

Hazard management is traditionally the approach adopted by the insurance world. Organizations will have a tolerance of hazard risks. The approach should be based on reducing the likelihood and magnitude/impact of hazard losses. Insurance represents the mechanism for limiting the financial cost of losses. Also, some hazard risks will be associated with regulatory requirements and may be considered to be compliance risks. Most organizations will seek to minimize compliance risks.

When an organization considers the level of insurance that it will purchase, the hazard tolerance of the organization needs to be fully analysed. Organizations may be willing to accept a certain number of motor accidents as a financial cost that will be funded from the day-to-day profit and loss of the organization. This will only be tolerable up to a certain level and the organization will need to determine what level is acceptable. Insurance should then be purchased to cover losses that are likely to exceed that level.

Minimize compliance risks

All organizations will be aware of the wide range of compliance requirements that they have to fulfil. These compliance requirements vary considerably between business sectors, and many sectors are highly regulated with their own dedicated regulator for the industry or sector. For example, organizations operating in the gambling or gaming industry have significant regulatory requirements placed on them in most countries in the world. Failure to comply with regulatory requirements may result in the 'licence to operate' being withdrawn by the regulator. If a regulator were to take this extreme action, the organization could ultimately cease to exist.

All organizations that handle financial transactions are required to introduce procedures to reduce the chances of money-laundering activities being undertaken. Banks and other organizations that handle significant amounts of cash need to introduce money-laundering arrangements and, in many cases, a dedicated money-laundering senior executive.

In the insurance industry, compliance issues are significant and can be complex. If an insurance policy is issued in one country to protect the assets and/or cover the liabilities in other countries, compliance issues present particular difficulties. Failure to comply with all obligations may result in insurance claims not being paid or, in the extreme, being illegal in a particular country, if an unauthorized type of insurance or illegal insurance policies have been issued.

For organizations that do not have regulators dedicated to that industry or business sector, there are still a wide range of regulatory requirements that must be fulfilled. In particular, health and safety requirements exist in most countries in the world, and these place obligations on organizations to ensure the health, safety and welfare of employees and other persons who may be affected by their work activities. Typically, these safety requirements apply not only to the place of work under the direct control of the organization, but will extend to the health and safety of employees working in other countries. Also, detailed road safety obligations will apply to organizations that own vehicles, especially if they are engaged in the transportation of people or dangerous goods.

Generally speaking, organizations will work towards ensuring full compliance with all applicable rules and regulations and, thereby, minimize the compliance risks. In many cases, dedicated teams of specialist risk professionals will be employed and this is particularly the case in relation to health and safety, money-laundering and security arrangements. It is important for organizations to recognize their compliance risks and include consideration of these risks in their risk management activities. It is also important to ensure that the various areas of risk management expertise within the company co-operate with each other, so that an organized and/or co-ordinated approach to compliance is achieved.