.
		Price	To influence customer choice toward products that suits the firm's risk profile.
		Renegotiate	Existing contractual agreements to reshape risk profile, i.e. transfer, reduce or take risk differently.
Influence	Regulators, public opinion and standards setters through focused lobbying, political activism, public relations, etc.		

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The subsections below will describe the most unique types of risk management strategies encountered. The remaining techniques are self-explanatory and sufficient descriptions are included in table 8.1.

8.5.1 Risk rejection strategies

- *Avoid*: Risk is avoided when the medical scheme's management or trustees refuse to accept a risk even temporarily. The prerequisite of risk avoidance is recognising the hazards in an activity so the activity can be prevented (Vaughn *et al.*, 1996:38).

Choosing not to expose an organisation does not consume many resources. However, avoidance is not always costless since avoiding a risk could prevent the organisation from realising certain unforeseen opportunities attached to the risk (Young *et al.*, 2001: 130).

8.5.2 Risk acceptance strategies

- *Retain*: In instances where the administrator does not take positive action to avoid, reduce or transfer a risk, it is then retained. This retention strategy may be conscious or unconscious (Vaughn *et al.*, 1996: 38), and may expose the administrator to greater risk (Harrington *et al.*, 1999: 273).

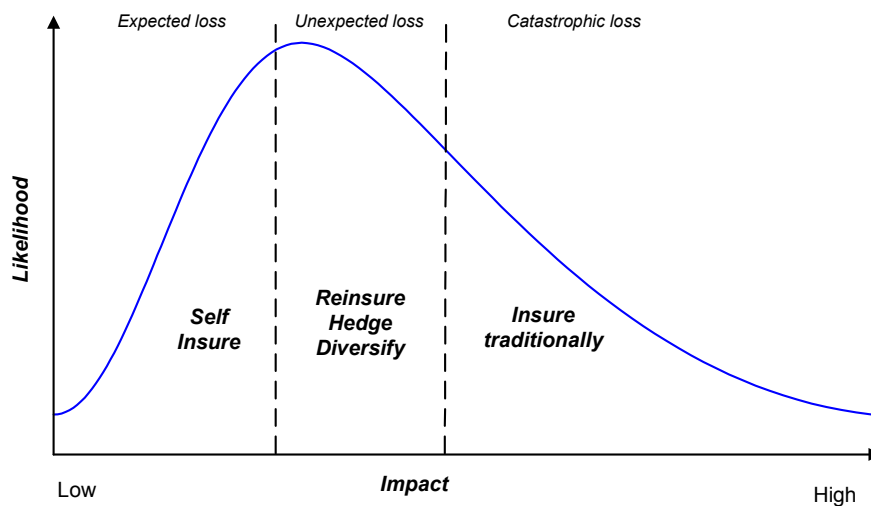
The administrator will in most cases choose this strategy only where losses are reasonably predictable, with a small likelihood of deviation from year to year. A basic guideline for optimal retention decisions is to retain reasonably predictable losses and insure potentially large, disruptive losses (Harrington *et al.*, 1999: 275).

Within the retention strategy, self-insurance is the most unique. Figure 8.3 below depicts when the utilisation of self-insurance is the most appropriate in comparison to other outsourced arrangements. Self-insurance is distinguished from other retention techniques in

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the formality of the arrangement. In some instances the approach varies from obtaining authorisation from regulatory agencies to ensuring that calculations are supported by valid actuarial calculations. Such instances could include provisions relating to claims incurred but not reported; often termed outstanding claims provisions in the medical scheme environment.

Figure 8.3: Risk financing strategies¹



The major advantage of utilising self-insurance is that it avoids costs that are usually associated with traditional insurance. These include broker commissions, overhead expenses and profit margins. In addition to this, the administrator may be of the opinion that its loss experience is far better than the average on which premiums are based (Vaughn *et al.*, 1996: 50). In terms of disadvantages regarding self-insurance, the following are noteworthy (*ibid*):

- Self-insurance can expose the administrator to catastrophic loss. In such instances the organisation would not have sufficient provisions to cover such severe cases. This

¹ Adapted from sources:

- Pickford, 2000: 200
- Alexander, 2001: 216

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disadvantage could, however, be reduced or even eliminated by utilising a combination of self-insurance and one of the transfer strategies such as traditional insurance.

