The WAICA Journal

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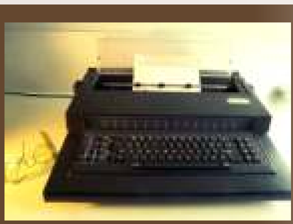
CORPORATE GOVERNANCE

ENTERPRISE RISK MANAGEMENT



WEST AFRICAN INSURANCE COMPANIES ASSOCIATION

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Contents

Mission Statement

We aim to be a "Facilitator par excellence" and with the view of working for the improvement of the image of the insurance industry in West Africa, and being of beneficial relevance to the members of the Association in particular and the insuring community at large, whilst assisting in the creation of the enabling environment for industries and economies in our sub-region to thrive.

In short we don't happen but we endeavour to make things happen.

The President SPEAKS

As we delve into my second term of presidency under rare circumstances at WAICA, I remain committed to our strive towards the realisation of not only the set objectives of our dear Organisation but more so our most recent resolutions centred on strategic reflections on our practice in line with trending realities and innovations to ensure relevance of Insurance in the socio-economic development of our sub-region and particularly our respective countries.

Reflective of the urgent need to align our policies at Council level for more vivacious operation and to fortify the level of involvement by member companies, the Governing Council has resolved to review all operational policies of WAICA in line with current international standards and best practices.

Co- operation of the sub-regional insurance practitioners continues to be a primary objective of WAICA after 45 years of sustained commitment to this aspiration of the founding fathers. There is an ardent call for the younger insurance professionals to immediately enhance their participation in WAICA to not only secure and strenghten the acheivements of our organisation but to take greater advantage of their generational innovations to take WAICA to higher heights. In line with our envisaged strategic succession planning, we had resolved to intensely involve the young insurance professional in the activities of WAICA and for the first time in the history of WAICA, will hold a special Session for Young Insurance Professions during this Annual Educational Conference in Accra, Ghana.

Makaireh Badjan
President

Key in our efforts to attain the set objectives of our Organisation is the relevance of good corporate governance with our individual companies; hence greater focus must be given to this for increased viability of our sector. Prudent corporate governance is incumbent on both Regulators, Operator Associations and Practitioners to ensure long term successes and viability of our sector rather than the common focus on short term profits and remunerations. Many institutions and sectors fail due to weak or poor governance.

Mounted pressure from regulatory overseers will surely yield substantial changes in governance practices across the financial services industry and particularly the insurance sector in our sub-region. Corporate Governance Policies must not only be formulated but seen to be fully implemented.

On a final note, as WAII marks 40 Years of very successful operations, we should all be proud of ourselves for this highly laudable achievement and endeavor to increase our support to the Institute. I congratulate the entire WAII Governing Council, Management and Staff.

I extol you all for your continued interest and commitment to the affairs of WAICA.

Thank you.

God bless WAICA.

FROM THE DESK OF THE SECRETARY GENERAL

Dear Friends and Colleagues

In the recent past our two bigger member countries i.e., Nigeria and Ghana have had developments in their financial industry that have the potential to have far-reaching consequences for the way we do business in our industry.

In Nigeria we had rules/guidelines being rolled out by the Regulator NAICOM to govern players wanting to do micro-insurance business. This was then followed by the rules relating to minimum capital, which have now been put into tiers, requiring insurers to come up with certain differing levels of capital depending on the type of insurance business they want to be engaged in.

In Ghana, the financial commercial terrain has been rocked by the revocation of banking license for several banks in the last 18months.

In the other economies regulators and indeed the players in those markets are grappling with eminent charges in the manner in which operators carry out their business.

With all these happening players in the insurance industry must re-orient their modus-operandi (that is if they have not done so yet) to pro-actively respond to the possible ramifications of these developments.

Pertinent in positioning our companies under these new dispensation is the practice of Good Corporate Governance with which the practice of Enterprise Risk Management (ERM) is an inextricably interwoven and integral part. The benefits of putting in place and observing diligently a system of Good Corporate Governance are enormous.
Among which are long term sustainability and eventual profitability. Practicing anything else may provide seeming positive public approval but these are always short lived resulting in most cases a collapse of the institution.

WAICA members are therefore ardently encouraged to ensure the continued existence of our industry and growth in public confidence in what we do, based on real results by putting in place Good Governance structures within the organisations they manage.

We take this opportunity to congratulate the Chief Executive Officers of two of our WAICA members who have assumed high office in the Nigeria Insurance Industry.

Mr. Eddie Efekoha was elected and inducted into the office of President of the Chartered Insurance Institute of Nigeria.

Mr. Tope Smart was also elected and sworn into the office of Chairman of Nigeria Insurers Association.

We also felicitate with Rev. Marfo-Ahenkora on his re-election to the position of President of the Chartered Insurance Institute of Ghana.

WAICA wishes them the very best and a highly successful tenure in their various positions.

Williams
of WAICA

Personality

Profile

MRS. LENA ADU-KOFI

Mrs. Lena Adu-Kofi has nearly 32 years of management, leadership and industry experience, with 30 of those years dedicated to the insurance industry. She is a Co-Founder and Chief Executive Officer of Safety Insurance Brokers Limited. She is also the first woman to be licensed as an Insurance Broker in Ghana.

Lena started her insurance career in 1986 at MetLife Insurance Company in Medford, Massachusetts, USA, where she gained over 10 years of insurance Sales and Management experience. She specialized in the management and selling of Individual & Group Life, Health and Disability Insurance; Property and Casualty Insurance; Mutual Funds & Annuities; Estate Analysis & Retirement Planning; and Small and Large Group Benefit Plan Arrangements. Since then, Lena's career has spanned to Underwriting, Reinsurance and immense Broking experience, where she has contributed largely to the Ghana Insurance industry through product development.

Lena Adu-Kofi holds a Bachelor of Arts degree in Social Sciences from Kwame Nkrumah University of Science & Technology (KNUST), Ghana, and a Juris Doctor of Law degree (JD) from the New England Law School, Boston, Massachusetts, USA. In 1993, she was conferred the title of Life Underwriter Training Council Fellow (LUTCF), after specializing in Life Health, and Disability Insurances. She is also a National Association of Security Dealers (NASD) Series 6 and 63 Registered Representative in the USA.

Lena is currently the President of the Ghana Insurance Brokers Association (GIBA), after serving as Vice-President and Assistant General Secretary for the Association for two terms respectively. She also served as Chairperson of the Legal Committee of GIBA.

She is also a strong advocate of market-based solutions and issues that affect the insurance industry as a whole and served as a Committee member of the 'No Premium No Cover' and a member of the National Insurance Commission Compulsory Insurance Committee, and she is a Full Member of Institute of Risk Management Professionals of Ghana (IRMPG). She currently represents GIBA on the Insurance Awareness Coordinators Group (IACG) project with GIZ.

Lena is currently a Board member of SIBL Group, Afro-Asian Reinsurance Brokers, a member of the Board of Trustee of the Ghana Institute of Freight Forwarders (GIFF) and a co-founder of St. Jude of Lord's Foundation.

Lena has authored two publications: The Impact of International Monetary Fund and the World Bank Structural Adjustment Programs on Sub-Saharan African Women, and Domestic Violence in Turkey: Making a Case for Political Asylum for Turkish Women in the New England International and Comparative Law Annual, Volume 4.

ERM Enterprise Risk Management And Corporate Governance IN FINANCIAL INSTITUTIONS IN WEST AFRICA

By Michael Siyanbola

1.0 Introduction

It was the US military during 1991 Iraq war that popularized VUCA environment in their description of the extreme conditions of the Afghanistan and Iraq terrains. VUCA has become an acronym for volatility, uncertainty, complexity and ambiguity which are characteristics of todays external environment not only in West Africa but throughout the World. Leading an enterprise for sustainable growth in the VUCA business world is challenging and extremely daunting. It reflects the increasingly unstable and rapidly changing business environment where organizations that thrive today could be extinct by the dawn of a new day.

Crises is often the common denominator of this critical environment in the financial sector. Many companies have problems and have had to deal with many unexpected difficulties ranging from decline in product demand, decline in commodity prices, high receivables, intolerable credit defaults, wild swings in currency exchange rates, broad liquidity crunch, failure of management, wide skills gap, harsh regulations and natural disasters. How then does an enterprise respond to these unexpected difficulties in the wake of VUCA environment such that it is not taken unawares and it's also able to control the impact of such occurrences?

