**An-Najah National University**

**Faculty of Graduate Studies**

# Developing Risk Management Model for the Palestinian Insurance Sector

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**This Thesis was defended successfully on 23/12/2015, and approved by:**

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# الإقرار

أنا الموقع أدناه، مقدم الرسالة التي تحمل العنوان:

## Developing Risk Management Model for the Palestinian Insurance Sector

أقر بأن ما اشتملت عليه هذه الرسالة إنما هو نتاج جهدي الخاص، باستثناء ما تمت الإشارة إليه حيثما ورد، وأن هذه الرسالة كاملة، أو أي جزء منها لم يقدم من قبل لنيل أي درجة أو لقب علمي أو بحثي لدى أي مؤسسة تعليمية أو بحثية أخرى.

## Declaration

The work provided in this thesis, unless otherwise referenced، is the researcher's own work، and has not been submitted elsewhere for any other degree or qualification.

**Student's Name:** **اسم الطالب:**

**Signature:** **التوقيع:**

**Date:** **التاريخ:**

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# List of Abbreviations

| | |
|---|---|
| ISO | International Organization for Standardization |
| ERM | Enterprise Risk Management |
| SWOT | Strengths, Weaknesses, Opportunities, Threats |
| EU | European Union |
| PCMA | Palestinian Capital Market Authority |
| BS OHSAS | British Standard Occupational Health and Safety Assessment Series |
| ART | Alternative Risk Transfer |
| COSO | Committee of Sponsoring Organization of the Treadway Commission |
| CAS | Casualty Actuarial Society |

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## Abstract

The insurance industry is based on managing various types of risks to make profit. Thus, risk management is considered a critical key factor for the success of any company, because risk management will enable the company to manage its risks more efficiently, and more effectively. Risk management situation within the Palestinian insurance sector is very poor and not utilized as it should be; because of the severe shortage of awareness about the importance of it and the scarcity of qualified insurance employees.

This research is studying the existing risk management practices in Palestinian insurance sector and examining its existence and its effectiveness. The research sheds the light on the most important risks that the Palestinian insurance companies are exposed to, and increases the awareness about risk management and its importance. This study aimed to achieve three main goals: assessing the risk management practices utilized in Palestinian insurance companies, identifying the main deficiencies of risk management implementation. Finally, developing a risk management model to tackle the deficiencies in the Palestinian insurance sector.

This study adopts a mixed method of research; using semi-structured interviews and questionnaire to explorer the current risk management

practices in Palestinian insurance sector. The interviews with insurance experts holding senior managerial positions aimed to understand the insurance sector current risk management situation and how the current risk management practices activities are being utilized. On the other hand, the questionnaires were used to gain an adequate perception about risk management activities within the Palestinian insurance sector. Data was collected; from a wider spectrum of insurance sector employees across all managerial levels; to complement the result gain from the interviews.

After the completion of data analysis, the researcher found that all insurance companies confirm the importance of risk management to successfully control all other operations within the company. Unfortunately, however, risk management practices are very poor and immature across all levels of the entire Palestinian insurance sector. Furthermore, the severe shortage of qualified and trained employees and the absence of actuarial experts and the marketing methods utilized that depends mainly individuals; makes the management and pricing of insurance services unscientific and unprofessional. The above issues can be used to create a strong perception of the weakness that slowed the growth in Palestinian insurance sector; in order to develop a risk management model that suite the Palestinian insurance sector. This model will help the insurance companies to improve and enhance the process of risk management, in order to improve the sector strength and maintain a sustainable growth.

# Chapter One

# Introduction

# Chapter One
# Introduction

## 1.1 Background

In recent years, risk management became one of the top priorities for all economy sectors as it helps organizations to achieve their goals without forgetting to protect stakeholder's interests. Risk management makes stakeholders more confident that the organization will achieve its desired outcomes, minimize threats effects to acceptable levels, and maximize the chance of exploiting opportunities (HM Treasury, 2004). Uncertainty can be defined as inability to know what will happen in the future. The Uncertainty and risk are directly proportional to each other's this means, if the uncertainty increases the risk increases as well and vice versa.

The profit comes from the existence of risks, when there is a chance of loss (risk) there is also a chance of making profit (Laurence et al., 2013). There are verities of risks that any organization is exposed to. Queensland Government Information Architecture (2001) stated that risk types can be classified as Operational, professional risks, commercial risks, political risks, human resources risks, technological risks, health risks, risks resalted to our stakeholders, competition risks and others. The strategies and mitigation measures organizations have implemented includes administrative, technical, contractual and safety as part of business activities.

Nowadays, it’s not appropriate to manage risk individually at functional silos levels as the current market environment requires a more integrated risk management approach. All organization all over the world trying to take advantage form the comprehensive approach to deal with all the risk they are exposed to. Integrated risk management is a continuous process where an assessment of probable risks at every level at the organization is done then all results are aggregated to the corporate level to enhance the decision making process. Integrated risk management should become part of the organization strategy and it shall have a big influence on the risk management inside the organization, this approach will help the organization to achieve the most possible profits with the minimum acceptable levels of risks as the integrated approach does not focus only on risk identification, assessment and reducing risks impact to acceptable levels, also it helps the organization to strengthen innovation among its silos (Berg, 2010).

According to the Palestinian Capital Market Authority (2014), there are 10 operating insurance companies at the end of year 2014 working on different types of insurance. The insurance sector in Palestine has grown during the year of 2013 from its predecessor about 10%, it has shown a significant growth compared with the past six years, amounted to about 68% between 2008-2013. The insurance portfolio increased from USD (94 310 529) to USD (158 707 973) during this period (PCMA, 2014). This shows that insurance sector is very promising; however, the sector is facing many difficulties that slowed its growth including the very hard competition

between the insurance companies because of the small size of the market that mainly depends on burning the prices. As all the insurance companies focus their efforts on two types of insurance which are motor and health insurance, as the PCMA reports shows that both types of insurance represents approximately 77% of the insurance portfolio (yourarticlelibrary.com, 2015). The main goal for the insurance companies is customer retention. If insurance companies don't consider good strategies to maintain their market share, they will be at risk. Therefore, effective risk management is a vital issue for all companies.

One of the main goals for the insurance companies is customer retention. Organizations can save a lot of money by keeping its customers satisfied as it is cheaper than attracting new customers by five times. This means, a 10% reduction in cost can be achieved by 2% increase in customer retention, risk management could play a vital role to achieve that as it was reported by CSC (2015). If insurance companies don't consider good strategies to maintain their market share, they will be at risk. Therefore, effective risk management is a vital issue for all companies. The importance of insurance sectors stems from many factors. Insurance sector provides safety and security against sudden loss, generates financial resources, and creates funds by collecting large premiums that can be invested in the local economy which in return will strengthen the economic growth, and engorges investments as the insurance sector mitigates loss and increase trade and commerce, Insurance has huge role in developing a sustainable economy.

Finally, risk management is a systematic process of considering all types of risks that may happen, acting proactively by building procedures and putting measures that will increase the ability of the organizations to avoid the risks or reduce the effect of the risks to an acceptable level, risk management is a process by which the organization can identify and assess its risks and setting up a strategy to control or live with those risks, this process can be started by asking three simple questions:

What can go wrong or good?

What can be done to prevent the wrong or take advantage form the good?

If the wrong happens what the organization will do or how it will act?

## 1.2 Problem Statement

Insurance services are changing rapidly as new technologies arise. This fact enforces companies to grow up and to match these services to finally satisfy customers' needs and to keep their standing up among competitors. Being less responsive to these rapid changes would probably be a main reason of customers' losing and detrimental to the company's market share. The insurance companies must do the best to retain customers especially in a very difficult economic environment conditions. For other industry sectors the price is determined based on the cost of delivering the service or the product, but in the insurance sector the price is determined before knowing the cost of delivering the service. The amount of insurance premiums charged by the insurance companies is determined by statistics, probabilities and mathematical calculations done by

the underwriting department of the insurance company. The actuaries are also responsible for studying mathematical data and compiling "mortality and sickness" tables.

The Palestinian insurance sector had a severe shortage of risk management practices; this can be referred to the low awareness of the importance of risk management, and its role in protecting the company among the top managements within the sector. Additionally, the real willing to enforce risk management principles is missing, thus minimal effort has been done to improve risk management skills in insurance companies, preventing the companies from providing its employees with the proper risk management training; this situation made the companies exposed to many risks. Furthermore, Palestinian insurance companies operates in a very difficult political and economic situation, this unstable environment made risk management a critical issue for these companies. Overcoming these obstacles can be achieved by effective development of the Risk Management model which will be our main result from this research.

### 1.3 Research Questions

This exploratory study aims to shed the light on risk management current situation inside the Palestinian insurance sector, develop a model to tackle the sector deficiencies' and improve risk management practices. This can be accomplished by answering the following questions:

1. What are the current risk management practices within Palestinian insurance organizations?
2. What are the weakness and the deficiencies' of the Palestinian insurance organizations?
3. How can the risk management process be improved and properly institutionalized at Palestinian Insurance Organizations?

## 1.4 Research Limitations

The research main limitation can be summarized as follows:

- The shortage of available data that talks about the insurance sector in Palestine.
- The shortage of previous research that studies the risk management in the Palestinian insurance sector.

## 1.5 Importance of the Study

PCMA is continuing to implement governance principles on the operating companies in Palestine, and the PCMA has completed the development of the scorecard of the Palestinian corporate governance standards during the year 2013 which is formed from five factors: Adherence to the principles of corporate governance (10%), Equity (15%), Disclosure and transparency(20%), Responsibilities of the Board of Directors(30%), Risk Management(25%), in addition to the recent financial crises and the political instability and the shortage of studies about the Palestinian insurance sector. This study will help the insurance companies to identify the deficiency factors in the current risk management process and propose a

model to enhance the company's ability to manage their risks effectively and to comply with the governance principles.

## 1.6 Research Goal

The main goal of this research is to develop an integrated (takes into consideration the financial and non-financial risks) model to tackle the deficiencies in the Palestinian insurance sector.

## 1.7 Research Objectives

To achieve the goal of this study, the following objectives will be achieved:

1- To study the existing Risk management practices in Palestinian insurance companies

2- To identify the main risks that the Palestinian insurance companies are exposed to.

3- To increase awareness about risk management and its importance.

4- To develop an integrated model to tackle the found deficiencies in the Palestinian insurance sector.

## 1.8 Expected Outcomes

This research is concerned in achieving the following outcomes:

1. Assessment of risk management practices in Palestinian insurance companies.

2. Identification of major deficiencies concerning the implementation of risk management plans.

3. An integrated model to tackle the found deficiencies in the Palestinian insurance sector.

## 1.9 Thesis Structure

The reader will find six chapters in this thesis. The first chapter is this introduction chapter. The second is the literature review that contains two parts. The first, related concepts and definitions, terms and types of risks. Additionally, this part contains an explanation for the Bowtie method. The second, characterizing risk management, in this part the risk management principles, concepts, risk management cycle and enterprise risk management according to the committee of sponsoring organizations of the tread way commission are presented. Also, in the second chapter talks about the importance of risk management, and provides a general overview about the Palestinian insurance sector. The third chapter, research methodology which will explain this study methodology a long with the tools used for data collection. The forth chapter contains the data analysis and result of the interviews that were conducted and the questionnaire responses. The discussion of the previous chapter outcomes and the proposed risk management model shall be found in the filth chapter. Finally the last chapter will provide the conclusions & recommendations and research limitations and some suggestions for future research. Thesis structure can be shown in the following figure:

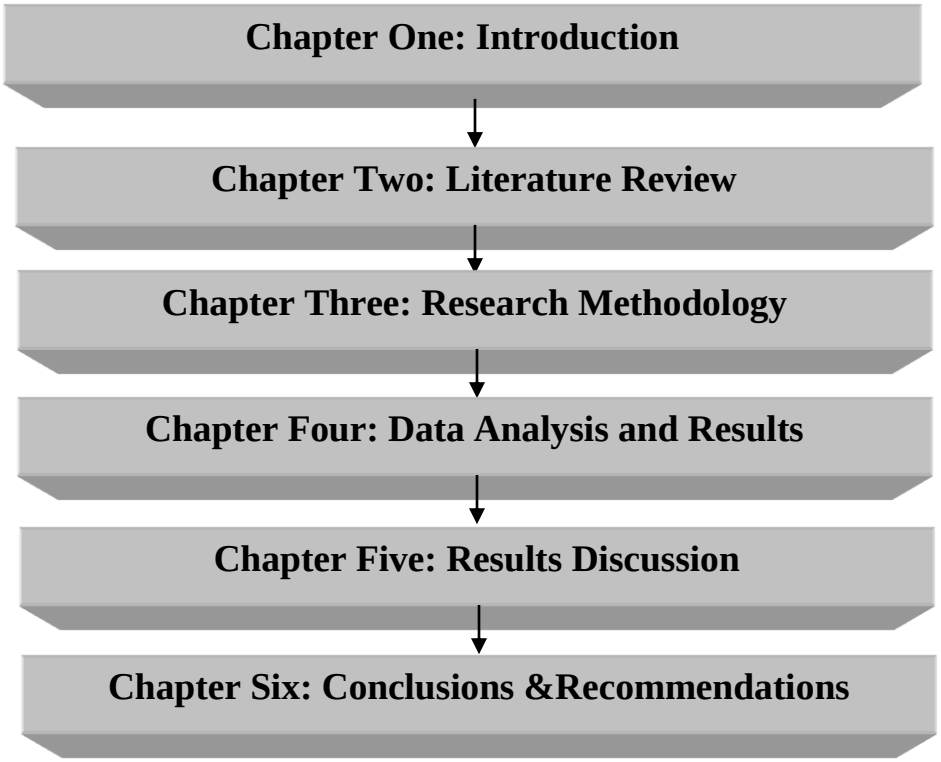



**Figure (1):** Thesis Structure.

## Chapter Two

# Literature Review

# Chapter Two
# Literature Review

## 2.1 Chapter Overview

This chapter presents a review of the literature related to the development of Risk Management, in addition it sheds the light upon the basic concepts, principles, and cycle of Risk Management.

This chapter is divided into two parts; the first one discusses related concepts and definitions, terms, types of risks, and the Bowtie method. The second part focuses on describing Risk Management principles, concepts, cycle, and some approaches used in Risk Management. Also in this part, the Integrated Enterprise Risk Management Framework will be presented in accordance with the Committee of Sponsoring Organizations of Treadway Commission (COSO).

Through this chapter, the reader will be able to understand various types of risks and distinguish between insurable and uninsurable risks. Additionally, the reader will understand the basic concepts, positive aspects, approaches, and methods of Risk Management and its evolution.

## 2.2 Part One: Related concepts and definitions, terms and types of risks

### 2.2.1 Risk Definition

In this section, the researcher aims to introduce some of various definitions, terms, and type of risks. His definition of risk can be defined differently, on

the basis of each person's background, education, experience and perspective, For example, the risk can be seen from technological aspect by engineers and designers in a certain way, or can be seen from economic and financial perspective by lenders and developers in an another way (Azari, Mousavi & Hossenini, 2011). There are several definitions for the Risk concept. First, the risk is defined as a probability of the occurrence of an adverse, negative, event or incident that might cause a negative effect to the organization (Yang, 2011). Second, any decision is a risk by itself, and any risk can be measured through considering several factors like severity, occurrence, and exposure. He emphasizes that the key factors are severity and the frequency of an event's occurrence (Mazouni, 2008). OHSAS defines the Risk, as being a combination of the likelihood of the occurrence of a hazardous event, or exposures to danger, with the severity that might result from the event or exposure (OHS, 2011).

From the above-mentioned definitions, the most two critical things that can be concluded about risks are; First, what is the probability of occurrence to a certain event in the future? .Second, what is the extent of the severity impact upon the hazardous event on the organization in case of its occurrence? The risk is any uncertain condition that if occurred, it would affect the organization ability to achieve one or more of its goals (Tuncel, Alpan, 2010). Marhavilas & Koulouriotis (2012) explains, the risk can be expressed as the possibility of a hazardous event occurrence, and affect a person or a thing in a negative way, also he argues that the hazards are any probable source of an unwanted incident with potential negative effect.

Meanwhile, (Baker et al., 2012) defines risk as the uncertainty, which can be expressed through probability.

### 2.2.2 Risk Types

#### 2.2.2.1 Pure Risks and Speculative Risk

There are different types of risks, some are preventable, and others are insurable. Risks classification is based on causes and effects (Dionne, 2013). First, Pure risk is the risk in which there is no chance for gain, but the only chance is to loss or not to loss. Furthermore, pure risk is an insurable risk, because the insurance companies can use the law of large numbers to calculate the required premium to charge for their services based on expected losses in the future (Dionne, 2013). Personal risks are the risks that affect an individual directly, like illness, disability, or death as it was reported by MY Insurance Agency (2015). Property risk affects either persons or the property itself. Like a house set on fire or a car is under theft. The effects of a property risk usually include both direct loss and indirect loss (consequential). The direct loss means that the property itself is damaged or lost. The indirect loss is the loss that was caused by the direct loss. Thus, if your house is burnt; that is a direct loss; if you rent a house because of the fire, then you have some financial loss (a consequential loss) from renting a house.

As reported by the entrepreneur (2015) There is a special type of personal risk that a person might be sued out of it like of malpractice, neglect, or

causing an injury to another person or to his property. Legal risk is the possibility of financial loss if you are found liable (Moorhead, Vaughan, 2014). Second, and unlike pure risk, speculative risk is the risk where there is a chance of gaining either profit or loss. Almost all of the speculative risks are not insurable, for they are typically undertaken willingly hoping that they will produce profit (Boggs, 2008), like investing in the stock market to make a profit. Moreover, a person could avoid most speculative risks simply by avoiding the activity that gives rise to it. On the other hand, the economy benefits from speculative risks. For example, new investments help to create jobs, and in return, economic growth is achieved, unlike the pure risks, where there is no possibility of making profit (Boggs, 2008).

#### 2.2.2.2 Fundamental Risks and Particular Risks

Another way of classifying risks would be based on influenced party, whether it will affect one individual or more individuals as reported by MY Insurance Agency (2015). Insurance trusts BlogSpot (2011) reported Both Fundamental and Economic risks affect many people, such as an earthquake or unemployment. On the other hand, Particular risk is a risk that has an effect on certain individuals, like theft or sabotage. Not all fundamental risks are insured by insurance companies; because of the huge loss that the insurance companies are exposed to when insuring fundamental risks. Some of them are insured, like storms and hail damage. However, almost all particular risks are insured by insurance companies.

Insurance organizations try to reduce their financial loss by limiting converge in certain areas, and by using reinsurance. SCOR (2015) stated that reinsurance means that insurance companies purchase insurance from huge insurance companies to cover their potential financial losses. Meanwhile, the government does insure some of the fundamental risks, like unemployment. Because insurance companies cannot insure many of these risks, as they do not have any control on them as the government has capabilities to do so. Also MY Insurance Agency stated that fundamental and particular risks can be categorized either as pure risks or as speculative risks.

Fundamental risks not only negatively influence people, but also they affect organizations. For example, group of risks that influence organizations are called the enterprise risks (Vaughan, 2011). Additionally, Speculative risks have an effect on the organization too; these risks can be categorized as strategic risks, operational risks, and financial risks. Strategic risks are related to the organization goals, or in other words to the vision and mission of these organizations. Therefore, if an organization changes its equipment, working policies, or procedures, for the purpose of increasing the organization effectiveness and efficiency, to cause an increasing in the profits, this eventually might lead to an increase in the losses rate instead.

