

Adobtation and implementation of integrated risk management in insurance industry in kosova

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Introduction

The companies during their activities establish planes appointing objectives regarding the achievement of their purposes through a precise setting of objectives. During their business, the companies may be facing with different risks that can affect enterprises' objectives, mission and its vision. Achieving this goals and objectives request or is necessary to have a good and coordinated framework or a complete infrastructure of ERM within the company.

Considering the experiences of other countries which had such itinerary in the application of management methods or risk management for insurance companies, to us is necessary using the implementation of risk management as a way toward the integrated method implementation or as briefly known ERM also in the new industry of insurance in Kosova.

Some management / Risk management concepts

In order to have clear the purpose of this paper and to create an adequate model for the companies in the present level, which will establish a good base to advance the best general management modes and the best risks management, we will explain some issues or definitions of risk, as follow¹:

„Risk refers to the uncertainty that surrounds future events and outcomes. It is the expression of the likelihood and impact of an event with the potential to influence the achievement of an organization's objectives.” Differently from the above risk definition below will emphasize the importance of Risk Management:

„Risk management is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on, and communicating risk issues”², where the relation of risk and risk management is presented with a great importance for the organizations' integrated risk accordingly to the company's specifics, and can be seen in the following definition: **“Integrated risk management is a continuous, proactive, and systematic process to understand, manage, and communicate risk from an organization-wide perspective. It is about making strategic decisions that contribute to the achievement of an organization's overall corporate objectives.”³**

In the contemporary literature we encounter different terminologies according Management/Risk management in the enterprise/company (Enterprise Risk Management) as

for example „Strategic Risk Management, „Holistic Risk Management”, „Integrated Risk Management (ERM)”.⁴

CAS⁵ has adopted the following definition according the Enterprise Risks Management:

“The Risk Management to an enterprise/company is the discipline by which an organization in any industry assesses, controls, exploit, finances and monitors risks from all sources for the purpose of increasing the organization's short – and long-term value of its stakeholders”

The abovementioned definition is provided by CAS and below we will mention the definition provided by COSO⁶:

„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”⁷.

For a functional adequate system of ERM the process must take into consideration some elements.

The ERM framework should be based to framework development in two directions, first: the process steps regarding the risk's identification, risk's analyses and quantification, risk's integrity, risk's assessment and prioritization, risk's treating till the risk monitoring and examination. The other direction is related to the

¹ Treasuary Board of Canada secretaiat, *Integrated Risk management Implementation Guide* fq 4

² Ibid

³ Ibid

⁴ Casualty Actuarial Society, *Overvieë of Enterprise Risk Management, Enterprise risk management Committee, May 2003*, fq. 8

⁵ Committee on Enterprise Risk Management

⁶ Committee of Sponsoring Organizations of the Treadëay Commission (COSO)

⁷ ERM working group of the Society of Actuaries Risk Management Section, *Enterprise Risk Management Specialty Guide, May 2006*, pg. 8

identification of risks types as for example: Hazard Risks, Financial Risks, Operative Risks and Strategic Risks etc. Following we will describe the abovementioned risks categories:

- **Hazard Risks** – includes risks from: fire, propriety damages, floods, quakes, business interruption from irresponsibility risks etc.
- **Financial Risks** – includes risks from: liquidity, inflation, assets estimating, interest rate, foreign exchange risks etc.
- **Operational Risks** – includes risks from: all business operational risks, human resources, products development, supply network, information technology, internal reporting as budgeting, planning, taxes, investments evaluation, accounting information etc.
- **Strategic Risk** – reputation damage, customer wants different innovations, cultural and social trends, regulative, economic and political trends etc.

Based to abovementioned definitions each company should have the own Risk Management framework and according to this should have the integrated framework or the Integrated Risk Management system.

The creation of an integrated ERM infrastructure (Integrated Enterprise Risk Management - IERM) will be a strong basis for an adequate function and management of the company facing challenges and different risks.

The insurance industry in the modern time is based on the using techniques and adequate systems of risk

management. The regional experience and particularly Kosova shows that the companies still don't have a clue for the Management and Risk Management and their implementation related to their company. The application of risk management methodologies in Kosova companies should be a priority of companies' management especially for Top Management with the purpose of using the risk management by companies' management for an affective management. Below we will present the importance of the classic implementation of risk management and till the passage in an advanced and integrated system known as ERM. From this differences and passes from an organization form of risk management to the integrated form of ERM in company's level. In the meantime we see different issues in a structure level as classic management and business level and at the end ERM which is our goal. Based to the companies' experiences which apply the Risk Management we conclude that the companies applying the traditional risk management and which have a negative approach of the risk and according to integrated approach of ERM consider the risk as something positive and challenging.