The financial services industry in West Africa has changed considerably over the years, with significant new ideas, new products, new processes and new ways of doing business creating great expansion and meteoric rise for several banks, insurance companies, mortgage institutions and finance companies to the extent that rising revenue and profitability were mistaken for well-run companies. Amidst this development, many of the companies have been careless and poorly governed to the extent that some of the once supposedly strong companies are no more today. From Nigeria, we once had Intercontinental Bank, Oceanic Bank, Skye Bank, The Lion of Africa Insurance Company, Globe Reinsurance company; In Ghana, UT Bank, Royal Bank, Capital Bank; In Liberia, FIBank Liberia; and in Gambia, PlatinumHabib Bank Gambia, Meridien Biao Bank. In Sierra Leone, Barclays Bank also pulled out of doing business there. It is a long list of failed banks, failed insurance companies, failed mortgage institutions and failed loan and finance companies across the West Africa States.

Some of the reasons for the failure include poor capital management, poor liquidity position, rapid regulatory changes, inadequate human capital, lack of innovation, huge receivables, poor loan recovery and outdated processes. Perhaps, the inability of these companies to anticipate and manage the risks associated with the rapid shifts in the financial services industry was responsible for their failure. Regardless of the reasons, it was evident that there were unmitigated exposures arising from VUCA business environment which were poorly managed and had huge impact on the financial system which has created a contagious but damaging effect throughout the market.

The necessary response to this development has been an increasing focus on enterprise risk management and effective corporate governance. Financial service sector business leaders are initiating a strategic introduction of enterprise risk management programs and an effective clean governance to minimize the horrible impact of the unstable environment on business performance and business failures. This paper discusses the concepts of enterprise risk management and corporate governance and how to embed them in the management of the financial sector companies.

2.0 Traditional Risk Management

It is evident that organizations have always managed their risks and business leaders have done so for decades. This is why they have remained in business. However, these organizations managed their risks in silos. For instance, in the past, each of the leaders of the functional department was responsible for the risks emerging from their department without regard to the linkages such risk may have on other departments or the entire enterprise. While assigning functional heads the responsibility for managing risks related to their business unit makes a good sense, this traditional approach to risk management has limitations, which had sometimes meant that significant risks on the horizon had gone undetected by this approach. Thus, enterprise risk management has great benefits to the company over the traditional risk management approach. This is illustrated in the Table below.

Cont'd on page 12

Table 1

Traditional Risk Management	Enterprise Risk Management
1. Limited Scope	1. Creates Comprehensive Risk Oversight Structure
2. Functionally Driven	2. Adopts Integrated Approach
3. Cost based	3. Breaks Down the Risk Silos
4. Fragmented & Siloed	4. Adopts Common Language and Tools
5. Lack of Role Definition	5. Values Corrections and Interelationships
6. No Risk Correlation	
7. Infrequent & Ad Hoc Responses	

3.0 Enterprise Risk Management

It was President J.F. Kennedy who once remarked that when written in Chinese, the word 'Crises' is composed of two characters. One represents danger and the other represents opportunity. Risks like crises are mutually reproducible and are therefore capable of producing either threats or opportunities.

Risks" are simply defined as future issues that can be avoided or mitigated. It is assessed as a function of three variables which are: the probability that there is a threat, the probability that there are vulnerabilities and the potential impact these could bring to the business or the organization. The fact that these variables when present in the activities of an enterprise could indicate risky exposures with dire consequences has necessitated the need for the introduction of enterprise risk management which is a comprehensive and systematic approach to a more proactive and holistic risk management. This process of risk management helps to provide a structured and disciplined approach to aligning strategy, processes, people, technology and knowledge in order to continuously evaluate and manage the uncertainties associated with the activities of the enterprise. ERM is an enterprise-wide process-based solution to managing risks and it usually involves everyone in the organization, from the Board to the least staff in the enterprise.

Thus, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) defined Enterprise Risk Management (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."

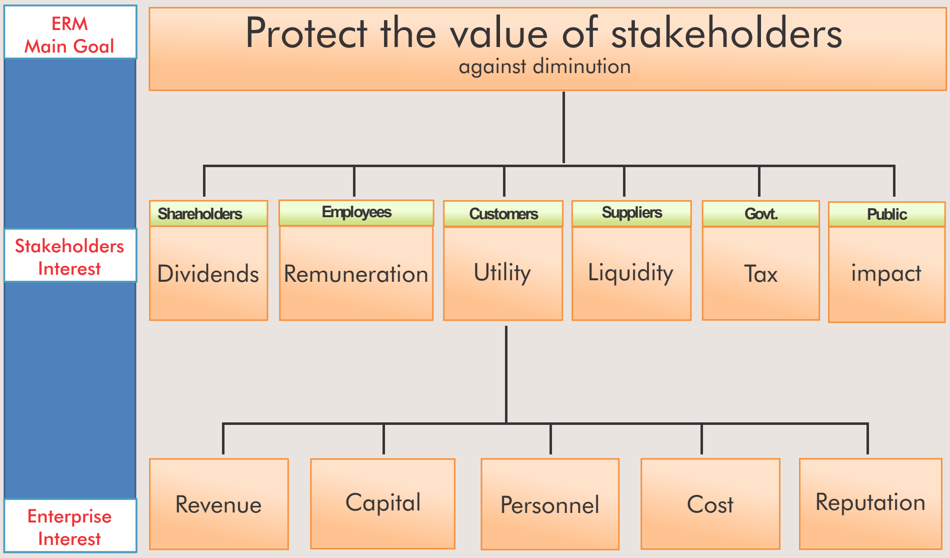
3.1 Importance of Enterprise Risk Management

Despite the apparent significance of ERM, many organizations are yet to embrace it. According to the United Nations, 56% of organizations are unaware of the concept of Enterprise Risk Management (ERM), 35% are making efforts to develop and implement ERM while only a few of the public organizations are aware and are willing to engage ERM. While every institution is exposed to various level of risks no matter how small, insignificant risks on their own have the potential to become big risks based on their interaction with other events to cause great havoc and extreme financial losses. Enterprise Risk Management therefore helps to reduce earnings volatility, improve operational processes, enhance competitive advantage and increase Management confidence in the decision-making process.

There is a positive correlation between the implementation of enterprise risk management and performance of a company. Apart from removing large fluctuations from the earnings of the company, it also reduces contingencies and unnecessary losses in the operations of a company. In addition, ERM aligns risk with organizational strategy, it helps to identify and specify means of seizing new opportunities and allows the integration of risk into decision-making processes. This is besides its primary role of helping to identify and manage diversified risk to which the company is exposed. In recent times, it has also been used as the basis of risk-based supervision which allows better management of capital in the financial services industry.

It is apparent that enterprise risk management is not just about avoiding losses, failures and disasters, but its also about taking advantage of emerging opportunities in order to protect and enhance the value of all stakeholders.

Fig 1: Importance of ERM



Source: Paul Esther Consulting Limited, 2017

3.2 Expressions of Enterprise Risk Management

Risks have been shown to manifest in different ways even though they may be caused by similar events. For instance, the outbreak of Ebola disease in Liberia did not only spread through Guinea, Sierra Leone, and Nigeria but it eventually extended to Europe and America. While it had a primary cause in Liberia, its contagious effect wreaked havoc in all the other places. This has implications for risk management strategy. Similarly, on the 14th of August, 2017, there was a mudslide that killed hundreds of people on the outskirts of Freetown, the capital of Sierra Leone. The mudslide which is typically considered a natural disaster was triggered by torrential floods while the uprooting of trees for construction on the hillside was found to have made the soil unstable and more vulnerable to collapse. However, people believed that the illegal construction of the overcrowded hillsides should have been tackled before the disaster happened since storms and torrential downpours have been found to be common in August and September in Sierra Leone. As a result of the disaster, the citizens were exposed to the risk of waterborne diseases such as cholera and typhoid while many lives and homes were lost. This is an indication that there could be correlation between risks.

In the financial sector, the regulators have had to intervene in a number of companies due to inadequate capital and poor liquidity positions. Sometimes, inability of the companies to raise new capital when required, or depletion of its capital through huge loan default or significant receivables or erosion of its capital through poor governance has been responsible for failure of several of the institutions. The same problem often manifested in different forms and present different types and level of risk.