Operational risk results from the daily work in the organization, for example, employees' injuries, data corruption that occurred due to poor security and insufficient backup policies. That affect organizations' ability

to continue providing its products or services. Financial risk arises from financial markets volatility, as it can cause losses to organizations as reported by ASSA ABLOY (2015). The speculative risks are the major risks that face any organization, and organizations are trying strongly to decrease their risks, many of them are interested in bu0ilding departments and hiring personnel to manage their enterprise risks (Vaughan, 2011).

According to (Harland et al., 2003) risks can be divided into several categories: based on their method of affecting the organization and its environment. Risk can be classified as follows:

- **Strategic Risks**: They influence the implementation of the business strategy.
- **Operations Risks:** These risks affect the organizations' ability to continue providing its products or services.
- **Supply Risk:** This risk will make the organization suffer a loss, due to the shortage of ability to get the raw materials needed for the production cycle.
- **Customer Risk**: The organization possibility of suffering from a loss, because of the products are no longer meet the quality standards of customers, in other words the products become absolute.
- **Asset Impairment Risk**: This risk appears when the assets start losing its ability to generate income.

- **Competitive Risk**: If the differentiation ability of the organization was reduced, a loss will result as an outcome.

- **Reputation Risk**: It is the possibility of loss if the organization image is damaged or called to question.

- **Financial Risk**: The organization may suffer a loss resulting from financial markets volatility.

- **Fiscal Risk**: This risk arises because of changes in the tax law.

- **Regulatory Risk:** This risk might affect the organization because of changes in regulations and laws.

- **Legal Risk**: This risk will expose an organization to litigation issues arising from an action taken by any stakeholder.

#### 2.2.2.3 Moral and Morale Hazards

American Safety Council (2013) clarifies that dishonesty is the main cause of Moral hazards losses. Thus, fraudulent or inflated claims made the insurance organizations suffer from huge losses. The legal system may encourage many people to recourse to the courts in order to gain profit from the insurance companies, the American legal system is a good example in this case. The moral hazard is a very dangerous, as it could result in bankrupting the insurance company if people misuse the litigations like the asbestos litigation in America. This may happen even though few

plaintiffs present a real evidence of harm or disease as it was reported by this matter.

IRMI (2015) reported that the morale hazard comes from the insured indifference that comes after receiving the insurance policy, so the insured will be less careful and may not take enough precautions, or the insured feel that he/she is protected, so he starts on taking risky activities. As an example, the last financial crisis shows that many companies involved in a very risky activities without taking the proper precautions because they thought they were safe, as they know that the government will rescue them. This happened in America with companies like American International Group (AIG) and.

#### 2.2.2.4 Financial Risks and Non-Financial Risks

The most critical risks that face the insurance industry are the financial risks that can be divided into five major categories (Ranong, Phuenngam, 2009). First, market risks, which in general focus on the decline of assets value because of the changing broad market factors. Second, the credit risks which are the failure of the company to pay its own debts. Third, operational risks are defined by the Basel Committee as "the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events" as reported by IRMI (2015). Forth, liquidity risk is the shortage of cash flow, which makes the company unable to meet its short-term obligations. Fifth, legal and regulatory risks can be caused by the wrong application of the current laws or changes in the laws like tax law.

However, in the recent few years non-financial risks are getting more important, due to increasing volume of losses coming from operational issues, technology, and systems. As a result, complication will result to increase probabilities of failure.

The deregulated insurance regimes are changing rapidly nowadays, the insurance industry like other economy sectors are threatened by the entry of new competitors; especially global ones; as a result of globalization; which makes the competition very hard. In addition to these dimensions, cash flows value for the insurance companies are affected by the volatility factor, which indicates that the value of the insurance companies are calculated by the current value of its future cash flows compared to the risks these companies undertake (Rao, Pandey ,2013). In recent survey, Fabozzi, Jons & Anson (2011), found that the most popular risk measures are Variance, Value at risk (VAR), Measure of downside risk, Conditional value at risk, and extreme value theory.

Figure 2 below shows financial and non-financial risks:

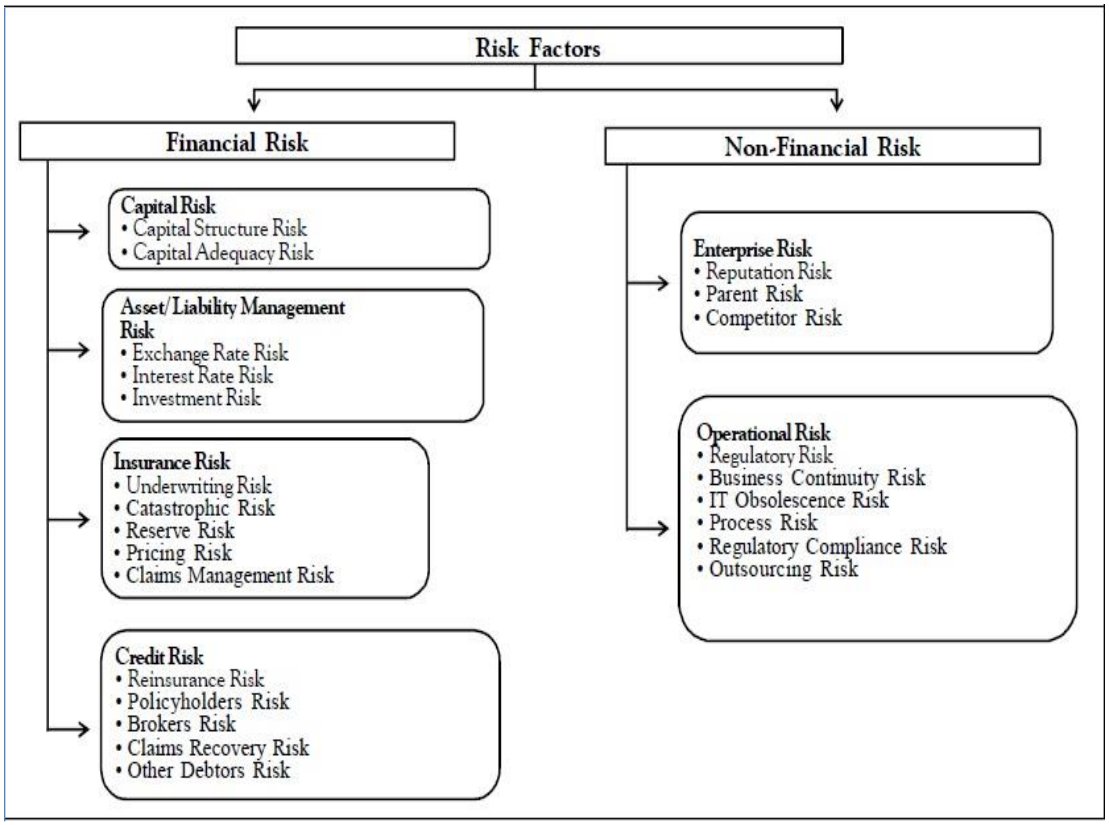



**Figure (2):** Risk Factors Categories. Adapted from: Rao, Pandey (2013)

Because of the recent financial crisis, the organizations across all economy sectors are now moving towards implanting more formalized frameworks to manage their risks effectively. Best Management Practice (2010) argues since there is no protected company against facing financial collapse whether it has a high profile or not, as it was seen during the last financial crisis, so the focus now is given to internal control and corporate governance to help organizations in reduce the negative effects of their risks by protecting the organizations assets, earring capacity, and reputation.

Because of the dynamic nature of the insurance industry, the onus or the pressure that risk management falls under is in a condition of continuous

increase, as one of the most illicit practices faces insurance companies is fraud, which creates serious problems that threatens the insurance companies' success. Insurance fraud makes the overall costs of insures, and the premiums paid by policyholders increase, the illegal acts, which insurance companies are exposed to, makes the need for comprehensive strategies of risk management that would be vital to effectively assess and prevent fraud (Chudgar, Asthana, 2013).

The purpose of corporate governance according to the UK Corporate Governance Code (2015) "is to facilitate effective, entrepreneurial, and prudent management that can deliver long term success to a company".

### 2.2.3 Risk Terms and Bowtie Method

Based on the literature review, three important terms about risk management is found. First, Risk is the probability of loss. Second, peril is the main or the source that causes the loss. Third, hazard is anything that either causes or increases the likelihood of a loss (Baranoff, Brockett, Yehuda, 2015). For instance, a plan is a hazard, but flying in the plane in a thunderstorm and crushing is a risk. Another example, a hammer is a hazard, using the hummer and injuring oneself is a risk. A physical hazard is a physical situation that increases the probability of a loss. Therefore, smoking is a physical hazard that increases the likelihood of setting a house on fire or illness. In order to make these terms more clear, Bowtie method will be discussed here, which is a risk evaluation method.

The purpose of this method, is to analyze and show the relationships between risks and its causes.

#### 2.2.3.1 The Bowtie method

CGE (2015) argues that bowtie method helps an organization in accomplishing two issues. Firstly, it provides organizations with a visual outline of all possible scenarios of an event that might occur because of a specific hazard. Secondly, the Bowtie diagram enables organizations to identify the control measures they could implement to control these scenarios.

The starting point of the Bowtie method is identifying the hazards that the organization may face. A hazard is anything that could potentially cause damage to the organization. Such as, driving a car, dealing with toxic materials, On the other hand, reading a book cannot be considered as a hazard. The purpose behind identifying hazards is to discover all the potential events that might affect the organization negatively if the organization loses its control over them. The next step after the organization specified the hazard is to identify the Top Even. The top event represents the first moment when the organization loses its control over the hazard, at this time, negative things or harm does not occur yet. In other words, the top event is defined exactly before the hazard start causing damage to the organization. Figure (3) below gives examples about hazards and top events.

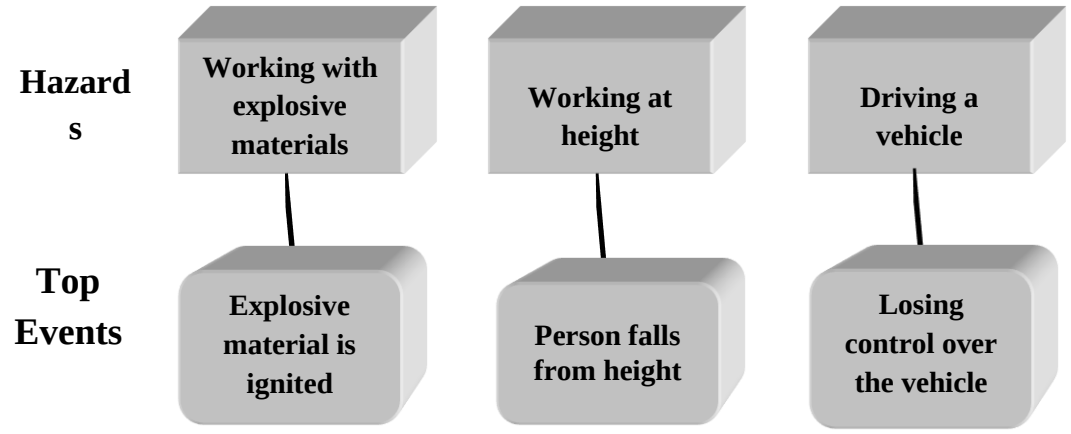



**Figure (3):** Bowtie Method: Identifying Hazards & top events. Adapted from: Hazan (1979)

The third step in the Bowtie method is to identify threats that will cause harms to organizations; threats are things or events that will trigger the top event. There are many threats like equipment malfunction, bad weather conditions, or human errors these are generic expressions. Moreover, threats should be specific, and generic expressions are to be avoided, the figure below explains this.

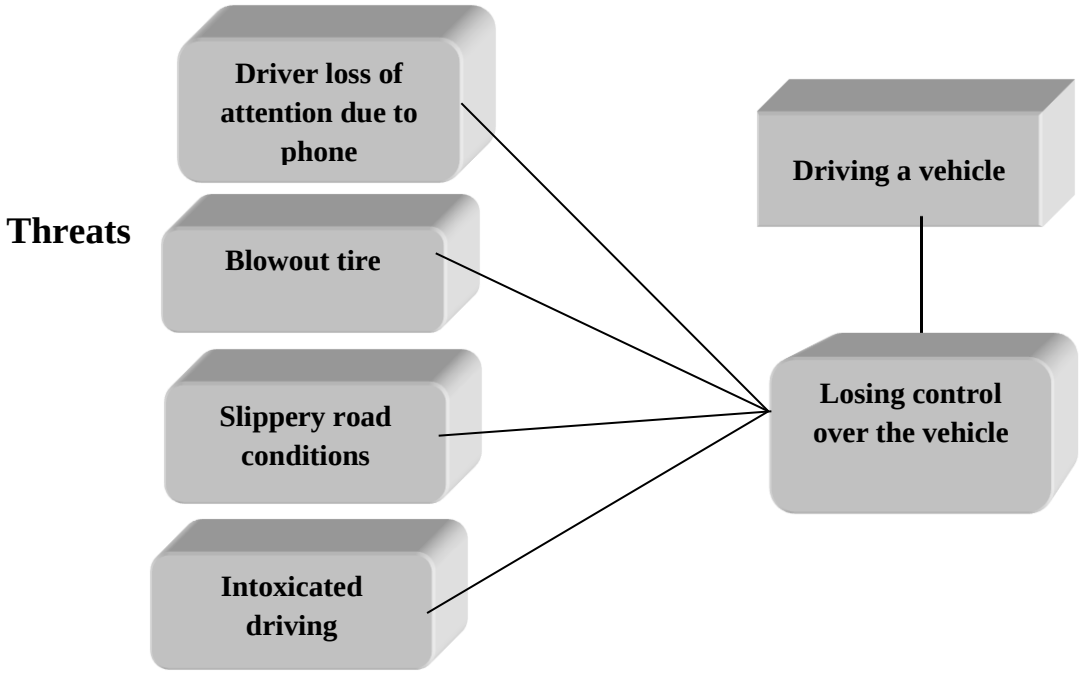



**Figure (4):** Bowtie Method: Threats may result from losing control over vehicle top event. Adapted from: Hazan (1979)

After occurrence of top event, consequences shall be determined, like threats that can cause more than one top event to occur, and top event might have many consequences. In addition, consequences shall be described precisely and avoid generic expressions. Being specific when identifying consequences will be handy when trying to find out the proper barriers. For example, using the term “toxic material leakage to the sea” is better than using the term “environmental damage”.

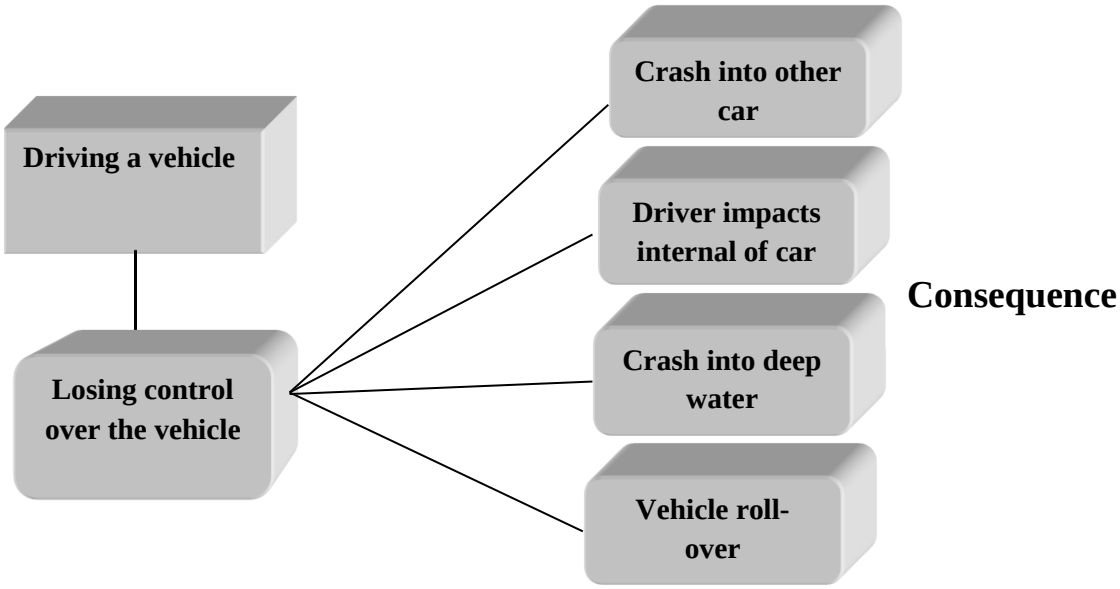



**Figure (5):** Bowtie Method: Consequences may result from losing control over vehicle top event. Adapted from: Hazan (1979)

The next step now is to find out the barriers or the control measures that will prevent the threats from causing top event to occur. Barriers have many types, the major two types are human behavior barriers and the other one is hardware or technological barriers.

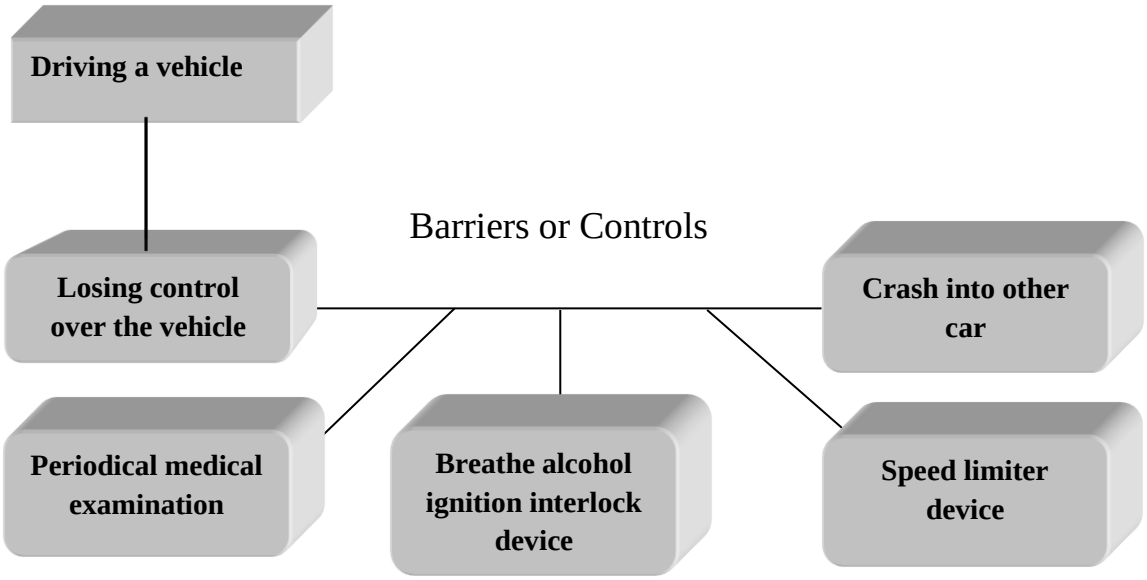



**Figure (6):** Bowtie Method: barriers or controls could be used to prevent losing control over vehicle top event. Adapted from: Hazan (1979)"

The final step is the escalation factors. These factors are needed as the barriers may fail because there is nothing perfect, so the escalation factor can be used to discover why barriers failed. For example, an electrical device my fail because of power shortage so the escalation factor could be a backup generator, anything that will make the barrier to fail is described in the escalation factor.

