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ANALYSING ENTERPRISE RISK MANAGEMENT ADOPTION IN THE SOUTH AFRICAN SHORT-TERM INSURANCE INDUSTRY

Abstract:

The focus of this study was on the short-term insurance industry within South Africa's broader financial services sector. The insurance industry's key role is providing a risk financing mechanism to ensure the spreading of financial losses in an economy, which reduces or eliminates risk, thereby contributing to economic stability (Das et al., 2003:5). Even though insurance companies are in the business of managing risks, they are themselves exposed to several different types of risks in their daily operational activities and can become financially distressed and fail (French, Vital & Minot, 2015:242).

The primary objective of this study was to analyse enterprise risk management adoption in the South African short-term insurance industry. The study took a quantitative research methodology approach, which followed a positivistic research paradigm.

The theoretical study looked at the potential generic risks that insurance companies are exposed to, namely: strategic risk, liquidity risk, credit risk/counterparty risk, market risk, investment risk, compliance/regulatory/legal risk, systems/technology risk, reputational risk, currency risk, underwriting risk, systemic risk, country risk, as well as Environmental, Social and Governance (ESG) risks. The study also looked at the corporate culture of organisations and its influence on the risk management culture, and subsequently, effective ERM implementation. Lastly, the study sought to assess the impact and benefits of good Enterprise Risk Management on the industry's survival and ability to continue to operate successfully in the long-term.

An empirical study was also conducted, using a target population of at least 100 short-term insurance practitioners, in management, executive management, or directorship roles across the short-term insurance industry in South Africa, and a response rate of 63% was achieved.

The key findings from the empirical study were that most of the respondents agreed or strongly agreed that the above identified generic risks, are potential risks that the short-term insurance industry in South Africa is faced with. Most of the respondents also agreed that these risks had a severe impact on the industry. Lastly, most of the respondents agreed that good ERM adoption and integration was good for their organisations and that ERM adoption had an impact on the overall viability of the short-term insurance industry in South Africa.

Keywords:

Risk, Risk Management, Enterprise Risk Management, Insurance

JEL Classification: G22, G32