3.3 Designing Enterprise Risk Management Framework

Effective ERM program is rooted in two primary goals.

- The need to identify, evaluate and measure risks and their correlation and dependencies from all sources across an enterprise
- The need to effectively implement risk treatment strategies that is influenced by a clear understanding of the enterprise risks in order to achieve appropriate risks and return trade-offs in line with the values a d goals of the institution

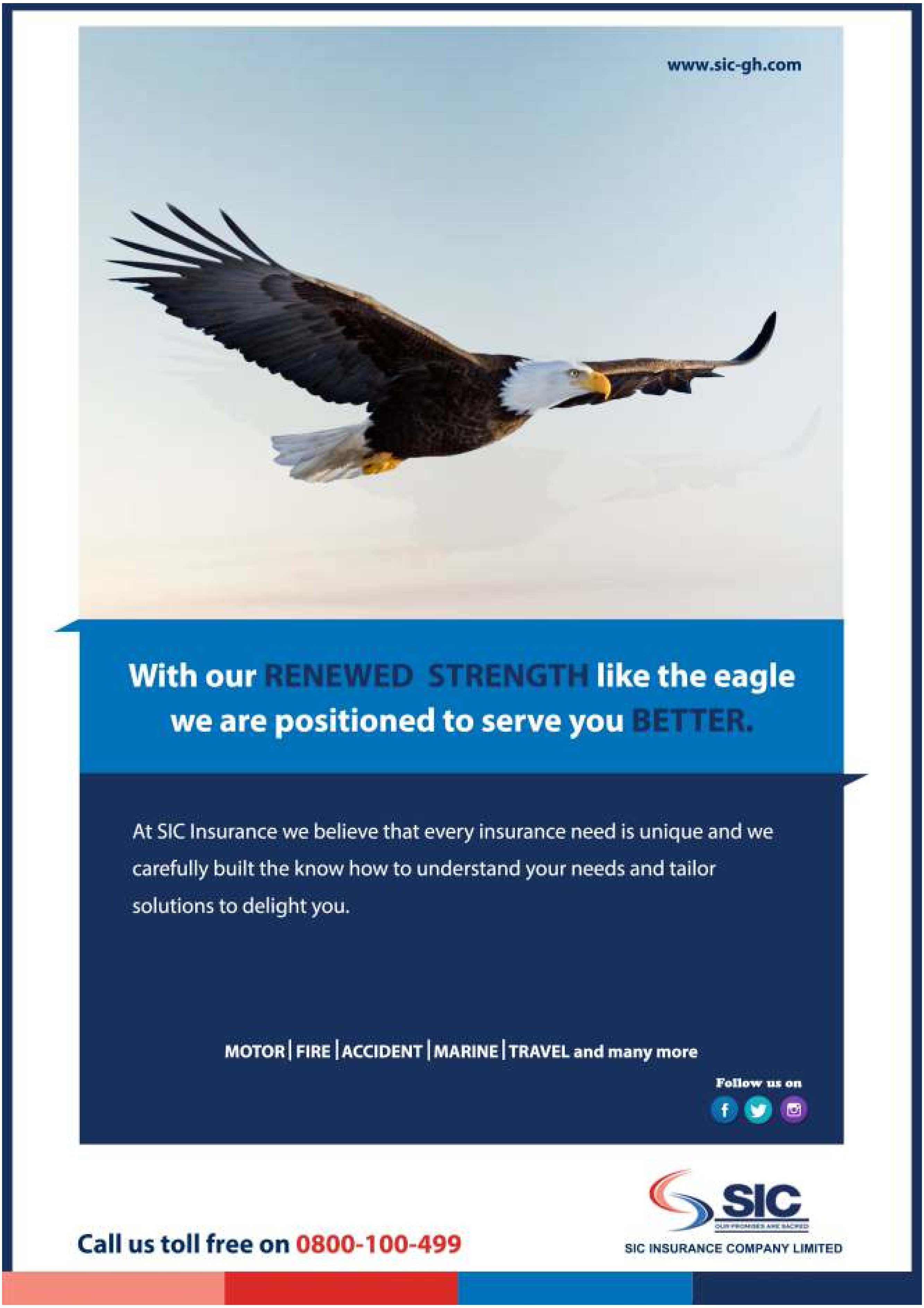
This shows that enterprise risk management is a process-based solution for effective management of business risks. It will therefore require a holistic examination of the enterprise in order to develop an appropriate framework to guide implementation of its risk management strategies. Some of the concepts that financial organizations need to engage in building an effective ERM Framework include the following: 1. Purpose: This is to capture the major essence for setting up enterprise risk management system in the company. It is about the goals and the objectives for the enterprise risk management program.

2. Plan: This is the roadmap towards building enterprise risk management program for the company. It is a design for sensitizing, mobilizing, creating awareness and building of risk management processes in the enterprise.

3. Process: This involves examination of existing company practices to determine gaps and possible risk areas in the operations of the company.

4. Picture: This is the current state of risk management in the company. It is an attempt to identify current risk sources and understand the enterprise risk matrix both in terms of frequency and consequence. This includes risk identification and prioritization during the ERM Planning process

Cont'd on page 14



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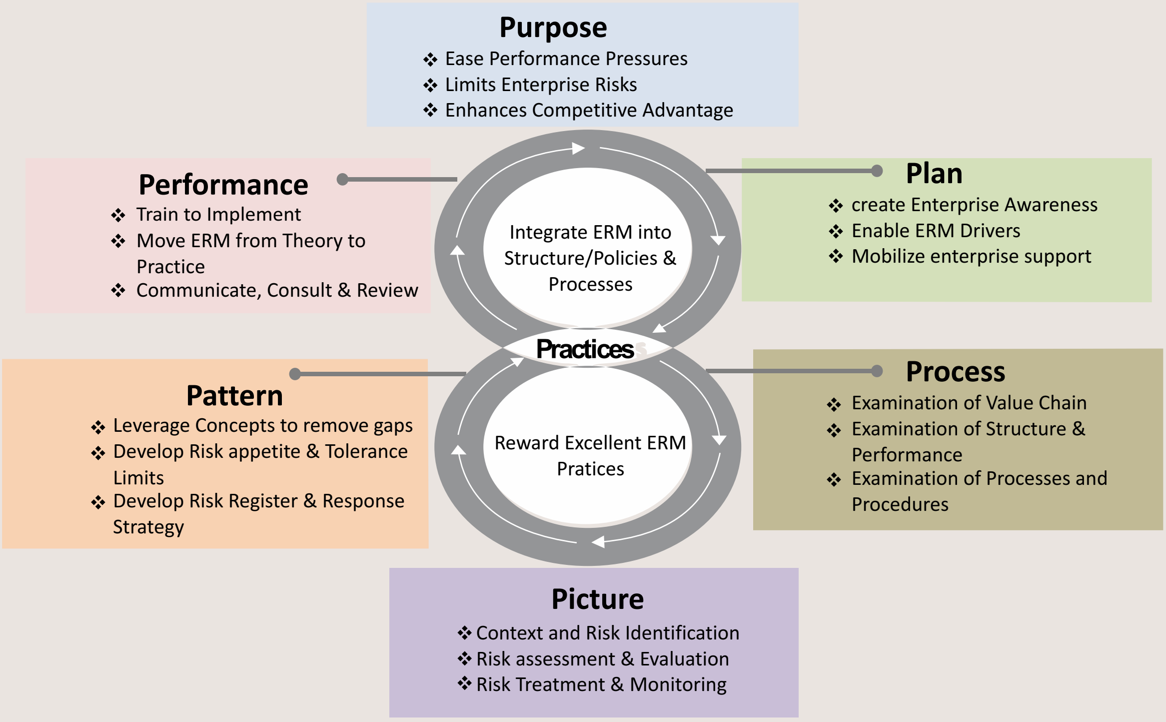
5. Pattern: This sets out the outline for management of risks. It may be strategic, operational or both. It involves the enterprise policies and guidelines as well as local processes, rules and procedures to establish the framework for day-to-day risk management.

6. Performance: This is the actual operation of enterprise risk management within the various functional departments of the enterprise. The identified risks and adopted policies will set the structure for all compliance monitoring in the enterprise to enhance performance.

7. Practices: This is about integrating risk management practices into policies, processes and procedures of the company. It is the formation of a risk culture in the enterprise which includes established risk governance structure, risk strategies and risk assurance.