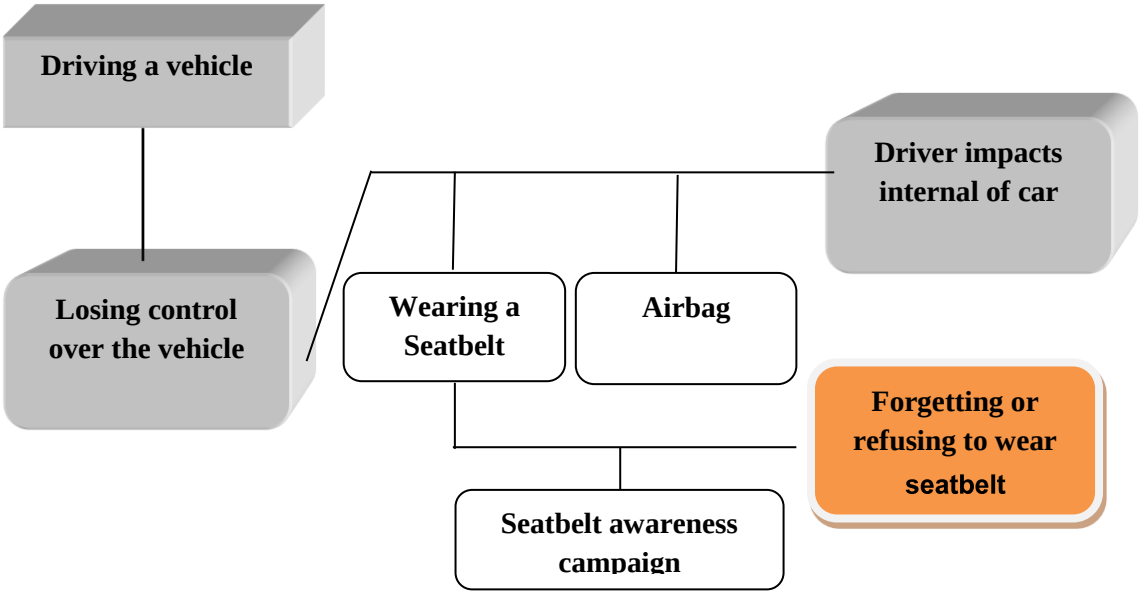



**Figure (7):** Bowtie Method: escalation factors used to describe barrier failure reasons. Adapted from: Hazan (1979)

## 2.3 Part Two: Characterizing Risk Management

### 2.3.1 Risk Management Definition

Risk management is the cycle or the way, which can be used to make informed decisions to accept a risk or to implement treatments, in order to eliminate the effects of a hazardous event, or to decrease the probability of hazardous events from occurring (Cheng, Yip & Yeung, 2012). Furthermore, risk management refers to policies, procedures, actions, and tools used to manage risks, and make them acceptable (Alhawari et al., 2012). Risk Management also can be defined, as the administrative activity, which aims to predict, measure, and assess the risks. It also manages risks through developing management strategies in order to avoid risks, minimize its negative effects, reduce effects to acceptable levels, and accept some or all of risks consequences.

According to ISO 31000:2009 (Risk management: principles and guidelines),"risk management refers to a coordinated set of activities and methods that is used to direct an organization and to control the risks that can affect its ability to achieve objectives".

Orange book from HM treasury defines risk management as: "all the processes involved identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress".

Institute of risk management (IRM) defines risk management as: "processes which aims to help organizations understand, evaluate and take action on all their risks with a view to increasing the probability of success and reducing the likelihood of failure".

### 2.3.2 Risk Management principles and concepts

All projects will encounter a wide verity of risks while trying to achieve their objectives. Therefore, the organization began looking for ways or approaches to manage their risks effectively. The concept of risk management has grown rapidly during the last few decades. During the 60s of the last century, risk management became one of the most important management skills.

At the early stages of applying risk management, organizations were focusing on insurance management in terms of building a strong financial capacity to stand against the negative impacts of uncertain events. A wider

view was staring to appear in the 1970s by which organizations developed a more mature understanding of all types of risks they were facing and started to find out alternatives other than insurance.

Recently, the organizations have begun to understand that the concept of risk management. According to these organization, not only risk management applies to the negative events or threats that the organizations is trying to overcome or reduce their impact to an acceptable level, but also applies to the positive opportunities that the organization has to take advantage of, in order to achieve the organization vision and mission. Therefore, a proactive approach must be followed in order to find out the probable threats and their impact and find out the opportunities, as an outcome the organization can take a decision about whether to accept the threat or the opportunity as reported by Best Management Practice (2015).

The only reason to start a business is to gain profit; this cannot be achieved without taking risk, and this risk must be controlled and effectively managed. Thus, the process of managing risks is the main function for all types of business. Based on the literature Review, many of the chosen approaches have been distinguished; these approaches were designated to manage their risks and assessing their efficacy.

Two major streams appeared, one is the silo approach, this approach or stream tries to deal or manage risks separately like, market risk, operational risk, reputation risk, etc. The other approach is called the enterprise risk management, which deals with all risks together in a holistic framework

(Nocco, Stulz, 2006). Also from the literature, the researcher differentiated the generic risk management from enterprise risk management in terms of design and effectiveness in creating value for the organization. The focus of generic risk management is to reduce or eliminate downside risk only, which is not enough to create value for the organization. Furthermore, in order to gain profit or to take advantage from opportunity, the organization must focus on the upside risk, simultaneously to reduce the volatility of the earnings indicators like the cash flow (Meulbroek, 2002).

The literature shows that risks were managed in silos. For example, in the Risk management approach of the banking industry, the focus was on market risk, credit risk, liquidity risk, and operational risk. On the other hand, insurance industry was focusing on the risks that arise from underwriting and investment functions ware managed in silos. However, that way of managing risks does not mean that there were no attempts inside the organizations to manage risk in a holistic way. In fact, there were many attempts to use an integrated framework. In fact, integrated risk management forces insurance companies to create new products in order to serve their major clients. Many of the global reinsurers like Swiss Re, Munich Re, have invented a new technique to manage risks; they call it Alternative Risk Transfer (ART) in order to handle the risks that have a very high severity, but low frequency like natural catastrophes (Culp, 2002).

Meanwhile, the 2008 financial crisis and some collapses during the eighties and nineties for a number of large organization shows that the weakness in risk management will lead to organizational failures, and the holistic approach in managing risks is cost effective. All organizations are exposed to uncertain events while they are working to achieve their objectives, all those events come from inside or outside the organization. Any uncertain event that may have an impact on all of the organization objects or on one of them is considered as a risk. Whitest, not all risks have a bad impact on the organization objects, so the uncertain event that has a negative impact on the organization objects is considered as a threat, while the uncertain event that has a positive impact on the organization objects is considered as an opportunity (Kuzmina, 2011).

Best Management Practice (2015) argues since all kinds of organizations in both sectors public and private are exposed to a wide variety of risks, they began moving towards implementing and focusing on formal risk management, especially when governments and regulators all over the world started to create legislations and laws to enforce applying corporate governance principles and internal control inside the organizations.

One of the most recent directives that the European Union (EU) has created is the solvency II directive, which will help the insurance companies to manage their risks effectively and enforcing all organizations to pay more attention and focusing on managing all the risks that they are exposed on. As this directive consists of three pillars, the first one focuses on the

quantitative requirements, the second one focuses on the requirements of corporate governance, finally the third pillar focuses on disclosure and transparency. This directive has many benefits on different sides, starting of the insurance companies themselves through offering them the opportunity to improve their risk managing skills and the efficiency of their internal operations. On the other hand, the policyholders are glad to hear this news as they acknowledge that their interests are well protected, this directive also has a positive effect overall European Union EU economy, not just for the insurance industry as reported by KPMG (2001).

Other approaches have emerged like the enterprise risk management ERM, and the portfolio risk management, which proposed by Markowitz (Markowitz, 1952), all these approaches are trying to advise the organization about the best ways to react to the new legislation, and how the risks can be identified, assessed, and controlled efficiently and effectively. Enterprise risk management gives a different meaning compared to traditional risk management. ERM integrates all risk types together using integrated tools and techniques to decrease the risks (Meulbroek, 2002).

The Committee of Sponsoring Organization of the Treadway Commission, COSO released the Enterprise Risk Management Integrated Framework. COSO defines Enterprise Risk Management as “a process, affected 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" (COSO, 2004).

Casualty Actuarial Society CAS defines Enterprise Risk Management as "disciplines by which an organization in any industry assesses, controls, exploits, finances, and monitors risks from all sources for the purposes of increasing the organization's short- and long-term value to its stakeholders" (CAS, 2003). On the other hand, Enterprise Risk Management can be defined as an integrated framework for managing credit risk, market risk, operational risk, and risk transfer in order to increase the organization value (Lam, 2000). In addition, Enterprise Risk Management was defined as a decision making process that clarifies variation in company goals (Makomaski, 2008). Enterprise risk management deals with risks across all the organization in a holistic manner, and uses a centralize database for all risk exposures.

The risk that might threaten the existence of the organization is called the risk universe; this risk can have a severe influence on the organization cash flow, profitability, and even on the entity of the firm (Alviunessen & Jankensgard, 2009). At the beginning the risk universe should be identified, then the firm should analyze the risk, and afterwards implement the appropriate treatments for the risk like accessing the risk priority number, in other words, accessing the frequency of occurrence, likelihood of the risk and the ability to detect the risk. Thus, the integrated systematic

process of managing risks in order to help organizations to achieve their objectives and increase their performance and profitability, and create value for all stakeholders is called the enterprise risk management (Alviunessen & Jankensgard, 2009).

There are two major points to know about enterprise risk management. First, ERM consolidates and coordinates all kinds of risks all over the organization. This means the silo approach of managing risks is not applicable and it is useless. Second, using ERM will enable all the organization departments to identify almost all probable risks that the organization might be exposed to, and will form an influence on achieving its goals. Moreover, it will make the risk appetite known across the organization, this will help to make the decision making process to mitigate the risks with considering the organization objectives (Walker, Shenkir & Barton, 2003).

There are many factors forcing organizations to implement Enterprise Risk Management. First, the complicated nature of the risks, for organizations nowadays faces multiple new risks related to globalization, high tech, financial complexity, and terrorism. Other than the old basic risk such as operational, financial, and strategic risks, the new risks don’t occur separately, as two or more risks could happen at the same time like a combination of high tech factors and globalization factors may occur simultaneously. Secondly, external factors that comes from government regulations, international rating agencies, and corporate governance bodies.

All those entities put pressure on the organizations to adopt risk management principles. Thirdly, this factor is related to the trend of managing risks in integrated approach instead of managing risk separately in silos. In other words, this factor is connected to the portfolio's point of view. Fourth, this factor is based on quantifying risks even it is very difficult to quantify many risks. The quantifying process will enable the organizations to calculate the magnitude of the risks and to the extent of risks connection to each other. Thus, the decision making process will be able to take an efficient decisions. Fifth factor, the boundary less benchmarking, this factor takes its importance from the advanced technology that made information sharing about risks to be feasible process , furthermore, the risk management are implemented across all industry sectors, and it is not restricted on financial organizations like insurance companies. Finally, the upside risk, which means that risks can be considered as an opportunity. Usually, organizations were dealing with risk as threats, and it must be mitigated or avoided. Risk can be exploited and used as a way of creating value for the organization if the risks are well-understood as reported by CAS (2003).

During the literature review, the researcher found that risk management should be seen based on three perspectives; globalization, risk managers role modifications, regulatory. Globalization makes things more complicated as it produced many risk perspectives, rapid advances in technology and interdependency of risks. From the second perspective risk manager's role, not all risks should be considered as threats; risks can also

be considered as opportunities. Finally regulatory perspective, creating risk management committee, appointing chief risk officer and implementing enterprise risk management is becoming mandatory (Lam, 2000). According to KPMG international (2006), there were four major reasons why the United States organizations adopted enterprise risk management: Firstly, because the organizations wanted to decrease the financial losses. Secondly, organization desired to increase their business performance. Thirdly, the organizations forced to comply with the regulatory requirements. Fourthly, the organizations wanted to improve risk accountability within their internal organizational structures.

### 2.3.3 Risk Management Tools

Each risk has its own characteristics, based on these characteristics the tools of dealing with the risk is determined. There are many tools used for risk management. When selecting a tool, it should be analyzed in terms of cost, effectiveness and efficiency. Some tools like (Dofrman, 2012), (Rejda, 2014):

- **Loss Prevention**

  Loss prevention is about reducing the likelihood of an adverse event occurring, although it will also be concerned with reducing the magnitude of an event that does occur.

- **Damage Limitation**

  Damage limitation is concerned with reducing the magnitude of the event when it does materialize. The contribution of damage

limitation will be greatest if actions are planned that can be implemented as the event is actually taking place.

- **Risk Financing**

  Risk financing system determines when to pay the cost of losses, and whom will pay for it.

- **Cost Containment**

  Cost containment is concerned with reducing the impact and consequences of the event. Cost containment will be concerned with ensuring the lowest cost of repairs, as well as business continuity plans to ensure that the organization can continue operations following damage to the asset that has been affected.

- **Risk Tolerate (Accept/Retain)**

  The exposure may be tolerable without any further action being taken, Even if it is not tolerable, the ability to do anything about some risks may be limited, or the cost of taking any action may be disproportionate to the potential benefit gained.

- **Risk Treatment (Control/Reduce)**

  The purpose of treatment is that, whilst continuing within the organization with the activity giving rise to the risk, action (control) is taken to constrain the risk to an acceptable level.

- **Risk Transfer(Insurance/Contract)**

  For some risks the best response may be to transfer them. This might be done by insurance, or it might be done by paying a third party to

take the risk in another way. This option is particularly good for mitigating financial risks or risks to assets.

- **Risk Termination (Avoid/Eliminate)**

  Some risks will only be treatable, or containable to acceptable levels, by terminating the activity. It should be noted that the option of termination of activities may be severally limited in government when compared to the private sector.

### 2.3.4 Risk management cycle

Risk management inside the organization helps the top management to be fully aware of the risks, and enable the decision makers to put the appropriate plans that can prevent catastrophes or decrease their impact. The risk management cycle contains four iterations (Mazouni, 2008; Tuncel and Alpan, 2010):

- **Risk Identification**: The act of identifying and understanding all of the possible events that can affect the achievement of organizations' objectives, it also includes finding out all the possible root causes and the probable impacts. This step can be done by analyzing historical data and experts' opinions.

- **Risk Assessment**: Analyzing or evaluating the risks, in addition to finding out the appropriate methods to avoid or reduce the impact of the hazard. Analyzing the risks is used to understand the causes and sources of the risks, and to determine the level of the risk. Risks Evaluation step uses the results of analyzing risks to determine if the risk can be accepted or not.

- **Risk Treatment**: It is a process of selecting and implementing the most suitable controls and procedures for the identified risks. There are different treatments like reducing the risk, remove, changing its impacts, sharing it with others, or increasing it risk if it is an opportunity.

- **Risk Monitoring**: This step is the final one in the risk management cycle; it means to constantly check and review the controls that were implemented, and find out if new risks probable.

### 2.3.5 ERM According to the Committee of Sponsoring Organizations of the Treadway Commission

The Integrated ERM framework according to The Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2004):


**Figure (8):** ERM framework. Adapted from: The Committee of Sponsoring Organizations of the Treadway Commission (2004)

- **Internal Environment**

  It is the role of the organization management to determine the strategy of dealing with risks, and it sets the companies' risk appetite. Internal environment establishes how organizations' employees interact, deal, and control risks. Employees' ethics, values, norms, competences, individual attributes, and organizational culture are cornerstone of any organization.

- **Setting Objective**

  The first step of managing risks is to set the organization's objectives. Thus, organizations can identify the probable risks that might affect objectives attainment. The ERM helps the organization management to choose objectives that are consistent and aligned with the organization vision and mission and risk appetite.

- **Identification of Events**

  Event identification process starts with identifying probable events that might affect the organization. Identification process must take in consideration events from both internal and external environments that might have an impact on the objective attainment. This process has to categorize the events into risks and opportunities. Opportunities are sent back to strategy and objectives setting process.

- **Risk Assessment**

  Risk assessment process involves analyzing identified risk from the previous step, in order to establish a context how they should be

managed. Furthermore, objectives and risks that might affect them must be associated. Finally, this process must take in consideration likelihood and impact of both inherent and residual risks.

- **Risk Response**

  Organization's employees are responsible of identifying and evaluating the best possible responses to risks, these responses include avoiding, accepting, reducing, and sharing. It is the management responsibility to take an action to connect risks with the organization risk strategy and appetite.

- **Control Activities**

  The management must assure the effectiveness of the responses they choose by establishing and executing policies and procedures.

- **Information and Communication**

  Employees of organizations have to receive clear information relevant to their responsibilities. These information are identified and sent in the form of a timeframe that helps the employees perform their responsibilities. The information and communication process must involve all the organizational levels to be effective, the top down, across, and down up.

- **Monitoring**

  The whole ERM process is a dynamic process that has to change according to conditions. Thus, the monitored process helps the

> organization to make required modification when it is necessary. This process can be performed within the management activities or by separate process within the enterprise risk management, or through a combination of both.

Insurance companies should be careful when assessing their risks. A study about the Serbian insurance companies mentioned a risk called “the risk of wrong assessment of the insurance risk (Mirjana, Avdalović & Obadović, 2011)”as this risk might cause disturbances to the insurance company investments, as it is known that insurance companies invest a lot of the cash flow they receive in other economy sectors. Therefore, if insurance companies failed to assess their risk correctly this might force them to allocate more funds to cover the underestimated risks on the expense of investments, on the other hand, overestimating risks will expose companies to lose the opportunity to invest the cash they have.

The study suggested some ratios. For example, a result of insurance risk can be calculated by dividing the settled claims on the total premium, and the share of settled claims in the technical premium equals the settled claims divided on the technical premium. These ratios can enable the insurance companies to get a clear picture about their status in the market and the impact of insurance risk on the company (Mirjana, Avdalović & Obadović, 2011).

The ultimate goal of risk management is to create an environment inside the organizations that encourages the establishment of teamwork, where all

staff is implemented in the decision making process and creating an effective communication system to handle risk issues. Learning from previous situations the organization went through, in addition to demonstrating leadership from top management, will help the organizations to avoid developing an automatic blame culture (Watt, 2011).

### 2.3.6 Importance of Risk Management

Avoiding and reducing risks holistically is not available at companies; this is because of existence of operational and financial obstacles. It will be better for organizations to accept a certain level of losses, while working on avoiding these losses as much as possible (Al Berman, 2015). The importance of risk management appears when unexpected risks occurs.

Risk management process is always associated with planning for business continuity (Storkey, 2001). Generally, risk management is a process of measuring and evaluating risks, in addition to developing strategies. These strategies include the transfer of risks to others and avoid or minimize negative effects of them or accept some or all of its consequences (Edmead, 2007). Traditional risk management focuses on low probability, along with risks arising from physical or legal reasons (for example, natural disasters, fires, accidents, death, and lawsuits) (Protiviti, 2006). On the other hand, financial risk management focuses on such risks that can be managed using financial tools barter. Regardless of the type of risk management, all big companies, as well as groups and small businesses have to appoint a risk management team.

In the case of the ideal risk management, the prioritization process is very important, as risks with large losses and likelihood must be dealt with first, while at the same time dealing with risks causing small losses and probability. In practice, this process may be very difficult, and the balance between risks of high probability and few losses against the risk of the few probability and high losses may be estimated poorly as stated by Washington State Department of Transportation (2014).

The purposes of risk management can be grouped into three major categories. Firstly, Work to prevent risks, follow the best means to protect organizations and employees from potential physical losses, and educate workers how to increase their work performance to prevent risks. Secondly, Work to minimize the effects of risks that occurred, in order to ensure business continuity. Thirdly, implement policies and measures to confront any risk, in the purpose of minimizing losses caused by potential threats as reported by KPMG (2006).