- Traditional insurance providers allow for a number of ancillary services to customers that may be of significant benefit. These include claims handling, overall administration services, etc. In cases where the business opts for self-insurance these services would be unavailable.
- *Reduce*: It is accepted that effective actions aimed at minimising risk could be more cost effective than utilising a transfer strategy such as traditional insurance cover (Vaughn *et al.*, 1996: 38).

Of the two techniques included under the reduction strategy, control measures are the most widely applied. Controls include all activities conducted for the purpose of (Valsamakis *et al.*, 2000: 106-107):

- Eliminating or reducing the factors that may cause loss to the medical scheme; and
- minimising the actual loss that occurs when other preventative methods have not been fully effective.

Control processes reduce the likelihood of the exposure and include pervasive and reactive measures (De Loach, 2000: 131-132). Internal Control is defined as (Sawyer *et al.*, 1996: 102-108):

“The employment of all means devised in an enterprise to promote, direct, restrain, govern and check upon its various activities for the purpose of seeing that enterprise objectives are met.”

Control is achieved by means of (Gleim, 2001: 120-123):

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- *Organisation*: This is an intentional structuring of roles assigned to people within the company to achieve its objectives efficiently and economically.
- *Policies and procedures*: Policies are stated principles that require, guide or restrict action, whilst procedures are methods employed to carry out activities in conformity with such prescribed policies.
- *Personnel*: Personnel employed should have sufficient qualifications to complete required assignments. In addition to this, the best control over performance is the supervision of staff.
- *Accounting*: Accounting is the requisite means of financial control over activities and resources. It provides a structure that may be applied to assignments of responsibility.
- *Budgeting*: Budgeting sets a standard for input of resources and what should be achieved as output and income.
- *Reporting*: Reports are relied upon within organisations to make decisions. Reports should be timely, accurate, meaningful and economical.

It is important to note at this point that in certain instances the risk management strategy of control may be mandated by law (Young *et al.*, 2001: 149). The appointment and integration of a compliance officer who oversees observance to regulations and statutes should be considered by the trustees and senior management.

- *Transfer*: The most formal transfer technique and by far the most common, is the purchase of third party insurance (Vaughn *et al.*, 1996: 39). Figure 8.3 identifies traditional insurance as being applied when cover is required for catastrophic losses that have a low likelihood of occurrence. The ideal elements of an insurable risk will usually include the requirements that the risk results in an

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accidental loss, that the loss is measurable and predictable (Vaughn *et al.*, 1996: 28).

Insurance is a complicated risk management technique and characterised by the following two fundamental components (Vaughn *et al.*, 1996: 19):

- Involves the transferring or shifting of risk from an individual organisation to a group; and
- involves the sharing of losses on some predetermined basis by all members of the group.

It is generally accepted that the following benefits are derived from third party or outsourced insurance (Harrington *et al.*, 1999: 195-196):

- Since it involves the bundling together of many other organisations coverage requirements, preferential rates may be obtained.
- Insurance will reduce the possibility of the administrator needing to obtain additional capital to cover significant losses. This will reduce the likelihood of having to incur finance costs and missing investment opportunities.

Three other techniques that require further elaboration include re-insurance, hedging and diversification:

- *Reinsurance*: Reinsurance is aimed at protecting the administrator of the medical scheme against insolvency or possible significant losses which it itself cannot effectively address by means of self-insurance (Pickford, 2000: 262). Reinsurance involves transferring part or all of the risk to another insurer (Valsamakis *et al.*, 2000: 234). In the international insurance industry a number of differing reinsurance types exist (Vaughn *et al.*, 1996: 150–152). The most common type of reinsurance contract found in the medical scheme environment is the excess-loss treaty or better known

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as a stop-loss agreement (Vaughn *et al.*, 1996: 151). This insurance contract provides cover for a specific risk or covers many risks incurred during a single event. In the case of a stop-loss agreement, the reinsurer will be required to pay after the insured has sustained a loss in excess of a set limit. There is of course a designated maximum of liability for the reinsurer (*ibid.*).

A study was conducted in 2000 for the Registrar of Medical Schemes (The use of reinsurance in medical schemes, 2000). The purpose of the study was to investigate the increased use of reinsurance within medical schemes and whether such arrangements were being utilised to the disadvantage of scheme solvency requirements and members of the medical scheme. The salient findings of the report included:

- In the majority of cases reinsurance was not determined based on valid actuarial computations;
- major conflicts of interest existed between the scheme's trustees and the reinsurer;
- many of the reinsurance agreements reviewed appeared to be little more than contracts used to transfer surplus funds out of schemes; and
- over the period 1996 to 1999, less than 5% of reinsurance agreements improved the underwriting position of the medical schemes.

