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EXPLORING RISK CHALLENGE PRACTICE IN A SOUTH AFRICAN LIFE INSURANCE ORGANISATION

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Abstract:

Regulated financial services organisations are required to have in place risk functions that are not just gatekeepers but that also provide risk challenge when business decisions are made (BCBS, 2021). Although risk challenge is perceived to add to the successful practice of risk management in organisations, no study could be found in the literature on risk challenge practice in the financial sector of life insurance. A qualitative study was performed in a South African life insurance organisation where the purpose of the study was to explore the experiences of operational risk managers when risk challenge is practised. The study found that risk challenge practice should not be seen as an unnecessary, bureaucratic process when business decisions are made; its purpose is rather to strengthen the relationship between business and risk management. Risk challenge practice benefits the organisational decision-making process when buy-in comes from both sides and assists in timeously identifying risks that can be harmful to the organisation; it offers direction for action. The results of this study concur with elements found in the literature to show that the risk function, leadership and accountability, tone from the top, and information and communication in the organisation are necessary for successful risk challenge practice. The study, however, highlights, in addition, group dynamics and the credibility of risk practitioners involved with risk challenge to be contributing factors, and found that, at the time of business decision-making, operational risk managers are required to have the courage to speak without fear of being perceived as bringing too much challenge or being out of line with business objectives. Risk practitioners ought also to have the ability to deal with strong-minded leaders. Although strong regulatory guidance and ongoing review of practices of risk challenge may assist practitioners, lack of product knowledge in a complex environment may limit the application and practice of risk challenge. The outcomes of this study could be useful not only in the life insurance sector but also in other business environments where application of risk challenge appears to require review and improvement.

Keywords:

Risk challenge practice, operational risk management, life insurance organisation, risk culture indicators