Fig 2: Framework for ERM Design



Source: Paul Esther Consulting Limited (2017)

3.4 Enterprise Risk Management Process

As it was alluded to earlier, ERM is a process-based solution tool. It accepts the understanding that organizations exist to protect, maintain and grow the value of its stakeholders. It recognizes that organizations face uncertainties and threats which may hinder the achievement of corporate objectives. It therefore demands as a challenge from management to determine how much risk it wishes to accept as it strives to grow stakeholders' value. According to the COSO, ERM process is designed to

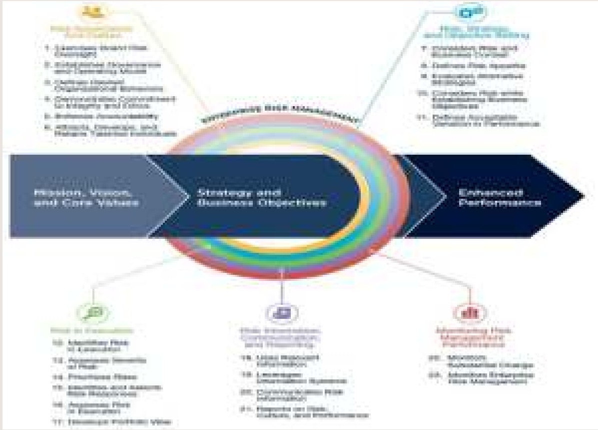
- Identify potential events that may affect the organization
- Manage risks to be within the organization risk appetite
- Provide reasonable assurance regarding the achievement of the organization's objectives To assist in the implementation of ERM process, COSO developed the ERM integrated framework known as the COSO Cube 2004.

Fig 3: COSO Cube 2004

Cont'd on page 18

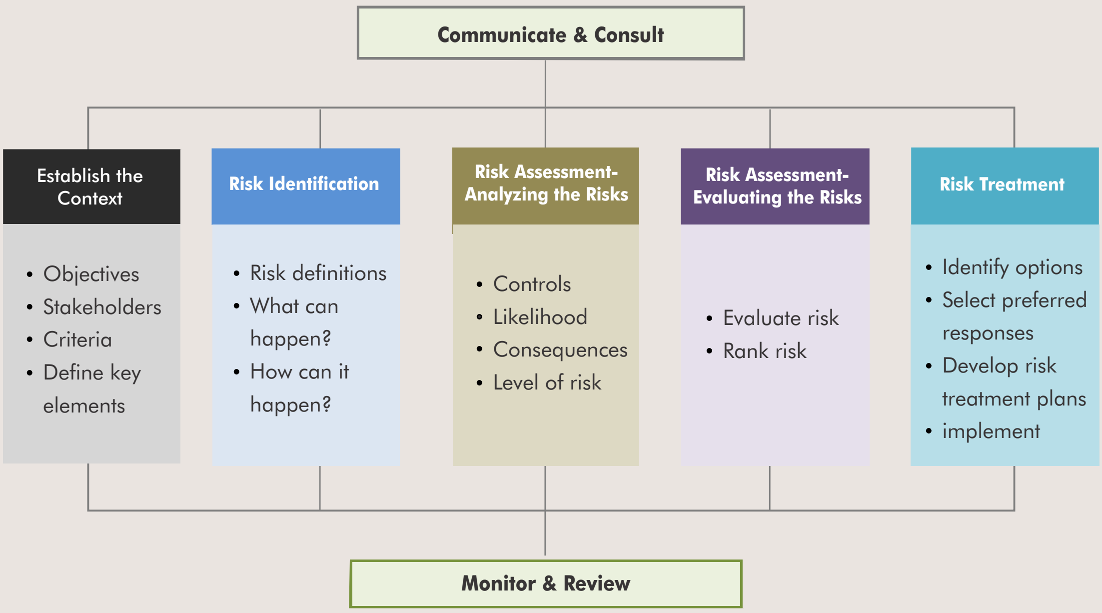
Holistic approach to Managing all the risk inherent within the enterprise
Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO)
However, this has been updated in 2017 to include five interrelated components and 23 relevant principles which were arrayed among the components to emphasize the changing focus of ERM from that of simply helping to protect stakeholders' value to that of helping organizations to grow and enhance its value.

Fig 4: COSO Cube 2017



This forces management to accommodate uncertainties that present both risk and opportunity with the potential to erode or enhance stakeholders' value. It is assumed that stakeholders' value is maximized when management strikes an optimal balance between growth, return goals and related risks. The process of achieving this is engrained in the business and based on a close cooperation between operative management and all functions working with the different parts of the risk management process. This must be clearly dimensioned and therefore, a typical ERM process is as follows: ▪ The process starts with understanding and creating the enterprise context which includes setting of objectives, identification of stakeholders, setting of criteria and definition of key elements. ▪ This is followed by identification of principal risks which an enterprise is exposed to, and it involves definition of risks as well as stating what can happen and how it can happen. ▪ Risk assessment is carried out using qualitative or quantitative methods. The identified risks are analysed and assessed according to their likelihood and impact. ▪ Identified risks are evaluated, ranked and properly documented in the risk register. The likelihood, impact and control initiatives to deal with residual risks are also properly documented. ▪ Having assessed relevant risks, the enterprise determines how it wants to respond by reviewing likelihood and impact, evaluating costs and benefits, identifying various risk treatment options, selecting preferred options that bring residual risk within the company's risk tolerance level, developing risk treatment plans and implementing the drawn-up plan. The entire process is rooted in creative communication and consulting with employees and monitoring and review of activities and compliance with established processes and policies.

Fig 5: The Enterprise Risk Management Process



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TOPE SMART IS CHAIRMAN OF NIA

Tope Smart, Group Managing Director of NEM Insurance Plc in Nigeria and a doyen of the industry was in September installed as the 23rd Chairman of the Nigerian Insurers Association and will hold the position for two years.

Tope who is a graduate of the University of Lagos is an

Fig 4: COSO Cube 2017

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WAICA wishes the NIA and indeed the entire insurance industry in Nigeria a rewarding tenure under Tope's leadership

NEWS

WAICA Re DONATES TO WAICA

Ms. Cecilia Kulekey of WAICA receiving an assortment of office equipment donated by WAICA Re to WAICA from Mr. Clement Owusu (Country Director WAICA Re in Ghana)

WAICA is appreciative of this gesture of support from one of its members and solicits similar support from other members, as it believes that any institution is only as strong as its members make it.

NAICOM ROLLS OUT TIER BASED CAPITAL STRUCTURE

The Regulatory Authority on Insurance in Nigeria in August rolled out its new Tier Based Minimum Solvency Capital regime. This is the 3-tier based recapitalization for players in this industry. The last such exercise of reviewing the capital structure in Nigeria was done 11 years ago in 2007 and NAICOM believes that this exercise has become desirable now given that inflation and interest rates have soared in the last 10 years, while insurers still operated with the same capital base since 2007.

The system allows for insurers to choose in which of the categories they want to operate, thereby having to meet the criteria required of that category.

Whilst NAICOM has promised not to require capital injection or the cancellation of licenses, the Regulator insists it will subject companies to strict solvency control examination.

Sierra Leone has a New Commissioner of Insurance.

Mr. Nathaniel Arthur Yaskey

PAGE

ECOWAS BROWN CARD

Mr. Dawda Sarge

The regional institution that seeks to integrate the ECOWAS region through easing of vehicular movement across borders held its 35th Annual General Assembly in Banjul, The Gambia in October, 2018.

The event reflected on the theme "35 years of Regional Integration Through Insurance – Achievements, Challenges and Prospects"

The meeting received reports for the 2018 Zonal Meetings and adopted the Arbitration Guide and the Bilateral Connection in addition to considering the Protocol and Vision of the Permanent General Secretariat under the leadership of Secretary General, Winfred Dodzi.

Mr. Winfred Dodzi

Reports from various National Bureaux were also received and deliberated upon.

During the event there was the changing of the guard at the apex of the organisation with Mr. Dawada Sarge, Managing Director/CEO of Prime Insurance in The Gambia taking over as President. Mr. Sarge, who is a Past President of WAICA, will be in office for one year.

Following the departure of Mr. Augustus Kanu, the Government of President Maada Bio in Sierra Leone has appointed Mr. Nathaniel Arthur Yaskey to fill the vacancy.

