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RISK-DRIVEN MANAGEMENT FROM MOROCCAN HEALTH INSURANCE COMPANIES PERSPECTIVE

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ABSTRACT

Under a multidimensional environment, and given the likelihood that an event might hinder the activities or assets of a company, it has become more and more important to reconcile risks and results. For many years, company's activities were based on cost-effectiveness strategies by decreasing the overall expenses and optimizing benefits. However, companies could not be seen solely through the prism cost/benefit; in the long term, this couple generates risks that may distort the company's sustainability. Following the emergence of various risk control and management systems, the Insurance and Social Security Supervisory Authority (ACAPS) in Morocco promised that, in the near future, risk will be embedded insolvency margins. This study provided a risk-driven management frame adapted to compulsory health insurance field (AMO) in Morocco that exposed the nature and origin of risks in order to offer concrete alternatives to delimit their consequences through previously defined indicators.

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INTRODUCTION

In an ongoing quest of goals achievement, organizational activities in every business are oriented towards process optimization through effectiveness and efficiency. In this context, risk becomes an important variable to size. While the concept of risk has long been studied in organizations under its financial aspects, it is now examined through various angles and integrated in every process. Activities, in which uncertainty may alter the performance monitoring, are more particularly the object of modeling, they represent a cost to optimize in order to insure effectiveness, efficiency and sustainability. Nowadays, it is important to consider risks as a main lever of performance monitoring and implement risk management as a driver for business culture and strategy.

Cost analysis and forecasting are strategic activities that aim to increase organizational flexibility and endurance, but in a complex and unpredictable environment, it becomes more and more difficult to anticipate risks and make lucid analysis to control their occurrence and overcome their consequences. Currently, organizations confronted to uncertain and new situations are more exposed to risks and may undergo heavy threats that blight the expected results. Thus, the cost of risks must no longer be a destabilizing factor but a lever of financial and operational maturity. The difficulty lies in the fact that it is precisely in risky situations that managers are in need of relevant indicators in order to quickly anticipate changes, both internal and external, which have to be handled effectively. By common agreement, the sustainability of a company is not reflected in its turnover and market share but more in its ability to overcome risky situations and crisis with the least cost possible. Risk-driven management provides reasonable reassurance about the proper functioning of a company. It stirs off the need to shift from the culture of results to a new perspective based on objectives, risks and operational and financial performances. Following the emergence of various controls and risk management systems (COSO 1 & 2, ISO 31000, Solvency I & II ...), the Insurance and Social Security Supervisory Authority (ACAPS) in Morocco promised that, in the near future, the margin of solvency will be estimated through risks. Insurance companies as risk managers are more than any other organizations, subject to inherent risks that may alter the business. These organizations must both manage external risks and remedy internal uncertainties related to business processes; a complex position in which risk management is the core business of an organization. In this context, the roadmap for this work will be to examine why risk-driven management in Moroccan health insurance companies is imminent? How risks are prioritized? And, how canan activity specialized in covering risks, manage its endogenous and exogenous risks?

The result of this study will be a risk-driven management frame adapted to compulsory health insurance field (AMO) in Morocco. It exposes the nature and origin of risks and categorize them in order to offer concrete alternatives to delimit their consequences through previously defined indicators. This work is carried out with the perspective of amending performance monitoring from its conventional approach into a modern one enabling all the organization stakeholders to identify risks, evaluate them and measure their impact on goals achievement and performance. It provides an overall vision in which each manager can act on its perimeter of responsibility and at the same time impact the entire business through risk anticipation and prevention. To this end, the first part will carry out a literary and documentary framework of this work, namely the risk-driven management of performance and then the second part will discuss a case study focusing on Moroccan health insurance regime and how risk management can lead to better performance monitoring.

An architecture for risk-driven management

An organizational framework: concepts and tools

Organizational modernization and the redesign of value-creating processes constitute some major incentives for the development of control within companies. It is becoming increasingly difficult to define the pillars of performance monitoring within organizations. Managers must capitalize on any imperfect information and detect weak environmental signals in order to make optimal decisions and rationalize the various processes that guarantee better performance even in unpredictable situations provide the latter. Unparalleled and unpredictable competitive environments are restrained through continuous analysis and forecasting aiming risk prevention, flexibility, responsiveness and endurance. These tasks are represented by key indicators that best reflect the company's environment. Within businesses, we no longer rely on top management’s intuitive interpretation of the reality but more on formal analysis and solid researches that allow the implementation of several managerial tools. Numerous studies have highlighted the interest of setting up some major functions that allow the use of information for a better performance monitoring. These functions provide a rigorous framework to analyze and optimize the company's resources. Some ensure organizational compliance and others are based on risks and how organization can achieve goals through risk monitoring. By convention, there are the main organizational functions that allow major monitoring of performance objectives and requirements.

Internal Control

Internal control (IC) consists of a set of formalized measures and arrangements contributing to the control of the organization's activities and the achievement of its objectives.[11] Internal control is based on the use of reliable information to promote activities efficiency and performance effectiveness within the organization. As a formalized function, IC can be implemented through strict tasks distribution and rigorous follow-ups aligned to previously established procedures and processes. Most recently, several international systems have covered the IC concepts in order to provide a formalized framework for best business compliance. The most widely used is the Committee of Sponsoring Organizations of the Tread way Commission (COSO), which is available in two versions:

- The COSO 1, Internal Control - Integrated Framework, provides a framework for the management of IC and intends to provide reasonable reassurance regarding the achievement of objectives through efficiency, reliability and compliance.
- The COSO 2, Enterprise Risk Management Framework, proposes a common terms of reference for risk management in companies by developing a solid strategy to identify, control and react to risks.