The traditional risk management tends to be focused on contingencies management or risks which may threat the physical and financial assets while ERM manages except the tangible assets also the intangible assets as is described to below table:

	Risk Management	Business Risk Management	Enterprise Risk Management (ERM)
Focus	Hazard and Financial Risk and internal controls	Business Risks and internal control, taking a risk by risk approach	Business risks and internal control taking an entity level portfolio view of risk
Objectives	Protect enterprise value	Protect enterprise value	Protect and enhance enterprise value
Scope	Treasury, insurance and operative responsibility	Business managers' accountable	Applied across the enterprise, at every level and unit
Emphasis	Finances and operations	Management	Strategy - setting
Application	Selected risk areas, units and processes	Selected risk areas, units and processes	Enterprise wide to all sources of value

Source: Guide to Enterprise Risk management, Protiviti, page 10

Considering the experiences of countries which had apply the risk management methods in insurance companies we consider indispensable that the risk management application as a way toward the implementation of ERM also in the new industry of insurance in Kosova.

This way will not be easy because it requests a responsible management with adequate risk management knowledge on risk management in general in order to implement the best practices of the developed world with special attention in adopting the best experiences, standards and practices in the development of this industry.

Enterprise risk management (ERM)

The companies during their activities develop plans and targets to achieve their purposes through the right determination of these objectives. During their business, the companies may be faced with different risks which can affect its objectives, mission, vision and the achievement of strategic goals. To achieve these purposes and objectives is necessarily requested a framework or completed and well prepared and well coordinated infrastructure of ERM within the company. The effective function of the ERM is

submitted by four categories of its objectives: strategic, Operative, Reporting and Applicability (legal). These four objective categories have their importance as follow:

- **Strategic** – through this category the company creates its mission and vision and designs its highest purposes priorities.
- **Operative** – this category deals with the creation of a genuine and efficient of all operations within the company performing toward the goals and safety to possible losses.
- **Reporting** – through this category creates adequate modalities of reporting and as a consequence a good dates basis.
- **Applicability** – this category deals with the harmonization of internal regulation with all laws into force and companies internal actions in harmony with these laws.

All these objective categories are achieved through the application of eight (8) its components that are: internal environment, establishment of objectives, identification of risks/events, risk evaluation, risk control, control activities, communication and information and monitoring.

These components have their importance as follow:

- **Internal Environment** – includes the organization, its contents, management methods, reporting, reporting lines, staff, organizational culture, managerial stile etc.
- **Establishment of objectives** – through this component the company reach its objectives which are created through the mission and vision of the company. The ERM through its methodology and function reaches to eliminate all the obstacles regarding the objective achievement.
- **Identification of risks/events** – this component includes the identification of all internal and external events which impact the achievement of objectives defined by the company.
- **Risk evaluation** – after the events identification which have impact in the objectives achievement follows that analyze and the evaluation of these risks and their impact in the objectives achievement. The managerial structure should be prepared regarding the influence of these events.
- **Risks control** – after the analysis the company and the management of the company take the right decision regarding the elimination, acceptance of these risks which have impact in the companies'objective achievement.
- **Control activities** – constitute an integral part of internal regulative regarding the necessary question creating adequate standards, policies and procedures.
- **Information and communication** – all these activities must be transmitted also in other levels with the aim to have information about the events that have occurred. Every member of the company must be

informed and understand the role and responsibility regarding the company.

- **Monitoring** – the company should have such instruments to monitor all these activities through internal controls. This has its impact regarding the improvement of functional lines and their improvement regarding the safe business interests of the company.

The culture of Risk Management

The culture of the risk management is determined through the general culture. The culture includes in its self some activities such: risk evaluation, the best practices, the support, communication, sustainability etc.

Risk evaluation – deals with the risk identification and measure at companies' level.

The best practices – aims to identify the best practices of risk management which are in the companies' interests and their application.

Support – deals with the involvement of higher management and staff to support the whole risk management process. .

Communication – through the communication the company will be transparent in the announcement of whole process in particularly the risk management process. Through the communication are notified all the successes or failures of the company. This form is applicable because revealing these things could help the company to eliminate uncertainty and to involve all the staff for problems elimination.

Sustainability – the company continually must advance its general culture and especially the risk management culture. The company continually should engage new staff and offer training possibilities to advance.

Conclusion

The insurance industry as one of newest industries needs to think to enclose in their agendas also the risk management by implementing the successful models as in advanced companies. Our environment maybe is not to develop as in other countries but the enclosure of ERM in daily activities framework would help the companies to manage with success all the challenges of a turbulent environment. The implementation of ERM where will be taken as a model the COSO model which easily can be adapted to our insurance industry. The initial phase would have very difficulties in the realization of the project because the companies are facing with an insufficient experience and not trained inadequate staff to implement such project. The implementation of this project could probably be made in a medium or a long term. The model can be based in COSO's principles which are based in four categories and eight components where each of these factors could be adopted to our circumstances.

The successful implementation of this model will bring our companies close to the companies of developed countries and this would have to be one of the long term strategies.

Literature

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