As BIA (2015) reported the researcher can summarize that risk management can be defined as a systematic implementation of management procedures and policies to assess and manage risks. In the literature review, the researcher found different ways the organizations could follow to manage risks. First, depending on a proactive strategy, which means trying to predict risks and enforce controls to prevent negative effects, second, adopting a reactive strategy, which means that the risk management starts after the risks occur.

### 2.3.7 Risk Management Approaches

From the literature, it was discovered that there were many different methods to manage risks. There are two major categories for these methods. First, the stochastic approach, it includes classic statistical approach and the accident forecasting modelling (Brigo et al., 2007).

Stochastic modeling used to calculate the probability of outcomes within a forecast to predict what conditions might be like under different states. A stochastic approach has one or more random variables as inputs. Random inputs lead to random outputs. Since outputs are random, they can be considered only as estimates of the true characteristics of a model. In a stochastic approach, the output measures must be treated as statistical estimates of the true characteristics of the system (Boshuizen, et al., 2006). Second, deterministic approach, it includes the qualitative, quantitative, and hybrid techniques. Deterministic approaches are predictable. Thus, they follow a pre-defined rule, law, or equation. So that the situation of each part or element and the whole model is known at any time either in the past and future. The states of deterministic systems can be described by statements or by numbers (Kirchsteiger, 1999). Slid Share (2015) stated that deterministic approach has a known set of inputs that will result in a unique set of outputs. Moreover, Deterministic approach has no random variables, the whole input, and output relationship of the model is considered determined.

## 2.4 Palestinian Insurance sector

The Palestinian Insurance market is considered to be small compared to the markers in other countries, statistics show that the market is growing and expanding. In the last few years, and the statistics prove that the percentage of people who are benefited from the insurance companies' services is very low and does not exceed 3.5% from the total population compared to 60% in the developed countries. Moreover, the market share of insurance premiums from the local production rangers from 1.5% to 2% compared to the international percentages 12% as reported by PIF (2012).

According to the Palestinian Capital Market Authority (PCMA), there are 10 operating insurance companies at the end of year 2014 working on different types of insurance. The insurance sector in Palestine has grown during the year of 2013 from its predecessor about 10%, it has shown a significant growth compared with the past six years, amounted to about 68% between 2008-2013. The insurance portfolio increased from USD (94 310 529) to USD (158 707 973) during this period (PCMA, 2014). This shows that insurance sector is very promising; however, the sector is facing many difficulties that slowed its growth including the very hard competition between the insurance companies because of the small size of the market that mainly depends on burning the prices. As all the insurance companies focus their efforts on two types of insurance which are motor and health insurance, as the PCMA reports shows that both types of

insurance represents approximately 77% of the insurance portfolio (PCMA, 2014).

In other words, there is a great opportunity in the Palestinian Insurance sector to expand by offering new insurance services that meet the needs and wants of various target segments in the market, such as the medical mal-practice and other professional indemnity services, as well as house insurance, life insurance, and other types of insurance. The above mentioned facts lead to the conclusion that the mechanisms of work in the insurance companies must be reconsidered and improved.

## 2.5 Literature Review Conclusions

The Literature Review discusses the definitions of ERM and its development over the years. In addition, previous studies that are related to the determinants of companies that practiced enterprise risk management (ERM) are also discussed. The Literature Review starts with the definition of risk and discussing various risk types. The identification of the root causes of a risk, anticipating its consequences' and implementing the required controls and monitoring their effectiveness are vital issues in risk management process as it was shown through discussing the Bowtie method. Furthermore, risk Management definition and its development were presented. The fact that risks might occur in multiple perspectives, it appears that risk management (Traditional Risk Management or Silo Approach) could not be managed as a separate approach. In order to create the same perception about all risks across all organizational levels in terms

of risk severity. It needs to be integrated in a holistic manner. These factors were among the main cause of the emergence of ERM in late 1970s and could be argued as factors for companies to adopt or practice ERM.

From the literature review the researcher distinguished between many ERM frameworks such as COSO framework and risk management framework according to ISO 31000. All of these frameworks confirms that the risk management process should identify, analyze, evaluate and assess risks that organizations are exposed to. Enterprise risk management importance is increasingly confirmed especially after the 2008 financial crises, that showed if organizations don’t manage their risks effectively and efficiently might put their existence into question, by causing them huge loses or causing losing the opportunity of making new investments and generating more profits.

# Chapter Three

# Research Methodology

# Chapter Three

## Research Methodology

### 3.1 Chapter Overview

This chapter aims at describing the approaches this exploratory research will follow in order to fulfill the purposes of the study and to discover the proper risk management framework to be implemented in the Palestinian insurance sector.

Quantitative and qualitative approaches have been followed in this exploratory research. The study was conducted in terms of data collection, analyzing and presenting the results. During this exploratory research the researcher have collected data and information from two sources: primary and secondary sources related to the study topic. The secondary sources used especially during literature review were retrieved from books, journal articles online research and annual reports. The primary sources were gained through interviews and from a questionnaire designed by the researcher.

### 3.2 Types of Research

The procedures and techniques utilized by the researcher in this study were based on a series of research questions designed to discover the best possible risk management framework for the Palestinian insurance sector. Based on available literature, three types of research were distinguished. The first is descriptive research, which according to Robson seeks “to

portray an accurate profile of persons, events or situations" (Robson et al., 2000). Additionally, descriptive study is considered an attempt to make the research topic clearer and to provide more information and explanations; it is a detail-heavy methodology that seeks to describe or to answer the question: what is going on?. In brief, descriptive study is an attempt to explain something in complete darkness, for the sake of making a new, clearer understanding of the research topic (Finger, Dixon, 1989). The second type of research utilized in the study is Causal research. This methodology aims to discover relationships between two or more variables and to determine their effects on one another. This type is also called explanatory research (McKinnon, 1988). Finally, the last type is exploratory research. Robson defines this type "[as] a valuable means of finding out what is happening; to seek new insights; to ask questions and to assess phenomena in new light" (Saunders, Thornhill, 2009). This type of research is used when the researcher notices new insight or idea and he want to figure it out, This technique is best utilized when then researcher comes in contact with a new insight or new idea he wishes to better understand. In other words, explanatory research aims to supplement the descriptive methodology described above by answering the question: "Why is it going on?" There are two types of exploratory research: "new topic" and "new angle". "New topic" research refers to the study of a brand new idea and usually produces outstanding results. On the other hand, "new angle" research changes the way one understands the topic at hand, either

by discovering a new method of study or by viewing the topic from a new theoretical perspective (Finn, White, Walton, 2000).

The researcher has conducted this study in a manner that utilizes exploratory research to shed light on the current risk management practices commonly used within the Palestinian insurance sector. This research will help discover a framework that can improve the current situation of risk management in Palestine.

## 3.3 Approach of Research

The researcher has utilized both qualitative and quantitative methodologies, as well as a pragmatic, mixed approach that combines the benefits and advantages of both. In brief, qualitative research depends on words or using open ended questions, while quantitative research depends on numbers or using closed ended questions (Wisker, 2007). DEDOOSE (2012) argues that mixed approach is found in the middle ground between quantitative and qualitative, utilizing the strengths and avoiding the weaknesses of the two approaches mentioned above. Thus, the research was free to use any method or procedure usually related with quantitative or qualitative approaches.

### 3.3.1 Qualitative Approach

The qualitative approach is followed when the researcher wants to go deep into the details of the study topic. It is also used to figure out opinions, points of views, and perceptions related to the study subject, which will

give the researcher the ability to construct proper hypotheses that can be used later in quantitative research (Johnson, Chrnistensen, 2014). Qualitative research usually generates descriptive results instead of predictive results (Patton, Cochran, 2002). The outcome of this approach cannot be used to make generalizations due to typically small sample sizes, but it is used to get an initial understating of the research topic. Data collection methods used with the qualitative approach are usually in-depth interviews with experts in the research field (unstructured, structured, semi-structured interviews), focus groups, or documentary analysis, and participant observation (Castellan, 2010). Qualitative research is mainly considered to be exploratory research because its goal is to give the research a full, detailed description and understanding of the study topic.

### 3.3.2 Quantitative Approach

Quantitative research typically deals with numerical data, often expressed and displayed with statistics. There are many purposes and objectives behind quantitative research. For example, making generalizations and applying them to the whole population after quantifying and analyzing data of the study sample, or measuring the frequency of various views and opinions in the given study sample in order to build facts and discover patterns within the research (Tewksbury, 2009).. Because of quantitative research nature that depends on mathematical calculations the researcher will be least biased. Because of the emphasis on data and mathematics, the researcher is less likely to influence his findings due to personal bias

(Tewksbury, 2009). The major deference between quantitative and qualitative research comes from the data collection tools and data analysis tools used in both approaches. For instance, quantitative research involves analyzing the numerical data while qualitative researcher involves analyzing interviews and more abstract details that cannot be represented with a numerical value (Elo, Kyngäs, 2008).

### 3.3.3 Mixed Methods Research

Mixed methods research (Multi-methodology or multi-method research) is an approach that serves to provide more in-depth information, understanding, and knowledge of the research topic. Through this approach, the researcher is able to use the methods and techniques of both quantitative and qualitative approaches to collect and analyze the data, then come up with the results (Creswell, Clark, 2014). This type of research takes advantage of more than one research method in order to collect and analyze the data and uses a combination of qualitative and quantitative data. The usage of these mixed methods will make the research more comprehensive and will provide a better understanding that the usage of quantitative or qualitative methods alone (Borrego, Douglas, Amelink, 2009). Additionally, the use of this method might lead to the discovery unpredictable results. On the other hand, a disadvantage of this approach is the care that it requires to be used effectively; it demands greater time and effort than just using quantitative or qualitative methods (Tewksbury, 2009).

## 3.4 Research Design

In this section, the researcher will describe all the methods and procedures used throughout the study. The research design is not connected with any specific technique or method to collect data of any type. The main goal of research design is to reduce the probability of building incorrect causal relationships between the study variables. Furthermore, the research design will give the researcher the ability to answer the questions presented in the clearest possible way. The study start with setting the research objectives, then the researcher utilized the literature review in order to better understand the study topic. The third step was to conduct interviews with experts related to Palestinian insurance market to understand the current risk management situation; the questionnaire also was used for the same reason, after collecting the data the data analysis starts. Finally, based on the analysis results a risk management framework for the Palestinian insurance sector was developed.

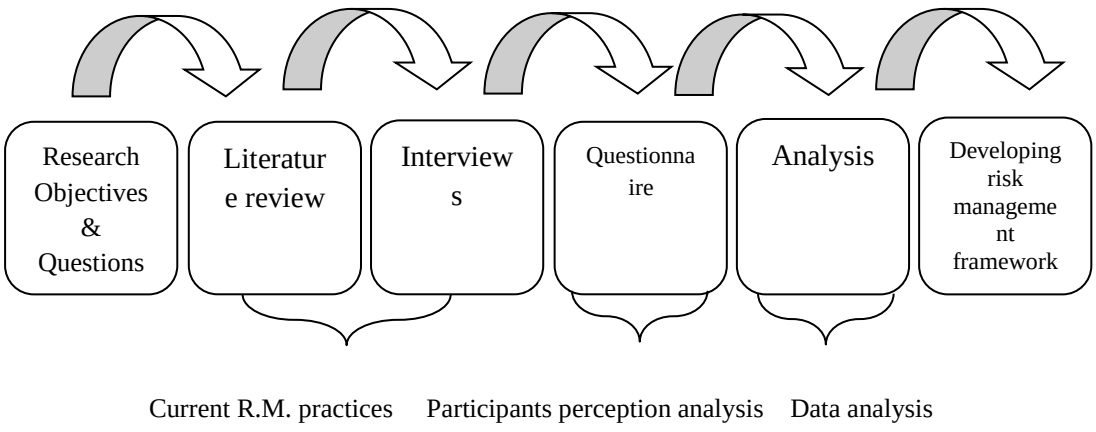



**Figure (9):** Research Design.

After determining the research questions and objectives, the researcher used many methods during this study. First, the researcher used literature review in order to understand risk management concepts, and also to assist with the process of obtaining the semi-structured interview questions. The semi-structured interviews were held with twelve Palestinian insurance experts, with the purpose of aiding the researcher in understanding the current Palestinian risk management situation. HARVARD (2015) stated that thematic analysis technique was used to analyze the interviews in order to analyze, identify and examine themes within the data. The next step was to build a questionnaire based on the findings of the literature review and semi-structured interviews. The final step was collecting and analyzing the data using SPSS software in order to develop a framework that can improve the risk management practices within the Palestinian insurance sector.

### 3.5 Data Collection

BCPS (2015) identified many means that can be used to collect data when conducting research, but the most common are: questionnaires, interviews, observations, and tests. These tools are selected and constructed in the light of scientific bases; to gain access to the required data, and thus achieve the objectives of the research. The researcher might use a single collection tool or a combination of more than one tool, depending on the nature of the research, its objectives and goals.

Literature review among other sources like interviews, observations, and questionnaire surveys were the primary sources of data and information this research based upon. The benefits of the literature review were to capture the previous study's findings about the risk management within insurance industry, and to find out the current risk management practices used by insurance companies worldwide.

The literature review will use various sources of data such as texts, articles, reports, master's theses and doctoral dissertations relevant to the research topic; the literature review is a continuous process during all the period of working on the study. The required data and information that are the raw material for this study to achieve its final goals were obtained in two ways. First, semi-structured interviews which provided the researcher with the required knowledge to understand the current risk management situation in regards to Palestinian insurance companies based on the opinions, perceptions, experiences and point of views of the interviewees. Secondly, questionnaire surveys were used to collect large amounts of data from the chosen sample of the selected population, this data includes the opinion of the respondents about the research topic. The targeted population in this research was employees of all insurance companies in Palestine as well as their agents and brokers.

### 3.5.1 Semi-Structured Interviews

Generally, interviews are among the most common methods of data collection when conducting qualitative research (Keller, Conradin, 1990).

Interviews are used to discover the opinions, point of views and beliefs of the interviewees about the research topic. Interviews can be categorized under three types (Heppner, Wamplod & Kivlighan, 2008): structured, unstructured, and semi-structured. Unstructured interviews can be like a daily conversation with no specific pre-defined set of questions. They are informal and open ended, allowing the interviewer to ask questions depending on the respondent's answers. On the other hand, structured interviews use a set of pre-determined questions that are asked to all interviewees in the same order. Finally, semi-structured interviews can be considered as a mix of the previous two types. As the interviewer uses an "interview guide" which contains a set of pre-defined questions, also the interviewer can ask question away from the guide when it is appropriate.

Semi-structure interviews can provide reliable, comparable qualitative data. Many researchers like to use semi-structured interviews because questions can be prepared ahead of time. This allows the interviewer to be prepared and appear competent during the interview. Moreover, Semi-structured interviews also allow informants the freedom to express their views in their own terms.

During this study, the researcher used semi-structured interviews with a sample chosen from the insurance sector. The sample was chosen using the stratified sampling method, this method divides the sample into smaller sub groups and then do simple random samplings form each sub group, the advantage of using this method is it gives greater statistical significance

and reduces standard error (Social Research methods, 2015). The researcher was interested in interviewing insurance experts holding high managerial positions, and had long experience in the insurance industry. The sample contains twenty experts holding senior management positions from all Palestinian insurance companies. Fifteen out of the twenty were called for an interview, and the other five were kept as standbys, the research was only able to conduct an interview with twelve insurance experts who's accepted the invitation.

All semi-structured interviews have been of the face-to-face type meetings held in their offices for a round fifty minutes. The procedure followed during each and every interview was as follows: First, the researcher introduced himself and provided the interviewee with the objective of the study. Then, the interviewee was informed that the researcher will record the interview, a few interviewees accepted the recoding. However, for the interviewees who refused the interview to be recorder, the notes were taken by hand. The interviews then have been analyzed using the thematic analysis technique, which will be discussed in the later in this chapter.

### 3.5.2 Questionnaire Survey

Questionnaires are used to collect and record initial information about the research topic, and they can be defined as tool containing a set of questions designed for the purpose of getting specific information from the respondents about the research area of interest. Using questionnaires in data collection is considered one of the most popular and effective ways to

collect information (Kraemer, 1991). Questionnaires are commonly for several purposes, such as collecting appropriate information related the study, to reduce bias when constructing and asking questions, and to make the process of analyzing the data easier and more efficient (Popper, 1959). Questionnaire surveys can be completed in a number of ways, including face to face, by E-mail, and online using web applications like Google forms.

The questionnaire survey included thirty eight closed-ended questions to measure to what degree risk management practices are adopted and followed within the Palestinian insurance sector. The answer for each question was to choose a number from 1 to 5, with 1 representing strongly disagree, 2 disagree, 3 neutral, 4 agree, 5 strongly agree (Likert scale). The required sample size for the research is 278 applicants for a population close to one thousand. The following equation was used to calculate the sample size (Cochran, 1997):

Sample Size Calculation:

$$\boldsymbol{Sampl\ Size} = \frac{\boldsymbol{X}}{\left(\frac{\boldsymbol{Y}}{\boldsymbol{Z}}\right)^{\boldsymbol{2}}}$$

Where

X: Distribution of 50%

Y: Margin of Error%

Z: Confidence Level Score (Z value at 95% Confidence Level equals 1.96)

Finite Population Correction:

$$\boldsymbol{True\ Sample = \frac{SS * P}{SS + P - 1}}$$

Where

SS: Sample Size

P: Population

Equation 1: Sample Size Calculation (Cochran, 1977)

1. Sample Size = $\left(\frac{1}{2} * \left(1 - \frac{1}{2}\right)\right) / \left(\left(\frac{0.05}{1.96}\right)^2\right)$

Sample Size = $\frac{0.25}{(0.02551)^2}$

Sample Size = $\frac{0.25}{0.00065077}$

Sample Size = 384.16

2. True Sample = $\frac{384.16 * 1000}{384.16 + 1000 - 1}$

True Sample = $\frac{384160.3024}{1383.160}$

True Sample = 277.7409

The questionnaire included questioned written in Arabic by the researcher and then published by Google forms as an online survey. This is the most convenient way to reach the targeted population, although some applications were filed manually. As a result, 280 successful applications have been filed and therefore the required sample size achieved. The related data has been downloaded from Google forms, and the responses

were downloaded as an excel document and imported to SPSS software in order to analyze the data.

### 3.6 Data Analysis

In this section, data analysis procedures will be explained. This will include describing the questionnaire analysis process as well as the process for analyzing the interviews. Again, quantitative and qualitative methods of analysis were the primary approaches of analysis.

#### 3.6.1 Qualitative data analysis

Thematic analysis is considered the simplest technique for categorizing qualitative data (Priest, Roberts & Woods, 2002) and was used to analyze the semi-structured interviews. This process starts with listening and reviewing the audio recording and notes taken during the interviews and transcribing them manually in order to prepare for the following analysis step. Deeply, the researcher read each and every transcribed interview papers in order to fully understand the interviewee's attitude and point of view. The thematic analysis technique involves coding the data by sorting the data into common categories, describing the discussed issues during the interviews (Cochran, 1977). Lastly, all related categories or codes are grouped into a wider patterns or general themes. This study utilizes both inductive and deductive analysis. Deductive analysis goes from more general to more specific, and is sometimes referred to as "top down approach". On the contrary, inductive analysis goes from specific to more

general generalizations and is also called the bottom up approach (Social Research methods, 2015).

### 3.6.2 Quantitative analysis

Quantitative data analysis is quite useful because it gives researcher numerical and quantifiable results that can be easily interpreted and understood. In regards to this study, the data collected using questionnaires has been analyzed using SPSS software (Greasley, 2008).