Based on these findings, the report listed the following key recommendations:

- A formalised definition of reinsurance be set, viz.:
"It is a transaction in which the insurer agrees, for a premium, to indemnify a medical scheme against all or part of the loss that such medical scheme may sustain in terms of carrying on the business of a medical scheme."

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- A medical scheme may not enter into any agreement of reinsurance that has not been approved by the Council of Medical Schemes.
- A medical scheme must obtain authorisation from the Council for any changes to an existing reinsurance agreement.
- Financial statements must be provided to the Council detailing certain key information before the agreement is permitted.
- The Council will only approve a reinsurance contract where there is a spreading of risk, the agreement is in the member's interest, there is no conflict of interest between the parties concerned and the scheme is exposed to identifiable risk of an unusual nature.

The intention is to include these proposed changes as part of the revised regulations associated to the Medical Schemes Act.

- *Hedging*

Hedging involves a strategy designed to reduce or eliminate financial risk. It forms part of the administrator's derivative strategy (Davidson, 2000: 4). The most common types of financial risks that are hedged in the medical scheme environment are (Harrington *et al.*, 1999: 320-321):

- Foreign exchange volatility; and
- interest rate fluctuations.

- *Diversification*

Organisations diversify their operations by acquiring or investing in other companies or by adopting new project initiatives (Harrington *et al.*, 1999: 321-322). The prevalence of joint ventures is a good example of such initiatives.

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In the medical scheme environment the administrator may opt to enter into such ventures with an information technology partner to expedite the electronic transfer of member claims and ensure their effective processing (Editorial 2000).

Although diversification initiatives can reduce the variability of the administrator's cash flow, it is possible that the benefits could be overshadowed by poor resource allocation and lack of manageability. This is especially true in operations where the administrator has no previous experience (Harrington *et al.*, 1999: 321-323).

Overall, it is important that the administrator revisit the approved risk management strategies to ensure they remain appropriate and that they are effective as part of the corporate risk management methodology (De Loach, 2000: 129).

8.6 Corporate risk management in South Africa

Results of the local survey are featured below. These results relate specifically to the elements of common language, risk strategies and tolerances within the corporate risk management programme:

Scales applied in the empirical study were as follows:

<i>Importance</i>	>8 = Crucial.....7.....6 = important.....5.....4.....3 = cognisant.....2..... 1 = unnecessary.....0 = N/A
<i>Organisational Status</i>	>8 = Managed/optimised.....7.....6 = defined.....5.....4..... 3 = repeatable.....2.....1 = initial/rudimentary
<i>Difficulty in Implementing</i>	>8 = Major restructuring required.....7.....6 = six to twelve months management attention needed.....5.....4..... 3 = 1 to 3 months management attention.....2..... 1 = no problems encountered

Based on the below mentioned responses, the most noteworthy issues raised include:

- Respondents rated both the need for a defined common language and approved risk tolerances as relatively important. Of these two issues, the implementation of risk tolerances is considered the most difficult. All respondents progressed poorly in implementing the elements of common language and risk tolerance levels.
- The utilisation of a risk framework to assist in ensuring that all potential risks are identified is also considered fundamental. Organisations believed they had progressed well in implementation.

Figure 8.4: Empirical study results: common language phase

Criteria below detail the action steps followed within the adoption of the common language phase of a corporate risk management programme