Mr. Yaskey is a well-known and seasoned insurance practitioner in the insurance industry not only in Sierra Leone but in West African as well. He has been in the industry for well over 40 years and brings a wealth of practical experience to his new assignment.

Mr. Yaskey was at one time the managing director and CEO of the National Insurance Company in Sierra Leone, a position he held for several years.

He served and is still serving on numerous boards and is a visiting lecturer at the West African Insurance Institute in The Gambia

WAICA wishes him well as he assumes office.

MARFO-AHENKORA IS RETAINED

Rev. Marfo-Ahenkora Managing Director of Tri-Star Insurance Brokers in Ghana was returned unopposed to the position of President of the Chartered Insurance Institute of Ghana.

This development took place at the recently concluded Annual General Meeting of the Chartered Insurance Institute of Ghana held at the river side resort of Aqua Safari outside Accra.

Rev. Marfo-Ahenkora emphasized that being returned unopposed brings a lot of pressure to bear on him and his team to ensure performance and deliverance of the objectives that will bring about the development of professionalism in the insurance industry in Ghana. He went on to pledge that he will work towards:

1) Making the CIIG stronger and more relevant through membership drive
2) Building a more meaningful relationship with CII, UK
3) Kick starting the verifiable Continuous Professional Development (CPD) program
4) Preparing towards having and institutionalizing the CIIG Insurance Awards

WAICA supports CIIG and congratulates Reverend and his new team as they endeavor to entrench professionalism and high ethical standards in the industry.

Cont'd from page 18

3.4.1 Establish the context:

The first stage in the ERM process is to understand the entire context in which risk management is going to take place. This involves a clear understanding of the various dimensions and interplay of enterprise issues and enablers starting with clear objectives for the enterprise risk management program. This may include the following:

Establish ERM Objectives	Understanding the activities and interest of Key stakeholders	Identify the key elements of the enterprise	Specify the criteria for measuring corporate success
Identify risk sources	Board of Directors	Board & Management activities	Shareholders÷fund
Determine likelihood	Staff & Management	Human Resources & Culture	Company÷s image
Determine Consequences	Rating agencies	Regulations & Compliance	Employees welfare
Estimate the levels of risk	Insuring Public	Functional Activities (Technical, Finance, Investment, Marketing Corporate Services, Legal & HR)	Revenue growh
Rank risks	Government & Regulatory Authorities	Social responsibility issues	Market share
Identify and select options for treatment	Market bodies	External Environmental Issues (PESTLE)	Solvency margin
Implement risk treatment plans	Re-insurance companies	Natural & Unnatural events	Customer srvice

3.4.2 Risk Identification

The second stage is to identify and classify the principal risks that the entire enterprise is exposed to. It also includes a clear understanding of the likely event that can happen in the enterprise and how it can happen. It involves documentation of material threats to the achievement of corporate objectives, and they may also represent areas of opportunities. Risk identification therefore involves:

1. Classification of risks

Financial Risk	Strategic risks	Insurance risks	Hazard risks	Operational risks
Market risks	Business risks	underwriting risks	Natural disasters, terrorism and vandalism risks	Process Risks
Credit risks	Reputational risks	Claims management risks	Health safety and environmental risks	People Risks
Liquidity Risks	Compliance risks	Reinsurance risks	Employee injury and illness risks	Systems Risks
		Reserve development risks	Property damage risks	External Events
		Premium default risks	Third party liability risks	Legal/ Litigation Risks
		Product design and pricing risks		Damage to physical assets

Cont'd on page 22


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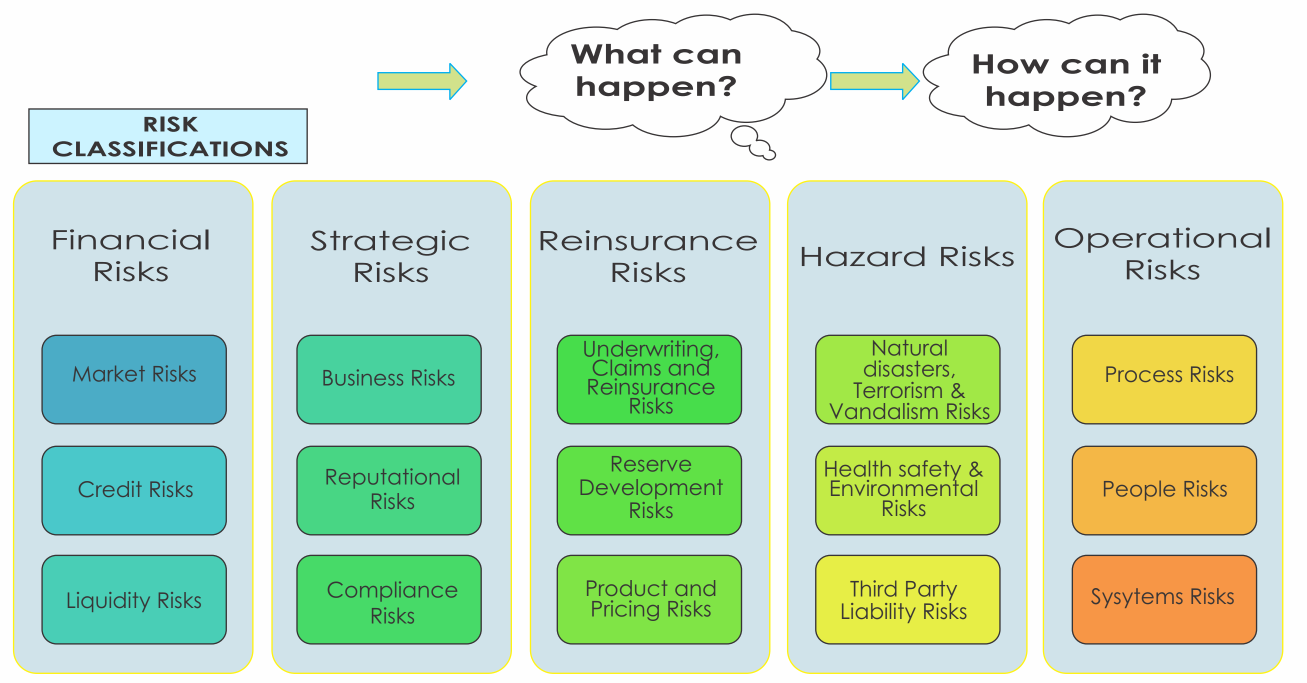
2. Identification of risk elements based on classified risks

Fig 6: Risk Identification



Source: Paul Esther Consulting Limited

3.4.3 Risk Assessment

This is the process of analyzing the risks facing an enterprise based on likelihood and possible impact as basis for determining how the risks should be managed. It is the possibility that an event will occur which will adversely affect the value of an enterprise. Risk analysis is done using either the qualitative or quantitative method. This process involves:

1. Identification of risk
    - o Identify a risk that needs to be rated
    - o Gather Information about the threat agents/ factors involved
    - o Gather information about the manner of attack / commission
    - o Determine the vulnerability of the entity – unit, process, function, company.
    - o Determine the impact of a successful occurrence
    - o Adopt the worst-case option which may result in highest overall risk.

2. Estimation of likelihood
    - o Likelihood is the possibility that an event will occur.
    - o Usually measured as a percentage, or some frequency of occurrence
    - o Such frequency of occurrence may be described as: High, Medium, Low, or almost certain, likely, possible, unlikely and rare.
    - o The factors that can help to estimate likelihood are:
        - ▪ Threat Agent factors
        - ▪ Vulnerability factors
    - o Threat Agents relates to the medium through which negligence may occur or risk issues may be exploited. While the threat agent factors are the options that may assist in the exploitation of a particular vulnerability.