Most researchers use quantitative analysis in attempt to find the cause and affect relationships that will grant them the ability to make predictions and generalizations (Johnson, Chrnistensen, 2014). Quantitative research uses the top-down approach (deductive) to explore the research topic, and test the hypotheses. Also it collects the quantitative data base on precise and validated data collection instruments like closed-ended questionnaires. At the end of quantitative research it generates a statistical report with correlations and means, and it displays the statistical significance of the findings. The results generated by this type of research can be generalized, because of data quantification meaning that the results of this type can be converted into parentages and into many mathematical expressions (south Alabama, 2015).

## 3.7 Reliability and Validity

In this section, the researcher will discuss and assess the validity and reliability of the research. Validity and reliability are closely related, but

they are not synonyms. Validity is usually used as a tool to measure the accuracy of the research. In other words, if someone designed a device and the device does what it is supposed to do, then he can say that the device is valid as reported by World Press (2015). Accordingly, WISC (2015) argues that validity in research can be the degree of accuracy in understanding and presenting the feedback gained from the participants. On the other hand, reliability is the consistency of measurement, specifically referring to whether or not the results can be replicated after repeat experiments. The research can be reliable without having validity, but the research cannot be considered valid unless it is reliable. Thus, reliability is prerequisite for validity (Columbia, 2015). Additionally, if the reliability is high then it follows that the validity would be high as well. The research calculated the reliability factor Cronbach's Alpha. The factor equals (0.90), which is a good reliability factor, and it's enough for the study purposes. "The Cronbach's Alpha provides a coefficient of inter-tem correlations that is the correlation of each item with the sum of all the other items." (Cohen, Mannion, Morrison, 2007).

The researcher in this study validated his work by asking three insurance experts from the Palestinian insurance sector about their opinions. The research interview questions were discussed and reviewed with four managers (one general manager, two risk managers and one auto insurance director) working in the insurance industry, and some adjustments were made to the questions to reflect and focus on the critical issues affecting the sector. The questionnaire passed through the same process as interview

questions, also a number of participants answered the questionnaire in order to see if it's clear and understood, and also to ensure that there was no contradictions among the questions. The final approval about the reliability and validity of the questionnaire was gained from the supervisor. Then, the questionnaire was translated from English to Arabic and uploaded to Google forms to be used as an online survey.

The semi-structured interviews were conducted with twelve senior figures possessing strong relations with the Palestinian insurance sector. The thematic or pattern analysis was used to analyze the interviews; the thematic analysis technique indicates that to have a full and comprehensive image the researcher must conduct at least eight successful interviews (McCracken, 1988). The reliability and the validity of the proposed framework for risk management in the Palestinian insurance sector were insured by a number of experts in the insurance sector.

# Chapter Four

# Data Analysis and Results

# Chapter Four

# Data Analysis and Results

## 4.1 Chapter Overview

In this chapter, the results gained after analyzing the data will be presented and described. In this study two major goals dictated the manner in which data was collected and analyzed. The first was to develop a base of knowledge about the current risk management situation and practices within the Palestinian insurance sector via interviews. The second was to acquire the perceptions of insurance professionals' (employees, agents, brokers) about risk management via questionnaires.

Analyzing the data involves classifying and categorizing the data into meaningful parts, manipulating and connecting these parts in order to make generalizations and descriptions that will help in making suggestions and recommendations to enhance the risk management process inside the Palestinian insurance companies. The findings were gained from the semi-structured interviews and questionnaires, which are the data collection methods followed in this study. First of all, the researcher analyzed the interviews to understand the current risk management situation. Secondly, the researcher analyzed the questionnaire. The analysis results from both methods were taken in consideration for achieving the ultimate goal of this study: developing a risk management model for the insurance sector in Palestine.

## 4.2 Current Risk Management

The purpose behind conducting the interviews was to understand and describe the current risk management situation for insurance companies working in the Palestinian market. The feedback the researcher obtained from the semi-structured interviews can be summarized as follows: all insurance companies confirm the importance of risk management to successfully control all other operations within the company. Unfortunately, however, risk management practices are very poor and immature across all levels of the entire Palestinian insurance sector**.** There are many reasons for this unfortunate fact: First, competition among insurance companies is severe and unprofessional and it depends on prices rather than offering high quality services. Second, the small size of the insurance market and the number of insurance companies makes the competition quite fierce. Furthermore, the severe shortage of qualified and trained employees and the absence of local actuarial experts makes the management and pricing of insurance services harder. The laws and regulations exist to create fairness in the insurance sector, however a shortage of implementation prevents their effectiveness.

In this research there were fifteen interview questions (see appendix-A). In total, twelve interviews were held with Palestinian insurance experts until no further relevant information could be gained. The interviews were a great help for the researcher in regards to understanding the current risk management practices in Palestine. Table (1) below contains the position of each interviewee.

**Table (1): Managerial position of each interviewee**

| Managerial position | No. |
|---|---|
| Board of directors & General manager | 1 |
| Internal auditor | 2 |
| Risk manager | 2 |
| Regional manager | 1 |
| Insurance directors | 3 |
| General manager assistant | 1 |
| HR manager | 1 |
| Broker | 1 |
| **Total** | **12** |

The results from the semi-structured interviews were classified into six-themes. Table (2) provides a summary of all used codes, discussed issues, and the six central themes identified.

**Table (2): Summary of identified codes, issues discussed and themes**

| Codes | Issues discussed | Themes |
|---|---|---|
| • Political situation<br>• Laws & regulations<br>• Economic situation<br>• Regulator role (PCMA) | • Government decisions<br>• The Weakness and shortage of laws & regulations<br>• Income rates<br>• Unemployment<br>• Legal changes<br>• Fraud attempts<br>• Upper limit coverage<br>• Re-insurance process<br>• Investments importance<br>• Moral hazard<br>• Actuarial calculations & the shortage of experts in this field<br>• Living standards<br>• exchange rates fluctuation | • Systematic factors |
| • Solvency<br>• Internal & External Audit<br>• General Assembly Role | • Companies Liquidity<br>• Debt size<br>• accounts receivable management<br>• Outstanding reserves<br>• Customer care importance | • Reputation and trust |

| | | |
|---|---|---|
| | • Complying with insurance law<br>• Insuring income statement accuracy<br>• Claims management<br>• Social responsibility importance<br>• Companies Capital | |
| • Competition | • Quality & quantity<br>• Insurance Agents & Brokers<br>• Adverse Selections<br>• Price & Discounts<br>• Market size<br>• Cash flows<br>• Profit size<br>• Price competition<br>• Insurance portfolio<br>• Searching for new customers<br>• Service differentiation<br>• Reputation | • Marketing strategy |
| • Insurance employees<br>• Agents & Producers education<br>• Culture<br>• Awareness<br>• Media<br>• Infrastructure situation<br>• Police investigators | • Level of culture and awareness among people<br>• Mis-use of insurance<br>• Living standards<br>• Religious beliefs<br>• Advertising campaigns<br>• The role of media in raising people awareness<br>• Top management awareness level about risk management importance<br>• Universities and schools do not provide any programs about R.M<br>• The importance of R.M Role<br>• Board of directors awareness<br>• Top management support<br>• Fraud | • Capacity building |
| • IT Systems<br>• Disaster recovery Plan<br>• Business continuity plan | • Central database for all companies<br>• Disaster recovery site<br>• Service disruptions<br>• Electrical generators<br>• Ability to update the systems when | • Information Technology Importance |

| | | |
|---|---|---|
| | needed<br>• The underwriting policy is implemented in the system<br>• Cost<br>• The control measures are embedded in the system<br>• Black list | |
| • Risk identification<br>• Risk Analysis<br>• Risk Evaluation<br>• Risk Strategy | • Used tools<br>• Experience<br>• Risk ranking approach<br>• Risk priority number<br>• Risk capacity<br>• Determining risk tolerance<br>• Board of directors role<br>• Controls and measures<br>• Risk treatment process<br>• Risk ownership<br>• Communication between all departments | • Top management Role |

It was clear from the in-depth interviews that the risk management process is a continuous process due to the continuous changes that come from external and internal factors.

The six themes emerged from the interviews are presented below:

### 4.2.1 Theme 1: Systematic Factors

This theme aims at identifying the systematic or un-controllable risks, which are faced by the insurance sector in Palestine. This type of risks has two main characteristics, impossible to totally avoid and unpredictable, like political instability, government decisions, legal and regulatory changes and natural catastrophes. These risks cannot be mitigated and the only way to deal with this type of risks is through hedging. As an example, the political instability makes it difficult for an insurance company to find an

appropriate re-insurance company to deal with. This difficulty arises due to the international rating agencies, such as Standard and Poor's, which give very low rating to the Palestinian economy, and therefore the re-insurance companies avoid dealing with the Palestinian insurance companies. This forces Palestinian companies to look for low level re-insurance companies. These re-insurers may delay paying their obligations to the insurance companies, and this will affect the insurance companies' ability to pay for their claims, or executing courts decisions, and thus affecting their liquidity and reputation. For the purpose of this theme, interviews of insurance company professionals were carried out. The interviewees have confirmed that the insurance laws in Palestine are weak and do not protect the insurance companies. They believe that insurance laws must have an upper limit for compensating bodily injuries like the practice in the neighboring countries, and if on the other hand there exist some good laws, they are not complied with or properly applied. Furthermore, the economic situation in Palestine is very poor and unstable, which make it unattractive for investment prospects. As a result, the unemployment rates are high and the wages are very low compared to the cost of living, and this will discourage people to use any part of their income to buy insurance if they are not forced by law.

### 4.2.2 Theme 2: Reputation and trust

Any insurance company may face a reputation crisis if and when the customers or the employees change their expectations and behaviors about

the company. The reputation crisis may happen due to many causes, like liquidity or solvency risks, which can make the company unable to fulfill its obligations arising from claims, or unable to pay its employees' salaries. Another risk that affects the company's reputation is the failure in information systems which may make the company unable to provide its services properly and this may make customers lose their trust in the company. This risk is very important for all service companies that depend on customer trust and loyalty to continue their business growth, as the switching cost is almost zero if the customer decides to move to another company. The companies must give more attention to social responsibility as it will strengthen the image of the company. The general assembly has to carefully review the company's annual report to ensure its accuracy in cooperation with the internal and external auditors. Finally, the majority of interviewees have insisted on the critical role of the customer care department and its importance in building company reputation and increasing customer loyalty. They have also mentioned that most companies do not have such a department and if it does exist, it is not as active as it should be.

### 4.2.3 Theme 3: Marketing strategy

From the feedback the researcher has received during the interviews, most of the interviewees have confirmed that the competition in the Palestinian insurance sector is not a professional competition, it does not employ scientific principles to market its services. The main strategy to acquire new customers in order to increase the company's market share relies on pricing competition (heavily discounting the prices). Insurance companies

depend a lot on agents to increase their production rates. Interviewees have also said that in some cases these agents take high commissions and have high level debts. They have also confirmed that all companies are targeting the same customers and this force the companies to give big discounts in order to keep their existing customers or to get new ones. This significantly impacts the insurance companies' cash flows and liquidity. Another drawback in the marketing strategy is that it depends mostly on these two types of insurance, Auto insurance and Health insurance. The statistics show that these types of insurance require high level of liquidity as the frequency of having motor and health insurance claims is high even though the severity of almost of the claims are small. Moreover, interviewees agree on the importance of having a big diversity in the insurance portfolio that each firm should have in order to be able to meet their financial obligations. Another major problem facing the marketing process in insurance companies is the absence of organizational structure or organizational process, meaning that the current marketing process depends on individuals. Finally, the interviewees have mentioned that the insurance companies do not give any importance to the quality of their production; their only priority is the quantity.

### 4.2.4 Theme 4: Capacity building

The interviewees have also said that the insurance sector in Palestine faces a fundamental shortage in human resources that have the required skills, competencies, education and training. This shortage is found across all levels from the top management to the most junior employee. The absence of local actuarial experts makes the companies work in almost complete

darkness meaning that insurance organizations do not have the ability calculate the premium they should charge for their services in the most efficient and effective manner, whereby the organizations are unable to estimate the price they should charge for their services and the adequate reserves required for the potential claims. The interviewees blame firstly the insurance organizations which do not allocate enough budgets for training their staff because they see training as a cost and not an investment. They also believe that insurance organizations should do their best to keep their employees satisfied to decrease the risk of low morale.

The insurance culture among the Palestinian people is very immature and weak. This can be measured in a mathematical way by dividing the total Gross Insurance Premium, which approximately equals $150 Million, by the total population, which approximately equals $4.5 Million. The researcher can conclude that the Palestinian spends approximately $33 on insurance which is very low if compared to neighboring countries like Jordan. This is because the Palestinians are concerned only in buying auto insurance and health insurance. Furthermore, because of the economic and political instability, insurance is not a priority for Palestinians. Other factors are religious beliefs and standards of living. Unfortunately, people see insurance as a burden and not as a safeguard to protect their properties. They see it as an opportunity for defrauding by taking advantage from the insurance companies and misusing their insurance policies. Here comes the role of media in cooperation with insurance companies to increase the awareness about insurance and its role in the economy and in protecting the

customers. The interviewees stated that the media should also work on creating an insurance culture among the people as for example the majority of workers in Palestine are not insured even though the workers' insurance is mandatory by law.

### 4.2.5 Theme 5: Information Technology Importance

The interviewees all agree on the need for a central database that holds information about the policyholders and that has to be available to all insurance companies. The underwriting policy and all the controls and measures that can be implemented in the software system must be linked with the company insurance system. This can avoid operational errors which can cost the companies a lot, for example an employee may commit a mistake which can result in a huge financial loss for the company. The insurance IT systems should also provide the necessary support when needed to implement any changes properly and to solve technical glitches. The existence of Business Continuity Plan and disaster recovery site are critical functions that all companies should have, as stated by the interviewees.

### 4.2.6 Theme 6: Top management role

The interviewees insist on the importance of risk management, which is fundamental to help insurance companies to manage their risks in order to successfully achieve their business goals. If the companies understand all the risks that they are exposed to, they will be able to plan and use

resources effectively and efficiently to avoid those risks. Risk management is useless unless it is being adopted by everyone from the top management to the most junior staff. The process of risk management should comprise of the following four steps:

- Establishing the context and framework to determine how the company will operate, and understanding the vision and mission of the company and the external and internal environment.
- Identifying all potential risks and their causes. This will help in understanding the risks such that appropriate controls are implemented.
- Risk assessment, which means analyzing the risks in terms of consequences and likelihood to happen in order to determine the level of the riskiness.
- Risk treatment, which involves identifying all the possible strategies to reduce or eliminate the consequences, likelihood of the risks, and reoccurrence of the risks.

### 4.3 Employee Perception Analysis (Questionnaire)

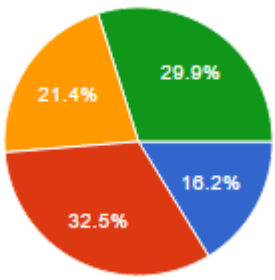
After finishing the initial phase of understanding the current risk management practices within the Palestinian insurance sector, the next step was to evaluate employees' perceptions about risk management within the Palestinian insurance industry. The researcher will present the empirical data collected from the questionnaire and display the percentage of each answer from the respondents. In brief, the questionnaire enabled the respondents to express their perception about each question using five-

points Likert scale (1- strongly disagree, 2- disagree, 3- neutral, 4- agree,5- strongly agree).

### 4.3.1 The results of demographic information

In this study the researcher targeted mainly experienced insurance employees working in Palestinian insurance companies. The researcher received responses from 280 individuals. The results of this survey were processed with SPSS software. The researcher will now display the demographics of the study sample in order to gain a better understand of the general information recorded in the study.

#### 4.3.1.1 Practical Experience



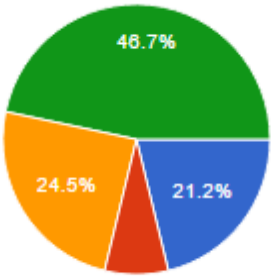

| | | |
|---|---|---|
| 16.2% | 44 | Less than 5 years |
| 32.5% | 88 | 5-10 years |
| 21.4% | 58 | 10-15 years |
| 29.9% | 81 | More than 15 years |

**Figure (10):** Practical experience of respondents

The figure above shows the experience the respondents had working with insurance. The researcher asked this question in order to know how experienced the respondents were in terms of insurance management. In the results, the researcher notice that 16.2% have experience working with insurance less than 5 years. Whereas the respondents who have work experience in insurance totaling more than 15 years was 29.9%. Those who

had 5 to 10 years of work experience totaled 32.5% and those with 10 to 15 years totaled 21.4%.

### 4.3.1.2 Career Position

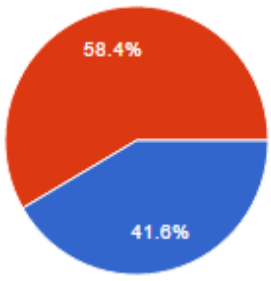



| | | |
|---|---|---|
| 21.2% | 58 | Manager |
| 7.7% | 21 | Vice Manager |
| 24.5% | 67 | Department Head |
| 46.7% | 128 | Employee |

**Figure (11):** Career Position of respondents.

The figure above displays the career position of the respondents working with insurance. The researcher asked this question in order to know the respondents' positions within their companies as the researcher mainly targeted top management. In the results, the researcher notice that 21.2% were managers, and 7.7% were vice-managers, and 24.5% were department heads. Lastly, the percentage of employees was 46.7%.

### 4.3.1.3 Risk management executive management




| | | |
|---|---|---|
| 58.4% | 160 | NO |
| 41.6% | 114 | yes |

**Figure (12):** R.M executive management**.**

The last question of the general information section involved asking the respondents to indicate if there was risk management executive management in their organizations. The researcher asked this in order to find out how important the organizations think risk management is. The results show that most of the respondents said that there is no executive management to mitigate risks (58.4%), and 41.6% of the respondents said that there is an executive management to manage risks.

#### 4.3.1.4 The results related to the study hypotheses

This section aims at identifying the risk management practices in the Palestinian insurance sector, specifying the main risks that the sector is facing and investigating the relationships between variables to check which relations are available and which does not exist; that might help in formulating your final risk management framework. Thus, in order to achieve the purpose of the study a questionnaire reliability and validity were confirmed, and then the data was collected, coded, and inserted into the computer in order to statistically analyze them using SPSS software. The results were as follows:

**Hypothesis No.1:**

There is no statistically significant relationship at significance level ($\alpha = 0.01$) between Palestinian Insurance Companies managerial Practices and compliance with Risk Management practices. This test aims at showing if the insurance organizations commitment toward implementing risk

management practices have any effect on the managerial practices inside the organization. The table below presents the relation between some of the risk management practices and managerial practices. The Pearson correlation coefficient test was used to examine the hypothesis and Table (3) shows the results of the examination.