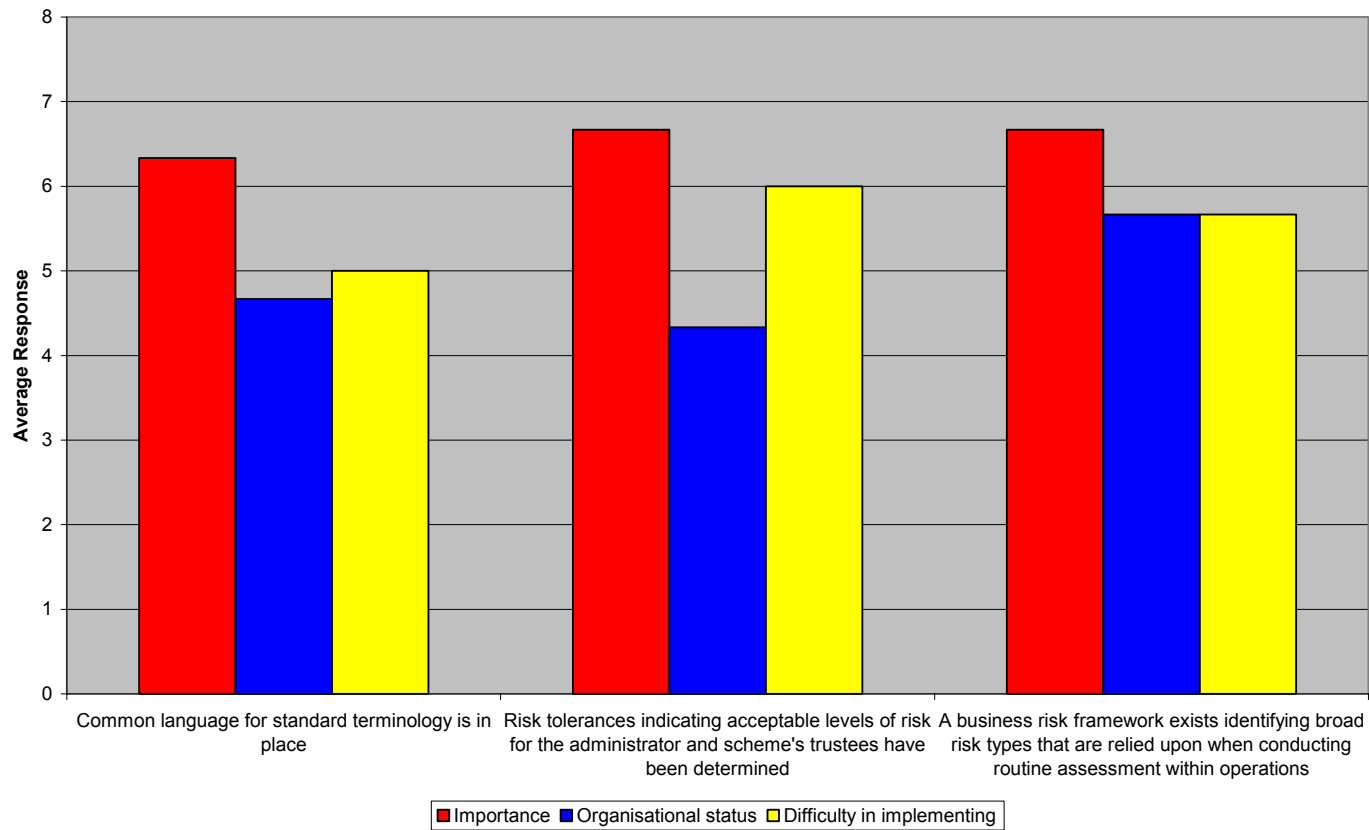
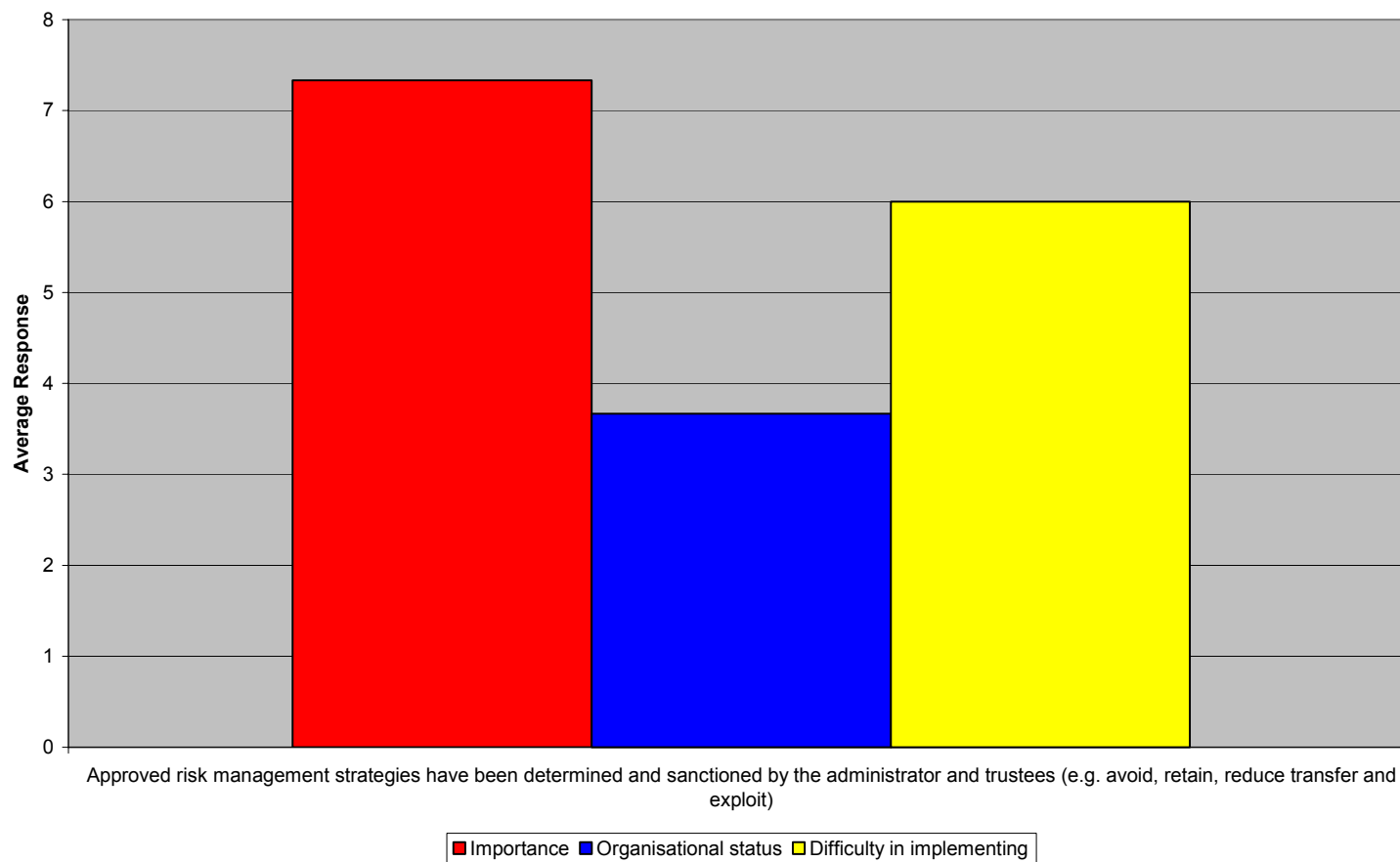