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Cont'd from page 22

Table 2: Event Frequency Classification

Classification	Description	Weight
Very Frequent	More than Once a week	5
Frequent	Once every week	4
Average	Twice a year	3
Rare	Once a year	2
Very Rare	Once in three years	1

3. *Estimation of impact*

- Impact relate to the effect of an occurrence on the business evaluation criteria
- Impact usually are of two kinds, namely;
  - Technical impact
  - Business impact

Table 3: Event Severity Classification

Classification	Description	Weight
Very high	>/= 10% of shareholder's fund	5
High	5% –< 10% of shareholder's fund	4
Average	1% –< 5% of shareholder's fund	3
Low	0.5% –< 1% of shareholder's fund	2
Very Low	< 0.5% of shareholder's fund	1

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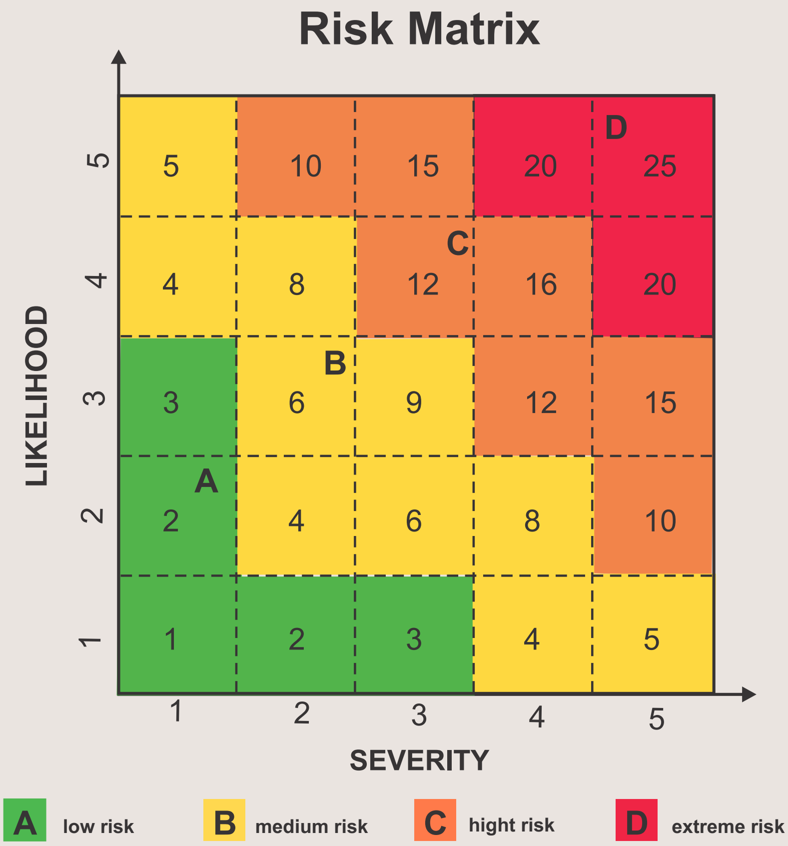
4. Determination of severity ▪ In determining the overall severity for a risk, multiply likelihood estimate with the impact estimate.

i.e. Likelihood x Impact = Severity.

Fig 7: Risk Matrix



5. Decision on what to fix
- The severity rating scale provides a prioritized list of what to fix.
- Fix the most severe risk first even if they are more difficult or expensive to fix
- Fix only the risk whose cost of fixing is less than the benefit of fixing it

6. Customizing risk rating model
- A tailored model is necessary and required to produce results that match people's perceptions about what constitutes a serious risk.
- You can select a bouquet of factors different from the ones presented here, provided they better represent what is important to your organization.
- You can re-define your options, factors, and rating scores according to your business and company unique characteristics.

3.4.4 Risk Evaluation

This has to do with the evaluation and ranking of identified risks. It leads to the development of a risk register, a document where the likelihood, impact and control initiatives for dealing with residual risks are clearly written. It is a comprehensive record of all the risks across the organization and contains significant information such as:
- Reference number
- Risk description
- Likelihood and Consequence
- Adequacy of existing controls
- Resulting Level of risk
- Risk priority
- Residual risk

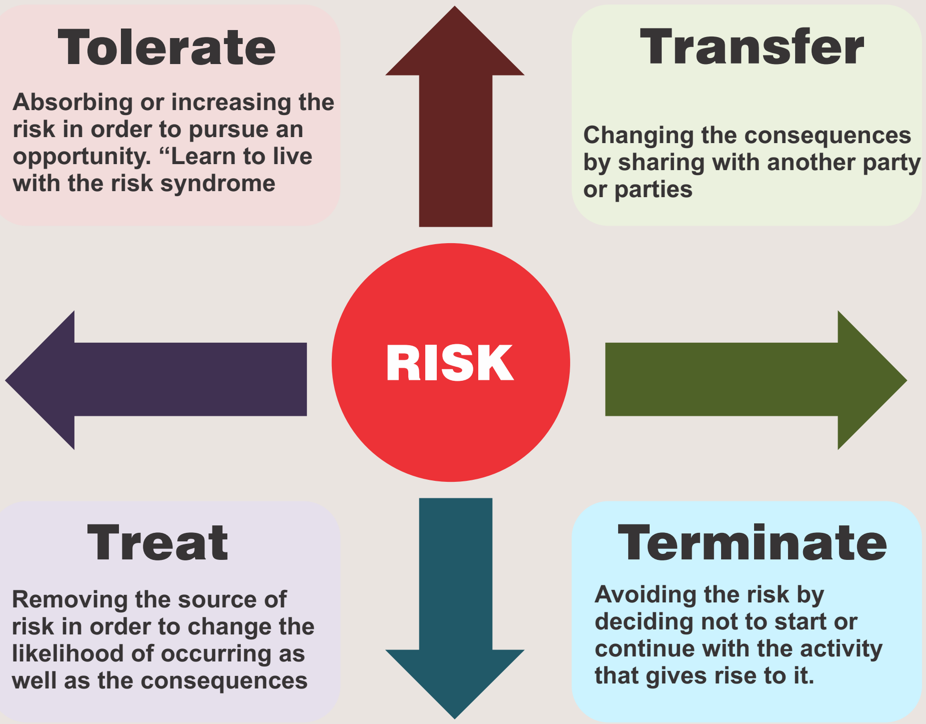
Cont'd from page 24

3.4.5 Risk Treatment

This stage deals with how an enterprise responds to assessed risks. It involves exploring various options available in managing identified risks and selection of the most preferred option that bring the residual risk within the company's risk tolerance level. The various risk treatment options include:

a. Tolerate – This means taking or increasing the risk in order to pursue an opportunity
b. Terminate – This deals with the removal of the risk source by avoiding the risk or deciding not to start or continue with the activity that gives rise to the risk
c. Treat: This has to do with the removal of the source of risk in order to change the likelihood of occurring as well as the consequence
d. Transfer: This involves changing the consequence by sharing the risk with another party

Fig 8: Risk Treatment



3.5 Risk Governance

The risk governance structure emphasises and balances strong central oversight and control of risks with clear accountability for and ownership of risks within each business unit.

Fig 9: Risk Governance Structure

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3.6 Corporate Governance

Corporate failures in banks, insurance companies, mortgage institutions and Board and top management scandals have diminished confidence in governance of financial institutions and financial reporting among investors and creditors. This has renewed the call for effective corporate governance from Regulators, Boards of Directors, Management, Auditors, and other Stakeholders. Corporate governance is a process through which the Board provides direction, authority, and oversight of management for the company's stakeholders. While the Board of Directors is the owner of the governance process, day-to-day guidance and oversight by them is clearly impracticable; the Board must therefore rely on the executives, managers, and auditors to help fulfil its governance responsibilities.

3.6.1 The 5 pillars of corporate governance

The term corporate governance should be understood to be much more than rules, regulations, accountabilities, structures and frameworks by which an entity or state or corporation is governed. Rather, it is largely about institutional and individual attitudes, leadership, values and behaviors of those who wield authority and exercise power within the system. It involves balancing the interests of the many stakeholders in the company.

We can identify five integrated elements that underpin a firm's ability to engage in effective corporate governance, manage its risks, and implement new regulatory changes. They are Culture, Leadership, Alignment, Systems, and Structure. Referred to, for the sake of convenience, by the acronym CLASS, each element relates to the others. For example, organizational culture is shaped by leadership practices. Systems support organizational structure and shape its culture. Alignment ensures each element is harmonized with the others so that, for example, explicit cultural norms are reinforced by leadership, and systems reinforce the culture. No one element stands alone.

Boards and senior executives can review each CLASS element to build and fortify risk management and governance capabilities. Each element positively reinforces the other and strengthens strategic risk management.

I) Culture This is the shared values, beliefs and attitudes that characterize a company and guide its practices. It is rooted in an organization's goals, strategies, structure, and approaches to its workforce, customers, investors, and the greater community. Aspects of culture that can work against good governance and risk management include:

- Unethical behaviour
- Excessive internal rivalry
- Intolerance of failure
- Propensity for risk-taking
- Secretiveness
- Persecution of people who speak up (whistle-blowers).