**Table (3): Pearson correlation coefficient test results**

| | Sig.(2-tailed) | Mean | Std. Deviation | Pearson Correlation | Decision |
|---|---|---|---|---|---|
| Risk management policy exists to describe risk appetite amount | 0.001 | 3.01 | 1.04 | .895** | Statistically significant |
| The Main risks that faces the organization have been identified and the proper controls were set | 0.000 | 3.04 | 0.98 | .724** | Statistically significant |
| The entity responsible of managing risks been identified | 0.000 | 3.05 | 1.03 | .683** | Statistically significant |
| Identify and adopt appropriate risk management model to identify and evaluate risks | 0.002 | 3.01 | 1.05 | .772** | Statistically significant |
| Risk management culture been spread across the organization | 0.000 | 2.80 | 1.03 | .547** | Statistically significant |
| Business continuity and disaster recovery plans exists and been tested and its effectiveness been confirmed | 0.000 | 3.05 | .87 | .624** | Statistically significant |
| The controls and measures that have been set decreased the risks levels | 0.003 | 2.92 | 0.91 | .644** | Statistically significant |
| The organization committed to governance principles | 0.010 | 2.78 | 1.20 | .672** | Statistically significant |
| The organization keeps a clear and up to date risk register for its risks | 0.006 | 2.97 | 0.98 | .646** | Statistically significant |
| The organization reviews its risks and determine risks probabilities, impact and time frame | 0.007 | 2.93 | 1.01 | .748** | Statistically significant |
| The companies determine the degree of risk and its priority | 0.008 | 2.88 | 0.99 | .726** | Statistically significant |
| The organization determine the | 0.009 | 3.00 | 0.95 | .692** | Statistically |

| | | | | | |
|---|---|---|---|---|---|
| appropriate response to the risk (avoid, transfer, reduce the impact, acceptance) | | | | | significant |
| The organization developed a contingency plan for each very high impact risk | 0.010 | 2.89 | 0.96 | .675** | Statistically significant |
| The organization monitor the completion of adjustment measures and its effectiveness to reduce risks impact | 0.011 | 2.94 | 0.92 | .866** | Statistically significant |
| Is there a general framework for risk management in the organization | 0.012 | 2.15 | 0.49 | -.727** | Statistically significant |
| Is there an executive management of risk management in the organization | 0.012 | 2.48 | 0.49 | -.560** | Statistically significant |
| Does the organization determine the risk appetite | 0.013 | 2.50 | 0.48 | -.651** | Statistically significant |
| | | 2.97 | 0.87 | | |

The above figure shows that there is a statistically significant positive relationship between Palestinian Insurance Companies managerial Practices and compliance with Risk Management practices because the significance is less than (0.01).

**Hypothesis No.2:**

There is no statistically significance level ($\alpha = 0.01$) between Palestinian Insurance Companies' current risk management practices and organizational performance. This test aims at showing if the insurance organizations commitment toward implementing risk management practices have any effect on the organizational performance. The table below presents the relation between some of the risk management practices and organizational performance. The Pearson correlation coefficient test was used to examine the hypothesis. Table (4) shows the examination results.

**Table (4): Pearson correlation coefficient test results**

| | Sig.(2-tailed) | Mean | Std. Deviation | Pearson Correlation | Decision |
|---|---|---|---|---|---|
| Controls and procedures that been developed led to reduce the level of risk | 0.002 | 2.92 | 0.91 | 0.677 | Statistically significant |
| The organization is committed to the principles of corporate governance | 0.000 | 2.78 | 1.20 | 0.678 | Statistically significant |
| The organization considers Risk management is something useful and improves performance | 0.008 | 3.76 | 0.86 | 0.413 | Statistically significant |
| There is not enough insurance culture among people | 0.016 | 4.19 | 0.82 | 0.149 | Not statistically significant |
| There is a common database among all companies contain important information about insured's like black list | 0.001 | 2.20 | 1.10 | 0.645 | Statistically significant |
| The underwriting policy has been linked with computer systems in order to control and reduce human errors | 0.002 | 3.17 | 1.13 | 0.683 | Statistically significant |
| | | 3.17 | 0.56 | | |

The above figure shows that there is a statistically significant positive relationship between Palestinian Insurance Companies' current risk management practices and organizational performance, with the exception

of the statement (There is no enough insurance culture among people) because the significance level is less than (0.01).

**Hypothesis No.3:**

There is no statistically significant relationship at the significance level (α = 0.01) between Palestinian Insurance Companies' current risk management practices and the insurance company portfolio. This test aims at showing if the current risk management practices have any effect on the insurance company portfolio. The table below presents the relation between some of the current risk management practices and insurance company portfolio. The Pearson correlation coefficient test was used to examine the hypothesis. Table (5) shows the results of the examination.

**Table (5): Pearson correlation coefficient test results**

| | Sig.(2-tailed) | Mean | Std. Deviation | Pearson Correlation | Decision |
|---|---|---|---|---|---|
| The insurance companies mainly depend on prices to market their services | 0.020 | 4 | 0.98 | 0.397 | Not statistically significant |
| The insurance companies mainly depend on indirect production | 0.001 | 3.56 | 1.03 | .469 | Statistically significant |
| Almost all insurances are limited to cretin types like auto insurance and there is no enough diversity in the insurance portfolio | 0.012 | 3.47 | 1.14 | 0.330 | Not statistically significant |
| Insurance companies concerned with the quantity more than quality of production | 0.060 | 4.09 | 0.91 | 0.159 | Not statistically significant |
| Insurance companies allocate part of its budget for marketing campaigns based on scientific marketing studies | 0.001 | 2.53 | 1.06 | 0.378 | Statistically significant |
| Marketing process depends on individuals and it is not an institutionalized process | 0.008 | 4.06 | 0.96 | 0.222 | Statistically significant |
| The insurance companies have a diverse insurance portfolio | 0.001 | 2.84 | 1.16 | 0.330 | Statistically significant |
| There is a common database among all companies contain important information about insured’s like black list | 0.003 | 2.20 | 1.10 | 0.276 | Statistically significant |

| | Sig.(2-tailed) | Mean | Std. Deviation | Pearson Correlation | Decision |
|---|---|---|---|---|---|
| The underwriting policy has been linked with computer systems in order to control and reduce human errors | 0.000 | 3.17 | 1.13 | 0.460 | Statistically significant |
| Computer systems can be updated easily and fast when needed | 0.001 | 3.02 | 1.09 | 0.398 | Statistically significant |
| Controls and measures have not been applied within the computer systems | 0.002 | 3.19 | 1.01 | 0.563 | Statistically significant |
| | | 3.27 | 0.36 | | |

The above figure shows that there is a statistically significant positive relationship between Palestinian Insurance Companies' current risk management practices and the insurance company portfolio because the significance is less than (0.01). The statements (The insurance companies mainly depend on prices to market their services , Almost all insurances are limited to cretin types like auto insurance and there is no enough diversity in the insurance portfolio and Insurance companies concerned with the quantity more than quality of production) are exceptions and not statistically significant because the significance is bigger than (0.01).

**Hypothesis No.4:**

There is no statistically significant relationship at the significance level (α = 0.01) between Palestinian Insurance Companies' current risk management practices and the marketing strategy. This test aims at

showing if the current risk management practices have any effect on the insurance company marketing strategy. The table below presents the relation between some of the current risk management practices and insurance company marketing strategy. The Pearson correlation coefficient test used to examine the hypothesis, Table (6) shows the results of the analysis.

**Table (6): Pearson correlation coefficient test results**

| | Sig.(2-tailed) | Mean | Std. Deviation | Pearson Correlation | Decision |
|---|---|---|---|---|---|
| The insurance companies mainly depend on prices to market their services | 0.002 | 4 | 0.98 | 0.644 | Statistically significant |
| The insurance companies mainly depend on indirect production | 0.001 | 3.56 | 1.03 | 0.637 | Statistically significant |
| Almost all insurances are limited to cretin types like auto insurance and there is no enough diversity in the insurance portfolio | 0.000 | 3.47 | 1.14 | 0.611 | Statistically significant |
| Insurance companies concerned with the quantity more than quality of production | 0.002 | 4.09 | 0.91 | 0.459 | Statistically significant |
| Insurance companies allocate part of its budget for marketing campaigns based on scientific marketing studies | 0.981 | 2.53 | 1.06 | 0.021 | Not statistically significant |
| Marketing process depends on individuals and it is not an institutionalized process | 0.003 | 4.06 | 0.96 | 0.457 | Statistically significant |
| The insurance companies have a diverse insurance portfolio | 0.709 | 2.84 | 1.16 | 0.023 | Not statistically significant |
| Insurance companies pay attention to customer care and have specialized staff | 0.002 | 2.93 | 1.17 | 0.315 | Statistically significant |
| | | 3.55 | 0.46 | | |

The above figure shows that there is a statistically significant positive relationship between Palestinian Insurance Companies' current risk management practices and the marketing strategy because the significance is less than (0.01). The statements (Insurance companies allocate part of its budget for marketing campaigns based on scientific marketing studies, the insurance companies have a diverse insurance portfolio) are exceptions and not positively statistically significant because the significance is bigger than (0.01).

**Hypothesis No.5:**

There is no statistically significant relationship at the significance level (α = 0.01) between Palestinian Insurance Companies' current risk management abilities and the shortage of qualified insurance professionals. This test aims at showing if the current risk management practices have any effect on the insurance company's cadre's abilities and qualifications. The table below presents the relation between some of the current risk management practices and insurance company's cadre's abilities and qualifications. The Pearson correlation coefficient test used to examine the hypothesis. Table (7) shows the results of the examination.

**Table (7): Pearson correlation coefficient test results**

| | Sig.(2-tailed) | Mean | Std. Deviation | Pearson Correlation | Decision |
|---|---|---|---|---|---|
| There are sufficient number of qualified and specialized insurance professionals | 0.000 | 2.97 | 1.09 | 0.639 | Statistically significant |
| Educational institutions teach insurance | 0.000 | 2.12 | 1.10 | 0.787 | Statistically significant |
| Companies are interested enough to train their employees and giving them the necessary skills and experience | 0.002 | 2.88 | 1.02 | 0.629 | Statistically significant |
| Managers are not set based on efficiency in the administration, but based on the size of the insurance portfolio | 0.969 | 3.51 | 1.05 | 0.002 | Not statistically significant |
| Risk management known and understood by the companies | 0.000 | 2.63 | 1.03 | 0.75 | Statistically significant |
| Boards of directors and senior management aware of the importance of risk management and are adopting and activate its role | 0.002 | 2.73 | 1.02 | 0.748 | Statistically significant |
| Risk management process proactively make improvements were made and before the occurrence of problems | 0.000 | 2.84 | 0.94 | 0.76 | Statistically significant |
| There is a common database among all companies contain important information about insured's like black list | 0.000 | 2.20 | 1.10 | 0.705 | Statistically significant |
| | | 2.69 | 0.64 | | |

The above figure shows that there is a positive statistically significant relationship between Palestinian Insurance Companies' current risk management abilities and the shortage of qualified insurance professionals because the significance is less than (0.01). The statements (Managers are not set based on efficiency in the administration, but based on the size of the insurance portfolio) are exceptions and not positively statistically significant because the significance is bigger than (0.01).

**Hypothesis No.6:**

There is no statistically significant relationship at the significance level ($\alpha = 0.01$) between the shortage of qualified insurance professionals and the quality and quantity of insurance services offered. This test aims at showing if the shortage of qualified insurance professionals have any effect on the insurance services. The Pearson correlation coefficient test was used to examine the hypothesis, Table (8) shows the results of the examination.

**Table (8): Pearson correlation coefficient test results**

| | Sig.(2-tailed) | Mean | Std. Deviation | Pearson Correlation | Decision |
|---|---|---|---|---|---|
| The insurance companies mainly depend on prices to market their services | 0.001 | 4.00 | 0.98 | 0.605 | Statistically significant |
| The company's marketing campaigns aimed at raising awareness of insurance to attract new insured's | 0.002 | 2.81 | 1.15 | 0195 | Statistically significant |
| The insurance companies mainly depend on indirect production | 0.000 | 3.56 | 1.03 | 0.709 | Statistically significant |
| Almost all insurances are limited to cretin types like auto insurance and there is no enough diversity in the insurance portfolio | 0.000 | 3.47 | 1.14 | 0.624 | Statistically significant |
| Insurance companies allocate part of its budget for marketing campaigns based on scientific marketing studies | 0.870 | 2.53 | 1.06 | 0.01 | Not statistically significant |
| There is not enough insurance culture among people | 0.002 | 4.19 | 0.82 | 0.279 | Statistically significant |
| Palestinian insurance Federation offer courses and workshops in order to raise the level of insurance culture and insurance awareness | 0.001 | 2.82 | 0.99 | 0.351 | Statistically significant |
| | | 5.61 | 0.41 | | |

The above figure shows that there is a positive statistically significant relationship between the shortage of qualified insurance professionals and the quality and quantity of insurance servers offered because the significance is less than (0.01). The statements (Insurance companies allocate part of its budget for marketing campaigns based on scientific marketing studies) are exceptions not positively statistically significant because the significance is bigger than (0.01).

**Hypothesis No.7:**

There is no statistically significant relationship at the significance level (α = 0.01) between the development of a model for risk management in the insurance sector and the organization risk management strategy. The Pearson correlation coefficient test used to examine the hypothesis and Table (9) shows the results of the examination.

**Table (9): Pearson correlation coefficient test results**

| Risk management strategy in the company | | the development of a model for risk management in the insurance sector | | Sig.(2-tailed) | Pearson Correlation |
|---|---|---|---|---|---|
| Std. Deviation | Mean | Std. Deviation | Mean | | |
| 1.01 | 2.88 | 0.70 | 2.79 | 0.000 | 0.854 |

The above figure shows that there is a statistically significant positive relationship between the development of a model for risk management in the insurance sector and the Palestinian Risk Management company strategy, because the significance of the smaller than (0.01).

**Hypothesis No.8:**

There is no statistically significant relationship at the significance level (α = 0.01) between the development of a model for risk management in the insurance sector and reduce risks impact. The Pearson correlation coefficient test used to examine the hypothesis. Table (10) shows the results of the examination.

**Table (10): Pearson correlation coefficient test results**

| Analyze and assess the risks and reduce its impact | | the development of a model for risk management in the insurance sector | | Sig.(2-tailed) | Pearson Correlation |
|---|---|---|---|---|---|
| Std. Deviation | Mean | Std. Deviation | Mean | | |
| 0.85 | 2.95 | 0.70 | 2.79 | 0.000 | 0.599 |

The above figure shows that there is a statistically significant positive relationship between the development of a model for risk management in the insurance sector to analyze and assess the risks to reduce their impact because the significance level is smaller than (0.01).

**Hypothesis No.9:**

There is no statistically significant relationship at the significance level (α = 0.01) between the development of a model for risk management in the insurance sector and marketing of insurance services and competition between companies. The Pearson correlation coefficient test used to examine the hypothesis. Table (11) shows the results of the examination.

**Table (11): Pearson correlation coefficient test results**

| Marketing of insurance services and competition between companies | | the development of a model for risk management in the insurance sector | | Sig.(2-tailed) | Pearson Correlation |
|---|---|---|---|---|---|
| Std. Deviation | Mean | Std. Deviation | Mean | | |
| 0.76 | 3.46 | 0.70 | 2.79 | 0.000 | 0.274 |

The above figure shows that there is a statistically significant positive relationship between the development of a model for risk management in

the insurance sector and marketing of insurance services and competition between companies, because the significance is smaller than (0.01).

**Hypothesis No.10:**

There is no statistically significant relationship at the significance level (α = 0.01) between the development of a model for risk management in the insurance sector and human cadres working in the insurance sector. The Pearson correlation coefficient test used to examine the hypothesis. Table (12) shows the results of the examination.

**Table (12): Pearson correlation coefficient test results**

| **Human cadres working in the insurance sector** | | **the development of a model for risk management in the insurance sector** | | **Sig.(2-tailed)** | **Pearson Correlation** |
|---|---|---|---|---|---|
| **Std. Deviation** | **Mean** | **Std. Deviation** | **Mean** | | |
| 0.70 | 3.23 | 0.70 | 2.79 | 0.039 | 0.125 |

The above figure shows that there is no statistically significant positive relationship between the development of a model for risk management in the insurance sector and human cadres working in the insurance sector because the significance of the bigger than (0.01).

**Hypothesis No.11:**

There is no statistically significant relationship at the significance level (α = 0.01) between the development of a model for risk management in the insurance sector and insurance culture and insurance awareness. The

Pearson correlation coefficient test was used to examine the hypothesis. Table (13) shows the results of the examination.

**Table (13): Pearson correlation coefficient test results**

| Insurance culture and insurance awareness | | the development of a model for risk management in the insurance sector | | Sig.(2-tailed) | Pearson Correlation |
|---|---|---|---|---|---|
| Std. Deviation | Mean | Std. Deviation | Mean | | |
| 0.83 | 2.72 | 0.70 | 2.79 | 0.000 | 0.508 |

The above figure shows that there is a statistically significant positive relationship between the development of a model for risk management in the insurance sector and insurance culture and insurance awareness, because the significance level is less than (0.01).

**Hypothesis No.12:**

There is no statistical significant relationship at the significance level ($\alpha = 0.01$) between the development of a model for risk management in the insurance sector and information systems. The Pearson correlation coefficient test was used to examine the hypothesis. Table (14) shows the results of the examination.

**Table (14): Pearson correlation coefficient test results**

| Information Systems | | the development of a model for risk management in the insurance sector | | Sig.(2-tailed) | Pearson Correlation |
|---|---|---|---|---|---|
| Std. Deviation | Mean | Std. Deviation | Mean | | |
| 0.76 | 2.70 | 0.70 | 2.79 | 0.039 | 0.725 |

The above figure shows that there is no statistically significant positive relationship between the development of a model for risk management in the insurance sector and insurance culture and insurance awareness, because the significance level is bigger than (0.01).

# Chapter Five

# Results Discussion

# Chapter Five
# Results Discussion

## 5.1 Chapter Overview

The findings of the previous chapter will be discussed and interpreted in order to determine the strengths and weakness of current risk management practices in the Palestinian insurance sector. Recommendations for building a model for risk management in the Palestinian insurance sector will be made based on these findings.

This chapter includes three sections: First, Qualitative data discussion: this section is devoted to interpreting the data obtained through interviews. Second, Quantitative data discussion: here the results of the questionnaire are discussed. The final section discuses and explains the elements used in the development of the risk management model.

## 5.2 Qualitative data discussion

The results which have been reached through the analysis of the interviews will be discussed here to build a comprehensive perception about the current risk management practices inside the Palestinian insurance sector. Six general patterns where found in the Palestinian insurance sector through the thematic analysis that has been described in Table (2), and many issues have been presented.

### 5.2.1 The Uncontrollable Risks

The Palestinian insurance sector is exposed to many systematic risks that have a major impact on the sector development and growth. The

Palestinian economy is very weak and volatile because the unstable political situation affects the economy in a very negative manner. Thus, the ability of the Palestinian economy to attract new investments is very poor. Accordingly, the unemployment rate is high, 23.6% according to the Palestinian Central Bureau of Statistics (2015), and the income level is low. As a result, buying insurance has become a burden that most Palestinians cannot afford. This poor economic situation increases fraud attempts as many people try to take advantage of insurance companies and use insurance as shortcut of making money, according to the interviewees. Additionally, the current laws and regulations are obsolete, and their enforcement is poor due to the absence of effective action from the Palestinian legislative council. Furthermore, the absence of qualified and specialized judges to make decisions regarding insurance lawsuits exacerbates the situation. These issues cause re-insurance companies to deem Palestine a dangerous place to invest, which has caused difficulties for local insurance companies in finding good re-insurance companies to work with.

The special situation of Palestine magnifies the impact of certain risks like exchange rates changes. Because Palestine does not have its own currency, companies have to present their balance sheets in US dollars while they collect most of their income in Israeli shekels. Some insurance companies may increase their production rates, but because of the difference of exchange rates when compared to the previous year the production rate in the balance sheet shows the opposite. According to the ministry of

transportation (2015), about 47% of the vehicles in Palestine have an expired license, which means that they do not have a valid insurance policy. Therefore, the Moral hazard is increased. Moreover, poor infrastructure and the narrow roads increase risks for insurance companies. It's the role of the government and the PCMA to take actions in order to reduce the impact of the systematic risks.