Figure 8.5: Empirical study results: risk management strategies phase

Criteria below detail the action steps followed within the establishing of the risk management strategies phase of a corporate risk management programme



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- Approved risk management strategies were considered essential in ensuring that trustee and senior management expectations are met when addressing unacceptable levels of risk. Respondents progressed poorly in introducing such strategies since it is considered relatively difficult in implementing such standards.

8.7 Summary

The chapter introduces the key phases of common language, risk tolerances and strategies.

In terms of common language, the reader is provided with detail on the required starting blocks in setting-up a common language dictionary as well as a suggested risk framework that is applicable in the medical scheme environment. Such a framework would provide assurance that key risk types are identified and suitably assessed.

The chapter provides guidance on the setting of maximum and approved tolerances by defining the most common types of exposure, which a medical scheme can face. The difference between maximum and approved tolerances is also discussed.

One of the key traits of corporate risk management, viz. risk aggregation is also introduced. This concept focuses on applying risk strategies to pooled risks as opposed to individual risks encountered within the medical scheme. The most significant risk management strategies applicable within the medical scheme environment are identified as:

- *Risk rejection strategies*
 - Avoid
- *Risk acceptance strategies*
 - Retain
 - Reduce
 - Transfer

The following significant issues are identified by the empirical study conducted:

- The respondents rated both the need for a defined common language and approved risk tolerances as relatively important.
- The utilisation of a risk framework to assist in ensuring that all potential risks are identified is considered fundamental.
- Approved risk management strategies are considered essential in ensuring that trustee and senior management expectations are met when addressing unacceptable levels of risk. Respondents progressed poorly in introducing such strategies since it is considered relatively difficult in implementing such standards.

8.8 Conclusion

The degree of immense change occurring today, the complexity of this change and the lightning speed at which it is occurring is resulting in increased uncertainty. The medical scheme administrator is not immune to this uncertainty and will need to ensure that their risk management methodology includes the necessary phases to ensure that risk exposures are offset or capitalised upon. As part of this, the elements of common language, tolerances and risk management strategies are key stages in ensuring this flexibility.

In an era where risk is perceived to be the driver of organisational activity, the entrenchment of these phases will in turn set off the process towards ensuring that risks are optimally managed. The following chapter introduces two additional phases of the corporate risk management methodology, viz. uniform process development and facilitation.