II) Leadership

It is often said that an organization rises or falls on its leadership. Thus, it is tempting to blame organizational failures solely on top management, but leadership requires conducive environment, cooperative stakeholders and committed and consenting followers to succeed.

Boards of Directors can improve leadership and its effects on governance and risk management in a variety of ways which include:

- Making timely formal appointments to roles such as the role of the chief risk officer
- Centralizing key risk management activities in a corporate department
- Planning a balance of competencies and experience in executive teams
- Developing and coaching executives.
- Ensuring leadership evolves throughout the organization and is shared among management, rather than centralized in one individual.

Boards can also guard against unethical leadership by employing seven mechanisms Professors Grojean, Resick, Dickson, and Smith (2004) found to build an ethical climate in organizations. These mechanisms include: (1) Using values-based leadership; (2) Setting an example; (3) Establishing clear expectations of ethical conduct; (4) Providing feedback, coaching, and support regarding ethical behavior; (5) Recognizing and rewarding behaviors that support organizational values; (6) Being aware of individual differences among subordinates; and (7) Establishing leadership training and mentoring.

III) Alignment

Alignment is the process of bringing the actions of an enterprise functional departments and workforce in line with organizational long-term goals and objectives. The ability of the enterprise to achieve its strategic goals is enhanced through ensuring that both its employees and functional departments are closely working together and decision making is progressive. However, alignment is not easy to achieve. Several organizations struggle to manage interface between external and internal stakeholders including the risk management function. The challenges of creating internal alignment of systems that support appropriate levels of risk-taking include the following:

- Development of a common language
- Understanding of shared responsibilities among employees as to the nature and tasks of governance and risk management.
- Effective alignment requires conflicts between functional departments are structurally and operationally addressed.

Cont'd from page 26
It has been suggested that alignment can be improved in a variety of ways and some of these are:

- Ensuring the strategic planning processes align performance objectives with risk propensity and regulatory demands on the firm
- Aligning organizational changes and structural redesign with regulatory compliance and desired ethical standards of behaviour
- Designing new information and knowledge management systems to support enterprise risk management
- Training and developing managers to raise awareness about risk and compliance issues throughout the organization.

IV) Systems

Systems play a critical role in effective functioning of an enterprise. It plays a reinforcing role in shaping behaviour and culture. It also provides the Board of Directors the necessary information to determine whether the organization is managing risk appropriately. They also demonstrate what values the organization is promoting and how those values are translated into action. Its absence will easily increase the level of risk within the firm. Systems failure may include lack of strong financial control systems, accounting irregularities, lack of appropriate reporting system, absence of strong performance management system, deficient internal control systems and an overall weak risk management system.
To ensure control systems play their important reinforcing role in risk management, the Board of Directors should review and update the existing systems in the enterprise.

V) Structure

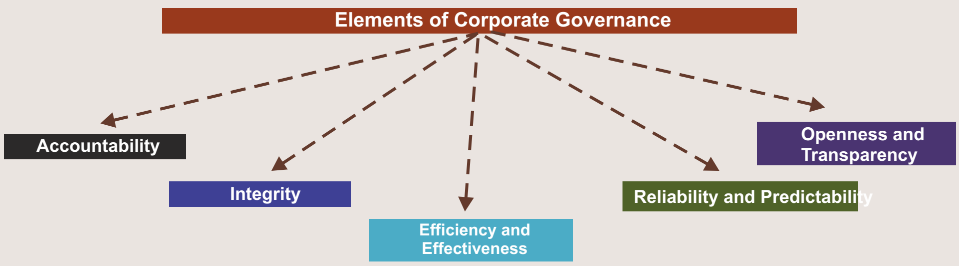
Drew et al (2006) said that making structural changes to comply with the need for governance reform and to support risk management is a challenge even for well-run firms. Implementing a structure requires identifying appropriate systems to ensure communication across the organization, and creating systems that enable the structure to function. Structure affects culture by reinforcing individual organizational roles. Alignment of appropriate structure with cultural norms, leadership, and systems strengthens a firm's risk management abilities.
Key issues for Boards are:

- Understanding the changing nature of risk organizations face as they grow and evolve
- Understanding how major structural transformations lead to changes in strategic risk exposure
- Designing improved strategic risk management practices into structural change programs.

3.6.2 Elements of Corporate Governance
To make for effective risk governance, the entire corporate governance system of the enterprise must be designed to achieve the following:

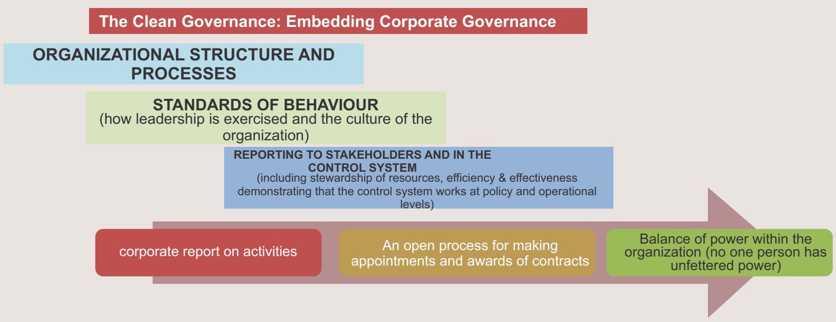
- Accountability
- Integrity
- Efficiency and Effectiveness
- Reliability and predictability
- Openness and Transparency

Fig 10: Elements of Corporate Governance



For effective corporate governance therefore, the essential principles must be embedded in the organizational structure and system and this must be reflected in three (3) areas:

Fig 11: Areas in Corporate Governance Reflecting Principles Embedded in Organizational Structure



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Humur

BRIDAL MAKE-UP

A husband on the day after his wedding visited the makeup artist who did his wife's bridal makeup and gifted her with a beautiful Iphone 9 plus box.

The makeup artist opened the box with great happiness but was suddenly depressed to see Nokia 1100. The husband smiled and said "same feeling I had when I saw my wife this morning".

MAN'S JEALOUSY

Bayo and his wife Ola received a letter from their daughter who went to study modern physics overseas. She wrote. My beloved Parents, I miss you so much and it breaks my heart to think that by the time I get back, you will be too old. So, enclosed you will find a bottle of a red portion I have invented. It will make you young, so when I return, you will be the same age as I left you. NOTE: Please, take only a drop. Goodbye I love you!

So they opened the envelope and in it, is a bottle with a red portion. The man looked at his wife and says "you go first". So Ola takes a drop and indeed turns 5years younger. Years later, the daughter returned home to find her mother young and pretty, carrying a baby on her back. The mother proceeds to tell her daughter how the portion worked and made her look young. The daughter was happy and asks after her father. "Your Father? Hmmmmm, your father was so jealous that I was so young and beautiful, so he drank the whole bottle. "Whaaaat? So where is he?" replied her daughter. Hmmmm, na him dey my back.

MOSQUITOES BY GENDER

Wife asked: What are you doing?
Husband: Am killing mosquitoes?
Wife: How many did you kill?
Husband: Total 5. Two females, 3 males.
Wife: How do you know their genders?
Husband: The 2 were near my wallet and The 3 near the beer bottle

THIS ENGLISH LANGUAGE IS HARD

The bandage was wound around the wound.
The farm was used to produce produce.
We must polish the Polish furniture.
The soldier decided to desert his dessert in the desert.
Since there is no time like the present, he thought it was time to present the present.
When shot at, the dove dove into the bushes.
The insurance was invalid for the invalid.
There was a row among the oarsmen about how to row.
There is no egg in eggplant, nor ham in hamburger; neither apple nor pine in pineapple.
If the plural of tooth is teeth, why isn't the plural of booth, beeth?
If teachers taught, why didn't preachers praught?
If a vegetarian eats vegetables, what does a humanitarian eat?

PRACTICAL JOB INTERVIEW

"How was your job interview yesterday?"

Well, I entered the office, found a man sitting on a large black leather chair with feet resting on the table. He pointed towards his laptop, asked me to take it and go outside, then come back and try to sell him the laptop. So I took the laptop and left.

"Left? Then what?"