### 5.2.2 Insurance Sector Weakness

The respondents insist on the importance of building and maintaining a positive image and fine reputation among potential customers. The current insurance companies' situations indicate that some companies have a better reputation than others. A good reputation is obtained through many factors, such as focusing on social responsibility; according to Forbs (2012), there are many benefits that can be gained by embracing social responsibility such as saving costs through using less packaging or less energy. Another benefit is brand differentiation, which is a main goal of embracing social responsibility. Among the many factors that differentiate a company from its competitors, claims management play's a central role in customer satisfaction. Some companies delay claims handling or attempt to avoid covering some claims, which can cause major damage to the public image of a company. This poor claim management is caused by the unhealthy pricing competition among insurance companies, which leads to liquidity problems.

Debt size and receivable accounts management also have a major impact on a company's ability to fulfill their financial obligations, which is strongly related to the company's liquidity situation. Many insurance companies have a large amount of debt distributed among many parties such as customers and re-insurance companies, but the main problem stems from the debts of agents and brokers. The agents and brokers can freeze the insurance company's cash flows, preventing opportunities for investment. On the other hand, solvency is adversely affected by large debts and post-dated checks. Solvency and liquidity is the largest factor in determining the reputation of an insurance company, especially within the Palestinian market. According to PCMA (2014) 77.22% of the insurance portfolios consist of auto insurance and health insurance. These two types of insurance have a high claims frequency and low impact, so the company's liquidity and solvency situation have a major impact on an insurance company's reputation and customer trust; a negative effect if solvency and liquidity are inadequate and a positive effect if they are adequate.

The interviews shed light on a fundamental weakness that affects the whole sector: companies market their services and acquire new customers by focusing on prices and giving unjustified discounts. Insurance companies are currently concerned with the quantity of production rates at the expense of their quality in order to maintain cash flow, without considering the risks that insurance companies take on due to the severe shortage of the a role for risk management and actuarial calculations. The decision of acquiring risk is often made based on personal judgment and experience, not careful and

accurate mathematical calculations. Accordingly, the premiums insurance companies charge for their services does not suite the coverage terms they provide. Insurance companies continue to renew failing policies because they provide cash flow that helps in covering short term obligations without thinking of the long term situation of the company. In brief, insurance companies adapt the adverse-selection principle.

The small market size has made competition among insurance companies extremely fierce, which has led to these weakness and many others. For example, marketing strategies depend on agents, brokers and producers, which cause customer loyalty to go to agents, rather than of the insurance companies. There are many customers who do not know the name of the insurance company that insures them. Instead, they only know the agent or the broker. If the agent changes the insurance company they work with, the company will lose a lot of its customers. This risk leads to another problem that affects the companies' cash flows and profit: companies are forced to give large commissions in order to keep its agents and brokers.

Customer loyalty is one of the most important risks insurance companies have to manage. Currently, customers have low loyalty to their insurance company because of price competition, and the absence of the customer care department has made differentiation in providing insurance services almost zero. An additional problem is the absence of qualified and well trained employees who can deal with angry and shocked insured's when

they report their claims, which negatively affects customer loyalty and weakens the relationship between the insurance company and its customer.

The insurance portfolio is very limited to a few types of insurance, including auto, health, and a few others. This situation could be due to poor advertising and a shortage of awareness among potential customers. For example, workmen insurance makes a small portion of the insurance portfolio, even though it is a mandatory insurance like auto insurance. The problem is caused by many factors. Firstly, the Executive Authority does not do its role in properly monitoring the market and forcing employers to obey the law. Secondly, insurance companies do not make enough effort to raise awareness among employers and workmen about the importance of have an insurance policy. Unfortunately, insurance companies do not focus their attention on targeting potential customers who do not currently hold an insurance policy. There is huge potential to for large market penetration by acquiring new, previously-uninsured customers. However, insurance companies continue to target existing customers and the customers of their competitors, which lead to increased premium discounts and decreased service quality.

The insurance culture in Palestine is very poor, as there is no entity which makes efforts to spread insurance culture among people. The parties of interest, such as the Palestinian insurance federation, fail undertake effective action to spread an effective insurance culture, and the cooperation between the Palestinian insurance federation and the insurance

companies is almost non-existent and needs to be majorly improved. It is also the responsibility of educational institutions, as there aren't enough programs offered in this field. In addition, the media does not provide any information that can significantly raise awareness and create an insurance culture. Educating and training employees plays a central role in reducing and managing risks. Therefore, no matter how much insurance companies attempt to build defense lines, they cannot always protect the company. It is the company's employees who can provide the most adequate protection and bring long term sustainability. The management has to make each and every employee a risk manager and establish an effective risk management culture. Insurance companies do not give their employees enough attention. Training, as well as employee satisfaction, is poor among all insurance companies.

Insurance organizations ignore the fact that employees are their biggest source of risk. As a result, insurance companies focus too much on building systems and procedures to manage risks because they have an incorrect belief that this will save them. They forget that employees are the ones who use the system and follow the procedures. Employees can make these systems and procedures a part of the problem instead of a part of the solution. Moreover, the scarcity of local actuarial experts makes managing risks difficult. The shortage of actuarial experts severely impedes insurance companies' ability to calculate and estimate the level of premium they should charge for their services, which forces insurance companies to depend on personal judgment and experience. The shortage of highly

qualified insurance underwriters who can implement underwriting best practices and choosing the proper insurance policy terms exacerbates this problem.

Claim experts are rare in Palestine as well. Insurance companies suffer huge loses because of poor decisions in covering claims that should not be covered under the terms of policies. For example, take a policy which has 3 machines, one which is more expensive than the other two. There is a fire which damages the machines. The most expensive machine should not be covered under the terms of the policy if it was the cause of the fire. However, it takes a knowledgeable, well-trained claim expert to determine that this machine should not be covered. Insurance companies' top management still views employee training as an expense instead of an investment that could increase profits and reduces losses in the long run.

Living standards have a large influence on limiting the spread of the insurance culture. Palestinians often do not buy insurance policy unless it is mandatory. Additionally, religious beliefs reduce insurance culture and awareness. Islam traditionally forbids insurance. Even though the Palestinian insurance sector provides Islam-friendly insurance services, low income rates often prevent potential customers from purchasing this insurance. Insurance companies' top management do not have the required awareness and will to take considerable actions in cooperation with Palestinian insurance federation and media to spread insurance culture and to increase the awareness of the importance of purchasing insurance.

Correcting and improving this culture is a critical issue that should be properly handled. Many people attempt to misuse their insurance by taking for responsibility for crashes caused by uninsured drivers, believing they are doing the right thing in helping a person who has had an accident. Similarly, many people intentionally burn down their workshops to gain money for remodeling.

In addition, the negative consequences of some accidents and natural disasters are magnified due to the poor treatment and handling of the people affected. This is caused by the shortage of effort from insurance companies in educating and guiding ordinary people on the best methods to follow in such situations. Also, the weak cooperation between insurance companies and the civil defense in this area leads to increased losses of life and property.

### 5.2.3 Information Technology

One of the major problems facing the insurance sector is the poor coordination and cooperation among insurance companies. There is an absence of a centralized data center that could provide insurance companies with necessary information about potential insured’s, such as the number and severity of car accidents and the number and the nature of a driver’s traffic tickets. A common black list built using this information could provide the insurance companies a great tool in more accurately estimating the amount of risk more.

The information systems used in the sector still face some difficulties and disruptions. Some companies do not have backup generators, while others have generators in some branches, but not others. Almost all the information system utilized in the insurance companies are purchased from external companies, which increases the difficulty of updating systems to cope with changes in underwriting policies. Additionally, the implementation of the companies' procedures and policies within the information systems still need major improvement.

Finally, the respondents agree and insist on the importance of improved risk management in reducing the negative consequences of risk. Risk management needs the full support of the board of directors and top management to effectively enforce the implementation of risk management systems.

## 5.3 Quantitative data discussion

In this section, the researcher will discuss and evaluate the responses of insurance company employees to the questionnaire. The employees of the Palestinian insurance sector are best situated to describe the current state of risk management and the insurance sector, as they interact with sector issues on a daily basis.

### 5.3.1 The characteristics of the respondents

The questionnaire demographic information shows that 51.3% of the respondents had more than 10 years of work experience. This is a good

indicator that the responses will be more accurate because it represents the views of the most experienced workers in the Palestinian insurance sector. Moreover, 53.4% of the respondents held a managerial position in their companies. These managerial level employees often perform risk management procedures. Thus, they are the best qualified insurance employees to precisely evaluate the current risk management situation. Finally, 41.6 % of the respondents declare that their companies had an executive risk manager. However, these executive risk managers are often ineffective, and often do not hold any real influence.

### 5.3.2 Hypotheses Results Discussion

The questionnaire and the interviews are designed in a way that support and complement each other's findings. Thus, some of the interview questions are reflected in the questionnaire questions. The results show the findings of the questionnaire and the interviews to be compatible and consistent with each other. In regard to the outcomes of the questionnaire, it has been confirmed that to effectively implement and follow risk management best practices insurance companies should require supportive managerial practices. It is the responsibility of top management in cooperation with the board of directors to create a risk management policy, adopt a risk management framework, spread risk management culture across all levels of a company, and determine the company's optimum risk tolerance.

When the reader reviews the responses to the questionnaires, he will find most answered positively. This can be due to the existence of some organizational structures created to manage risks and create documents related to risk management, but in fact these organizational structures are not functional and are not effectively filling their role of enhancing the risk management process. This is because top managements still do not have enough awareness about the importance of risk management. Additionally, a real willingness to support and effectively utilize these organizational structures is missing. Furthermore, organizational performance is not currently as effective and efficient as it should be due to the poor quality, or entire shortage of, current risk management practice implementation planes within the Palestinian insurance sector.

Analyzing the questionnaire results shows a strong relationship between the insurance companies' performance and risk management implementation and application. Thus when risk management practices exist and are effectively enforced, overall organizational performance increases. Organizational performance can be increased by spreading risk management culture inside throughout the organization. Effective employees are the corner stone of a company's success, especially given the poor insurance culture among the Palestinian people. Additionally, risk management practices have a major impact on the quality and the diversity of an insurance company's portfolio. The current situation shows that all insurance companies have a low level of diversity in their portfolios, because they give inadequate attention and effort to penetrate market

sectors other than auto insurance and health insurance. Both of these types of insurance are the easiest to obtain and they are the most wanted from customers. The demand for other types of insurance is far less due to the shortage of awareness and the insufficient insurance culture among the population. The insurance companies and their federation do not make any strong and effective efforts to enhance the people's awareness, even though have been some minor attempts made in this field.

Effective risk management practices implementation can have a major impact on changing this situation, as it forces insurance companies to adopt more effective marketing strategies that can insure a wider insurance portfolio in order to reduce risk.

The questionnaire findings reveal a major flaw in the marketing process: there is an over-reliance on outside and inside individuals rather than an organizational process. Agents, brokers and producers (indirect production) controls a large portion of insurance companies' market shares, as shown by the answers of question number twenty one of the questionnaire. Also the answers show that the development of marketing strategies does not follow scientific principles, instead following personal perceptions and point of views. Furthermore, insurance companies depend on pricing competition in acquiring new customers, due to the small market size and the shortage of insurance marketing professionals. There is a large emphasis placed on the quantity of production to fulfill the company's short term obligation, at the expense of the quality of production.

The analysis of the questionnaire results sheds' some light on one of the major weaknesses of the entire insurance industry in Palestine: the scarcity of well trained and qualified insurance employees. As indicated by questions twenty four and twenty seven, this situation can be due to the serve shortage of educational institutions that provide programs in the field of insurance, as well as the failure of insurance companies in providing effective and well-designed training programs to improve their employees' skills. This unfortunate situation comes as a result of the shortage of influence of human resources departments in insurance companies. Their strategies and planning documents are designed to be shown to the auditors only, rather than actually being implemented. Even though some employees partake in training courses, there is not any effort made to estimate the effectiveness of these courses.

There is a severe shortage of efforts in creating job analysis and clear job description documents within insurance companies. The weak competencies of insurance works have a direct negative effect on the quality of services offered by insurance companies. Company employees are the most powerful line of defense line in managing company risks and reducing them to the highest acceptable level according to company risk management policy. However, they require necessary skills and qualifications to perform such a critical task.

The questionnaire also aimed at testing the relationship between adopting a risk management model and the effectiveness of overall risk management.

The results showed that implementing a risk management model has a major impact on increasing the effectives of risk management activities, as the model will institutionalize the risk management process and make it a part of the company's internal culture and routine. This will enhance all other company functions, as risk management interacts with all company departments across all levels.

## 5.4 Model Development

This model is based on literature review and empirical data findings gained from the workers of the insurance sector. After analyzing and discussing the results of both the interviews and the questionnaire, the researcher produced a risk management model to improve the risk management situation in Palestinian insurance sector. The reliability and the validity of the proposed model for risk management in the Palestinian insurance sector were insured by two experts in the risk management filed.

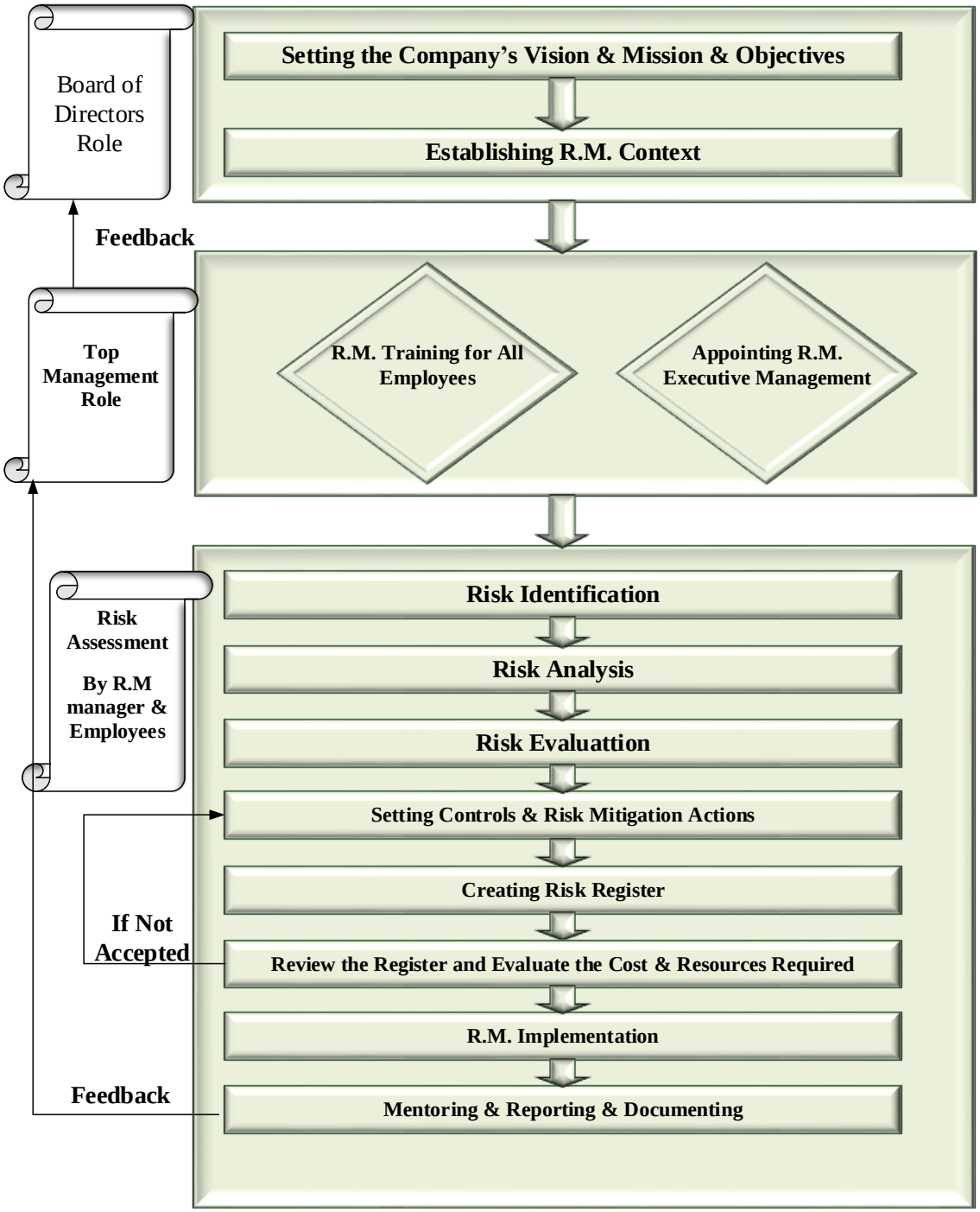



**Figure (13):** Proposed Risk Management Model for Palestinian Insurance Companies.

The starting point of the risk management process begins with the board of directors by setting and determining the company's vision, mission and

objectives; in order created the risk management context within the organization. Moreover, the risk appetite and risk tolerance are identified at this stage. The top management is responsible of the overall risk management process against the board of directors, so the top management must appoint a risk manager to control and manage to risk management activities. Furthermore, employees' risk management training is a vital issue for making risk management efficient and effective. As risk management processes shall be conducted in cooperation between the risk manager and the employees.

The risk assessment process starts by identifying, analyzing and evaluating risks, then a risk register is created to document the assessment findings, and recording all controls and mitigation actions for all risks. The top management reviews the register to evaluate the cost and resources required in order to enforce the proposed controls and mitigation actions. After top management approval the risk management process implementation shall be started, because risk management is a continues process its critical to document and report each step at the process and send feedback to the board of directors through the top management make the necessary adjustments to enhance and improve the risk management process.

# Chapter Six

# Conclusions & Recommendations

# Chapter Six

## Conclusions & Recommendations

### 6.1 Chapter Overview

The most important conclusions that can be obtained based on the discussion chapter will be presented; some recommendations and suggestions will be presented in order to enhance the current situation. The strength and the weakness of the current risk management practices will be highlighted. Also the research limitation and future research topics will be shown.

This chapter consists of four sections: First, the research conclusions drawn from the results discussion. Second, recommendations to improve the risk management situation. Third, Research limitations. Finally, future research direction.

### 6.2 Research Conclusions

In this section the most important Palestinian insurance sector strength and weakness; obtained from the data analysis and discussion will be summarized.

#### 6.2.1 Palestinian Insurance Sector Strength

- The ability to adapt with the very volatile political and economic situation.
- The large margin for market penetration.

- The insurance portfolio diversity can be increased.
- There is a large room for growth and development.

### 6.2.2 Palestinian Insurance Sector Weakness

- The bad political and economic situation exposes the insurance companies to many risks, and makes these risks influence more sever.
- The out-date laws and regulations makes less protected against many risks. As an example, the absence of upper limit coverage in injury accidents could cause large losses for insurance companies.
- The absence of local currency magnifies the effect of the exchange rate risk. As the insurance companies collect most of its premiums in Israeli shekels, and they have to announce their budgets in US dollars which might cause huge losses because of the difference in exchange rates.
- The poor infrastructure that increase the probability of making accidents.
- The immature risk management practices make the process risk management less useful. As the effectiveness and the efficiency of is reduced.
- The poor risk culture among the population increases the risk for insurance companies. Thus, fraud is considered as an act of

cooperation and compassion not as lying and stealing. Also, limited most of the insurance portfolio in two types' auto insurance and health insurance.

- The poor awareness for the importance of risk management among the board of directors and top managements. Made the insurance companies make minimal efforts to improve the risk management situation.

- The shortage of local actuarial experts; made the process of estimating the amount of premium insurance companies should charge for their services unprofessional. Furthermore, the prices are not properly linked with the amount of risk undertaken.

- The shortage of highly trained employees. The most important defense line for any company is its employees, as no matter how effective and efficient the policies and procedures they cannot protect the company from the risks it face unless the employees who perform and apply these procedures are having the necessary skills and competencies.

- The social responsibility does not have enough attention. Social responsibility helps the company to strengthen its public image among the population, which will help the company to acquire new customers and increases the diversity of its portfolio.

- The shortage of customer care departments plays a central role in retaining the current customers, as the customer's loyalty will increase and they will not leave the company if they got a less price, and make the companies to focus more on the quality of their services. Additionally, the reputation of the company will be strengthen which will make acquiring new customer easier.

- The poor customer loyalty made the customers leave their current companies as soon as they got a less price. Due to the shortage of services differentiation among insurance companies almost zero and the absence of customer care departments.

- The poor diversity of the insurance portfolio increases the risks for insurance companies, because the insurance depends on the law of large number. Thus, insurance companies need a wide diversity in its portfolio in order to reduce the risks.

- The fierce pricing competition because of focusing on the quantity of production on the expense of quality. Insurance companies undertake high risks with fewer prices. This situation could make insurance companies unable to fulfill its obligation.

- The small market size decreased the insurance portfolio and strength pricing competition, this combination increased the risks and the effects of these risks.

- Moral hazard is high because the wrong insurance culture the insured's starts undertake high risk activities with less precautions as soon as the insurance policy starts, this increase the risks for insurance companies.

- The shortage of cooperation among insurance companies and the absence of centralized database to provide necessary information about the customer. Made the process of estimating the risk insurance companies undertake more difficult.

## 6.3 Research Recommendations

The Palestinian insurance sector is a very promising sector and has a large potential to grow and develop, the following are some recommendations to improve the risk management current situation:

- The insurance companies must focus on increasing the insurance culture among the population. Because of the poor insurance culture insurance organizations find a difficulty increasing production and making their insurance portfolio more diversified. Furthermore, it increases the fraud attempts; as the people sees insurance as a short cut of making money.

- The insurance companies must raise its employee's awareness about the importance of risk management. In order to insure the efficiency and effectiveness of risk management implementation; as

employees are the ones who will implement risk management process.

- The insurance companies must adapt a risk management model. In order to institutionalize the risk management process and make it part of the organization daily routine.

- The insurance companies have to cooperate with each other and establish a centralized database to share necessary information about the customers. This will give the insurance organization the ability to assess their risks more efficiently as they will have more information about the risk they are about to buy.

- Enforce rating system for categorizing the customers. In order to provide more services with fewer prices for high rated customers. In order to create a perception among the customers if they do not commit or participate in any accident they will be rewarded by given them discounts. and charge the customers who commit accidents with extra premium. Thus, the customers will be more careful and will reduce the number of reported claims.

- Build customer care departments to strengthen customer loyalty. All service company depend many on their customers loyalty. Loyalty can be gained by many methods; one of them is creating customer care department to enhance and improve the customers'

satisfaction. And taking feedback from customers to increase the quality of the offered services and treat customer's complaints.

- Make more efforts on employees training. The qualified and highly skilled employees will act as a first line of defense that will protect the organization and reduce the risks that the organization will be espouse to. No matter how much were the organizational processes and procedures are developed and sophisticated it will not protect the organization unless there are qualified employees to implement these procedures.

- The government has to make more efforts to enforce the current laws and update them. Some of the current laws are absolute and need to be updated and some other laws are not well enforced and implemented; so the government must change the laws to cope with changes and developments in the insurance industry sector; in order to protect the rights both of the insurance organizations and their customers.

- Building a national risk management approach similar to the European Union approach (Solvency II). This point can be considered as a compliment to the previous one has the government must enforce some guidelines. These guidelines are the minimums for some requirements that all insurance organizations shall follow, such as (minimum limit for organization solvency).

## 6.4 Future Research Prospects

There are many areas and topics to be studied to compliment and to improve the Palestinian insurance sector. Such as

- This research confirmed the importance of risk management on increasing the organization performance. Further researcher required to build a deep understanding of the effect of organizational performance on the customer satisfaction.
- Further research required to find out the influence of current marketing strategies on the insurance portfolio.
- This research confirmed the strong relation between risk management and re-insurance. Further researcher required to study the re-insurance situation in the Palestinian insurance sector.
- Further research required to study and builds a deep understanding of the effect the human resources role on the risk management process.
- Further research required to study and builds a deep understanding of the effect the Information Technology role on the risk management process.

## Glossary of Key Terms

| | |
|---|---|
| **Risk** | uncertainty of outcome, whether positive opportunity or negative threat, of actions and events. It is the combination of likelihood and impact, including perceived importance. |
| **Peril** | is an event or circumstance that causes or may potentially cause a loss. |
| **Hazard** | is an action, condition, circumstance or situation that makes a peril more likely to occur or a loss more likely to be suffered as the result of a peril. |
| **Risk Appetite** | the amount of risk that an organization is prepared or accept, tolerate, or be exposed to as any point in time. |
| **Risk Assessment** | the evaluation of risk with regard to the impact if the risk is realized and the likelihood of the risk being realized. |
| **Inherent Risk** | the exposure arising from a specific risk before any action has been taken to manage it. |
| **Residual Risk** | the exposure arising from a specific risk after has been taken to manage it and making the assumption that the action is effective. |
| **Risk Assessment** | the evaluation of risk with regard to the impact if the risk is realized and the likelihood of the risk being |

realized.

**Risk Management** all the processes involved in identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress.

**Risk Strategy** the overall organizational approach to risk management as defined by the Accounting Officer and/or Board. This should be documented and easily available throughout the organization.

**Risk Profile**the documented and prioritized overall assessment of the range of specific risks faced by the organization.

**Exposure** the consequences, as a combination of impact and likelihood, which may be experienced by the organization if a specific risk is realized.

**ERM Framework** A set of processes which will enable ERM to be implemented effectively within an organization.

**Likelihood** The chance that a particular event or scenario will materialize sometimes there may be a degree of knowledge about the order of magnitude of the likelihood, but this is not always the case. Estimates of likelihood may occasionally be quite wrong, due to the existence of underlying causes of which we are

unaware.

| | |
|---|---|
| **Mitigation** | Action taken to reduce either the likelihood or impact of a threat. |
| **Risk Capacity** | The extent of the downside risks which the organization can manage effectively, and bear without getting into serious difficulty if the risks were to materialize, allowing for the possibility that several risks may materialize at much the same time. Risk Capacity may differ from Risk Appetite. |
| **Risk Responses** | Actions taken to improve opportunities or mitigations to reduce threats. |
| **Threats** | Those components of uncertainty which may give rise to unfavorable outcomes. |
| **Uncertainty** | Incompleteness of knowledge, i.e. a shortfall of Knowledge |
| **Upside risk** | Exposure to favorable outcomes. |
| **Variability** | All the variations in outcomes which can occur, whether downside, expected or upside. |
| **Vulnerability** | The extent to which the organization may be affected by adverse impacts if risks materialize. |

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# Appendices

# Appendix (1): Interviews questions

1. What are the things that might affect the company?
2. How does the company identify its risks?
3. What are the risks that might affect the company the most?
   3.1. How does the company rank its risks? The tools used to rank the risks?
   3.2. How does the company assess its risks?
4. In general what are the major weaknesses in the risk management process in the Palestinian insurance sector?
5. What you can tell me about the insurance culture in Palestine?
6. What you can tell me about the risk awareness among the insurance firms in Palestine?
7. How technology can help in the risk management process?
8. What is your opinion about PCMA?
9. What the companies should do to tackle the weakness in risk management process in your opinion?
10. Are the Palestinian insurance companies ready to apply risk management? Is there any perquisites they shall have before start applying risk management?

11. How can the Palestinian insurance companies gain benefit from EU directive (solvency II)?

12. Do you think that risk management well increase the performance or it will make things more complicated?

13. Should the companies have separate risk management department? Why?

14. Does your company prepared for unplanned disruption?

15. Do you think that your company following adequate reserves?

# Appendix (2): Questionnaire

## تطوير نموذج لإدارة المخاطر في قطاع التأمين الفلسطيني

**السادة المحترمين،،،**

**تحية طيبة،،،**

تهدف هذه الدراسة إلى عرض ودراسة ممارسات إدارة المخاطر في قطاع التأمين الفلسطيني وتحديد الأخطار الرئيسية التي تواجه القطاع بالإضافة إلى رفع الوعي بأهمية إدارة المخاطر بين شركات التأمين الفلسطينية من أجل وضع نموذج متكامل لإدارة المخاطر في قطاع التأمين الفلسطيني. ومن هنا فإني أقدر عاليا مشاركتكم من خلال تعبئة هذا الاستبيان بالمعلومات الضرورية.

**القسم الأول : المعلومات الشخصية**

**1. العمر**

( ) أقل من 30 سنة ( ) 30 – 40 سنة

( ) 41–50 سنة ( ) أكبر من 50 سنة

**2. الجنس**

( ) ذكر ( ) أنثى

**3. المؤهل العلمي**

( ) دبلوم فأقل ( ) بكالوريوس

( ) ماجستير ( ) دكتوراه

**4. المركز الوظيفي**

( ) مدير ( ) نائب مدير

( ) رئيس قسم ( ) موظف في دائرة

**5. الخبرة العملية**

( ) أقل من 5 سنوات ( ) 5 –10 سنوات

( ) 10 – 15 سنة ( ) أكثر من 15 سنة

**6. التخصص**

( ) التأمين ( ) محاسبة

( ) إدارة أعمال ( ) أخرى

**القسم الثاني: هيكلية إدارة المخاطر**

| البند | نعم | لا |
|---|---|---|
| هل يوجد إطار عام لإدارة المخاطر في الشركة | | |
| هل يوجد إدارة تنفيذية لإدارة المخاطر في الشركة | | |
| هل قامت الشركة بتحديد مدى الرغبة بالمخاطرة | | |

| الرقم | البند | موافق بشدة | موافق | محايد | غير موافق | غير موافق بشدة |
|---|---|---|---|---|---|---|
| | **إستراتيجية إدارة المخاطر بالشركة** | | | | | |
| 1 | وجود سياسة إدارة المخاطر تصف مقدار الرغبة بالمخاطرة | | | | | |
| 2 | الأخطار الرئيسية التي تواجه الشركة تم تحديدها وتم وضع الإجراءات المناسبة للتحكم بها | | | | | |
| 3 | مسؤولية إدارة المخاطر تم تحديد الجهة المناسبة لإدارتها | | | | | |
| 4 | تحديد وتبني نموذج إدارة مخاطر مناسب لتحديد الأخطار و تقيمها | | | | | |
| 5 | تم نشر ثقافة إدارة المخاطر بالشركة | | | | | |
| 6 | وجود خطط لاستمرارية الأعمال والتعافي من الكوارث وفحص هذه الخطط وتأكيد من فعاليتها | | | | | |
| 7 | الضوابط والإجراءات التي تم وضعها أدت إلى خفض مستوى الأخطار | | | | | |
| 8 | تلتزم الشركة بمبادئ الحوكمة | | | | | |
| | تحليل وتقيم المخاطر وتخفيض أثرها | | | | | |
| 9 | تحتفظ الشركات بسجل واضح ودقيق ومحدث للمخاطر التي تواجهها | | | | | |
| 10 | تقوم الشركة بمراجعة المخاطر وتحديد احتمال حدوثها وأثرها وإطارها الزمني | | | | | |
| 11 | تقوم الشركات بتحديد درجة المخاطر وأولويتها | | | | | |
| 12 | تقوم الشركات بتحديد الاستجابة المناسبة للخطر (تجنب، نقل، تقليل الأثر، قبول) | | | | | |

| الرقم | البند | موافق بشدة | موافق | محايد | غير موافق | غير موافق بشدة |
|---|---|---|---|---|---|---|
| 13 | تقوم الشركات بإعداد خطة طوارئ لكل المخاطر العالية جدا في أثرها | | | | | |
| 14 | تقوم الشركات بمراقبة إنجاز إجراءات الضبط ومدى فعاليتها بتقليل اثر المخاطر | | | | | |
| | تسويق الخدمات التأمينية والمنافسة بين الشركات | | | | | |
| 15 | اعتماد الشركات على الأسعار بشكل كبير في تسويق خدماتها | | | | | |
| 16 | تقوم الشركات بحملات تسويقية تستهدف رفع الوعي التأميني وجذب مؤمنين جدد | | | | | |
| 17 | اعتماد الشركات على الإنتاج غير المباشر بشكل كبير | | | | | |
| 18 | تركز معظم التأمينات في أنوع محدودة مثل تامين المركبات وعدم وجود تنوع كافي في المحفظة التأمينية | | | | | |
| 19 | تهتم الشركات بكمية الإنتاج أكثر من النوعية | | | | | |
| 20 | شركات التأمين تخصص جزء من ميزانياتها من أجل القيام بحملات تسويقية بناءً على دراسات تسويقية علمية | | | | | |
| 21 | تعتمد عملية التسويق على أشخاص أكثر من كونها عملية مؤسساتية | | | | | |
| 22 | لدى شركات التأمين محفظة تأمينية متنوعة بشكل كبير | | | | | |
| 23 | تهتم شركات التامين بخدمة العملاء ولديها موظفين مختصين بذالك | | | | | |
| | **الكوادر البشرية العاملة في قطاع التأمين** | | | | | |
| 24 | يوجد عدد كافي من الكوادر التضامنية | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | المتخصصة و المؤهلة | | | | | |
| **الرقم** | **البند** | **موافق بشدة** | **موافق** | **محايد** | **غير موافق** | **غير موافق بشدة** |
| 52 | يوجد عدد كافي من الخبراء الاكتواريين المحلليين | | | | | |
| 26 | المؤسسات التعليمية تقوم بتدريس التأمين | | | | | |
| 27 | الشركات تهتم بشكل كافي بتدريب موظفيها وإكسابهم الخبرات والمهارات الضرورية | | | | | |
| 28 | لا يتم تعين المدراء بناءً على الكفاءة في الإدارة بل بناءً على حجم المحفظة التأمينية | | | | | |
| | الثقافة التأمينية والوعي التأميني | | | | | |
| 29 | إدارة المخاطر مسألة معروفة ومفهومه لدى الشركات | | | | | |
| 30 | مجالس الإدارة والإدارات العليا تعي أهمية إدارة المخاطر وتقوم بتبنيها وتفعيل دورها | | | | | |
| 31 | تتم عملية إدارة الأخطار بشكل استباقي ويتم إجراء تحسينات قبل وقوع المشاكل | | | | | |
| 32 | الشركات تعتبر إدارة المخاطر شيء مفيد ويحسن الأداء | | | | | |
| 33 | لا يوجد ثقافة تأمينية كافية لدى الناس | | | | | |
| 34 | يقوم اتحاد شركات بعمل دورات وورشات عمل من أجل رفع مستوى الثقافة والوعي التأميني | | | | | |
| | **أنظمة المعلومات** | | | | | |
| 35 | يوجد قاعدة بيانات مشتركة بين جميع الشركات تحتوي على معلومات مهمة عن المؤمنين (مثلا القائمة السوداء) | | | | | |
| 36 | تم ربط سياسة الاكتتاب في الشركات مع | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | أنظمة الحاسوب من اجل ضـــبطها وتقليـــل الأخطاء البشرية | | | | | |
| **الرقم** | **البند** | **موافق بشدة** | **موافق** | **محايد** | **غير موافق** | **غير موافق بشدة** |
| 37 | أنظمة الحاسوب يتم تعديلها بسهولة وســـرعة كافية عند الحاجة | | | | | |
| 38 | إجراءات التحكم والضوابط لم يتم ربطها مع أنظمة الحاسوب | | | | | |

جامعة النجاح الوطنية
كلية الدراسات العليا

# تطوير نموذج لإدارة المخاطر في قطاع التامين الفلسطيني

إعداد
مظفر نظمي احمد منصور

إشراف
د. أيهم جعرون

قدمت هذه الأطروحة استكمالاً لمتطلبات الحصول على درجة الماجستير في برنامج الإدارة الهندسية بكلية الدراسات العليا في جامعة النجاح الوطنية في نابلس، فلسطين.
2015

# تطوير نموذج لإدارة المخاطر في قطاع التامين الفلسطيني

**إعداد**

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## الملخص

تعتمد صناعة التأمين على إدارة مختلف أنواع المخاطر لتحقيق الربح، وبالتالي تعتبر إدارة المخاطر عاملاً رئيسياً حاسماً لنجاح أي شركة تامين، وذلك لأن إدارة المخاطر ستمكن الشركة من التحكم و تقليل المخاطر بشكل أكثر كفاءة وأكثر فعالية، وضع إدارة المخاطر في قطاع التأمين الفلسطيني ضعيف جدا، ولا يتم الاستفادة منها كما ينبغي أن يكون بسبب وجود نقص حاد بالوعي بأهمية إدارة المخاطر وندرة موظفي التأمين المؤهلين.

يتمحور هذا البحث حول ممارسات إدارة المخاطر المستخدمة في قطاع التأمين الفلسطيني ويدرس وجودها وفعاليتها، ويسلط هذا البحث الضوء على أهم المخاطر التي تتعرض لها شركات التأمين الفلسطينية، ويعمل على زيادة الوعي حول إدارة المخاطر وأهميتها.

هدفت هذه الدراسة إلى تحقيق ثلاثة أهداف رئيسية هي: تقييم ممارسات إدارة المخاطر المستخدمة في شركات التأمين الفلسطينية، وتحديد أوجه القصور الرئيسية لتنفيذ وتطبيق إدارة المخاطر، وأخيراً وضع نموذج لإدارة المخاطر لمعالجة أوجه القصور في قطاع التأمين الفلسطيني.

هذه الدراسة تتبنى أسلوب مختلط من البحوث، باستخدام المقابلات شبه المنظمة واستبيان لاستكشاف ممارسات إدارة المخاطر الحالية في قطاع التأمين الفلسطيني، المقابلات مع خبراء التأمين الذين يشغلون مناصب إدارية عليا تهدف إلى فهم وضع إدارة المخاطر الحالي داخل قطاع التأمين وفهم كيفية تطبيق مبادئ إدارة المخاطر وفهم الطرق التي تستخدم من اجل تنفيذ الأنشطة المرتبطة بإدارة المخاطر في الوقت الراهن.

من ناحية أخرى، استخدمت الاستبيانات لاكتساب تصور كافٍ عن أنشطة إدارة المخاطر في قطاع التأمين الفلسطيني، وقد تم جمع البيانات من طائفة واسعة من موظفي قطاع التأمين في جميع المستويات الإدارية من اجل دعم النتائج التي تم الحصول عيها عن طريق المقابلات.

بعد الانتهاء من تحليل البيانات، وجد الباحث أن جميع شركات التأمين تؤكد على أهمية إدارة المخاطر في السيطرة والتحكم بنجاح كل العمليات الأخرى داخل الشركة، ولكن للأسف ممارسات إدارة المخاطر ضعيفة جدا وغير ناضجة في جميع مستويات قطاع التأمين الفلسطيني بأكمله، علاوةً على ذلك، يعاني قطاع التامين من نقص حاد في الموظفين المؤهلين والمدربين وعدم وجود خبراء اكتواريين، واستخدام أساليب تسويق تعتمد بشكل رئيسي على الأفراد يجعل إدارة وتسعير خدمات التأمين تتم بطريقة غير علمية و غير مهنية.

القضايا المذكورة أعلاه يمكن استخدامها لخلق تصور واضح عن أسباب تباطأ النمو في قطاع التأمين الفلسطيني، من أجل تطوير نموذج لإدارة المخاطر الذي يناسب قطاع التأمين الفلسطيني، وهذا النموذج سوف يساعد شركات التأمين على تحسين وتعزيز عملية إدارة المخاطر، من أجل زيادة قوة القطاع والحفاظ على النمو المستدام.