Nothing happened until, 30 minutes later when he called me up begging me to return his laptop to him because all his work and important documents were in it. So I asked him, "Will you buy it?". Evidently disturbed he asks "how much? Just bring it back". With a smirk on my face I replied "Appointment to the post for which applied"

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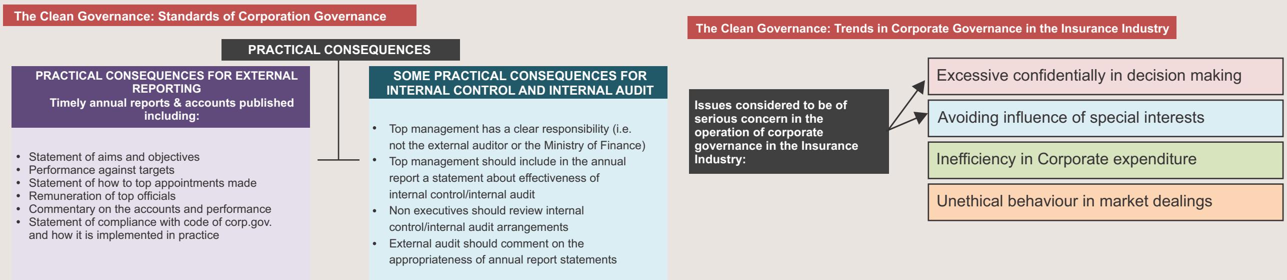
Some of the practical conseequences of the above will be:

Fig 12: Practical Consequences



3.7 Intergrating Enterprise Risk Management and Corporate Governance

It is evident that both ERM and corporate governance serve one and the same purpose. These are merely two sides of the same coin. So, the argument about which of them is bigger does not exist. A strong corporate governance will enable ERM while the effective implementation of ERM will thrive within an efficient corporate governance system.

While, ERM is a structured and disciplined approach to help management understand and manage uncertainties, it encompasses all business risks using an integrated and holistic approach and its essence according to a report from the Institute of Internal Auditors (IIA) is to create, protect, and enhance shareholder value by managing the uncertainties surrounding the achievement of the organization's objectives. Corporate governance on the other hand is the system by which companies are directed and managed so that it can achieve its overall objectives. It includes the complex set of relationships between the Board of the enterprise, its management and its stakeholders.

In other words, the Board provides and addresses governance issues and leadership. it also contributes significantly to an effective enterprise risk management program through its governance activities. The Board therefore contributes expertise, judgement, and assign management the responsibility to manage risks within specified tolerance levels. It also casts an oversight over the implementation of ERM and monitors the process to ensure it continuously operates effectively in the best interests of the stakeholders; and also ensure that management's mix of performance indicators associated with key risks is aligned properly with the company's strategy and linked appropriately to shareholder value. Top management is accountable to the Board on passing appropriate information about significant risks and the action it is taking to manage them. On a continuous basis, the enterprise must align corporate governance and ERM as both processes overlap and one affects the other.

3.8 Conclusion

It will appear that the resilience and robustness of the risk-based capital system employed in the United States in the1990s for the regulation of financial institutions had encouraged Europe and the rest of the World to also embrace the provisions of basel II (banking sector) and solvency II(Insurance sector) for the success of their financial institutions. In West Africa, the three pillars of solvency II: capital, governance and disclosures have become the catalyst for implementation and enforcement of ERM and corporate governance.

And as someone has said that the reason that a car has brakes is to allow it to go faster, and the same applies to business and risk management. If the financial sector will thrive, it must not only embrace enterprise risks but effectively manage both its downside and upside in order to protect, grow and enhance the value of all its stakeholders.

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He was Chief Executive Officer of Great Nigeria Insurance Plc (member of the Nigerian Stock Exchange) for 12 years, Member CEO Forum, Odua Investment Company Limited for 9 years and an active member of the Board of Directors of more than twelve Nigerian Companies. Michael has implemented process re-engineering for a telecoms company, he developed and implemented Enterprise Risk Management Framework for more than 13 companies and took active part in the formulation and development of corporate strategy for several companies.

He is continually involved in Organizational Design projects for a number of Institutions. Michael holds Masters in Business Administration and participated in the CEO Program at IESE Business School Barcelona and Lagos Business School Nigeria. Certified Strategy Execution Hero & Certified Project and Program Management expert. He is a fellow of the Enterprise Risk Management Institute.

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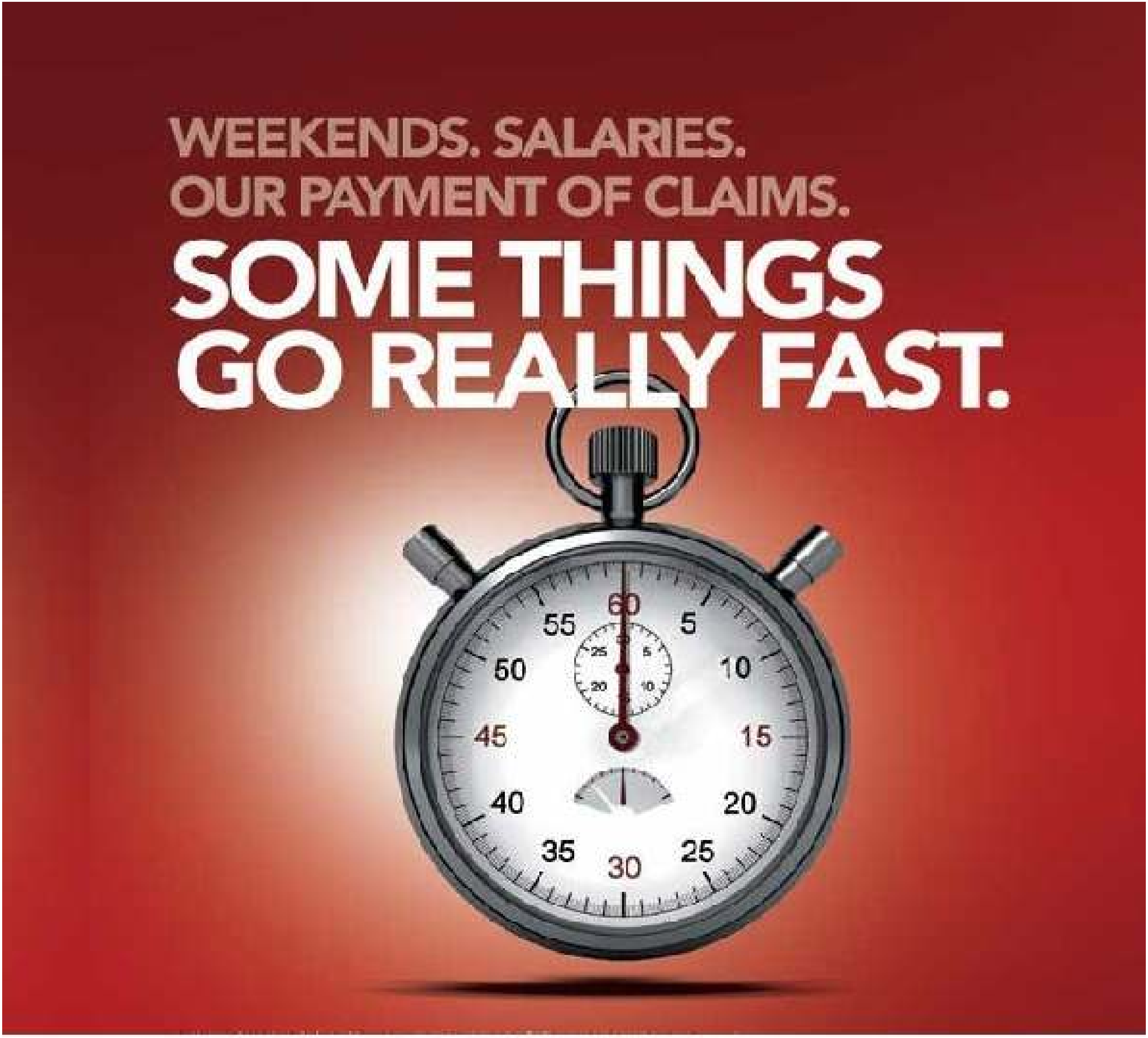
Editor's Note:

The Author has made various references in support of this article and has given due credence to them but for reasons of space we are unable to print out these references.


WEEKENDS. SALARIES.
OUR PAYMENT OF CLAIMS.
SOME THINGS
GO REALLY FAST.