Risk Management

Companies are confronted to mutations and changes at all levels. Determining risks and opportunities perimeters enables companies to monitor their internal and external environment, then plan appropriate actions to be immunized against risks and crisis. Hence, risks and opportunities can be classified and examined at different levels according to the business activity and environment. There are different groups to categorize risks and opportunities but the most common ones are:

- *Strategic* linked to the organizational policy, objectives and culture.
- *Operational* related to the company's processes and activities.
- *Financial* representing everything financial and cost related.

Traditional approaches of risk management analyze risks in every operational unit separately, but recently, the world witnesses the advent of a new global and coherent approach, which develops a synthetic and integrated risk mapping. The objective is to have a global point of view on the significant risks of the company by integrating risk management in every process while maintaining an interactive perspective.[2]

[1]Direction générale fédérale Service redevabilité & qualité (2015) ; « PRATIQUE DU CONTROLE INTERNE :Définition, responsabilités et mise en œuvre chez Handicap International ».

2 DAOUD BEN ARABA, MASMOUDI MARDESSI S. (2015); « Le Management des risques dans les entreprises Tunisiennes : Un état des lieux après la révolution » ; La Revue Gestion et Organisation 7 ; 106–115.

In general, the risk does not only affect the current activities but rather the entire process. It is necessary to study current risk management mechanisms for a better application within companies. Nowadays, ISO 31000 provides the main guidelines for risk management and covers relevant risk assessment techniques in order to provide guidelines for a better implementation and integration of risk management into processes.

Management Control

Management Control function (MC) can be defined as a set of activities that evaluate executive results according to all the objectives established in advance.[3]

The MC can be discerned under a managerial system that uses financial and statistical tools to optimize the correlation between the invested resources and the obtained results. It implements actions to accomplish:

- Forecasts that leads to objectives planning at various responsibility's levels.
- Activities sat at regular intervals, and confronted with forecasting in order to highlight discrepancies.
- Corrective measures to neutralize the gap between forecasts and results.

Comparative table

It is certain that there is a certain complementarity between the MC, IC and risk management in terms of collecting information, data analysis and tools implementation in order to achieve organizational goals and reach desired outcomes.

However, the table below makes it possible to distinguish between the 3 functions in terms of objectives and results:

Function	Objectives	Results
Internal Control	Assessment of procedures compliance, effectiveness and efficiency.	Diagnostics and recommendations
Management Control	Identifying goals based on explicit assumptions	Management dashboards and charts
Risk Management	Risk identification and crisis resolution	Risks mapping and action plans

Source: http://www.ifaci.com/

To summarize, risk management represents an evolution of internal and management control in a way that mobilizes supervision techniques put into action with a rather specific objective. Risk management includes the quantitative aspect of management control and the qualitative position of internal control in order to optimize performance. We are moving from a traditional perspective of task replication according to processes to a more integrated modern approach.

Enterprise performance monitoring

The complexity of management requires relevant performance monitoring based on several angles simultaneously. Performance generally refers to positive and measured results through the implementation of action plans in order to achieve goals effectively and efficiently.

[3]MEKKAOUI M. (2007) ; « Précis de contrôle de gestion »; page : 9.

Setting objectives, as a part of an overall corporate strategy, has to be measured in terms of outcomes and the ability to reach goals efficiently while rationalizing the associated costs. Performance monitoring measure the success of every strategy implementation and the accomplishment of previously sat goals. Several phases define performance-monitoring cycle:

Anticipation: Analyzing the internal and external environmental context will have a direct impact on future results. Anticipating involves setting up indicators to read the possible changes in the environment.

- **Simulation:** Evaluation of the consequences related to decision making. Several scenarios and action plans can be envisaged in order to evaluate the consequences.
- **Resources allocation:** assigning resources to achieve desired results.
- **Assimilation:** comparing the performance obtained with the expected outcomes, reducing de gap and opting for important adjustment.

Historically, accounting and financial information were of the utmost importance in the organization. Thus, the first type of audit developed is the financial audit aiming to verify information compliance. Today, financial aspects are more related to the success of operational and strategic processes, which triggers the need to develop a long-term vision of the organization's profile and appetite to risks. Throughout performance monitoring, four concepts can define the degree of goal achievement:

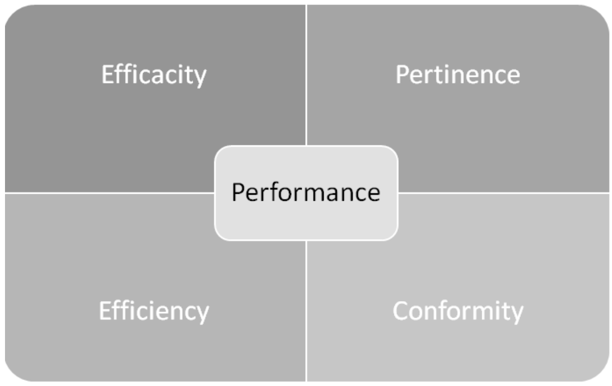

Fig. 1. Performance monitoring concepts

By analyzing the above concepts, it is clear that each organizational function previously displayed (IC and MC) plays a central role in performance monitoring:

- Management control (MC), as a mechanism that feeds and objectifies the performance monitoring and dialogue between the different levels of management, aims to reach goals efficiently and effectively.
- Internal control (IC), through specific tools, guarantee a better task distribution in order to preserve a high level of pertinence and conformity.

The limit of the conventional definition of performance monitoring through concepts developed on the model below does not explicitly take into account the risk dimension. The reform of performance monitoring systems has to respond to a social demand for security and flexibility: these two contradictory objectives are in competition and lead to the strengthening of risk management systems.

The objective is to anticipate, evaluate and prevent risks for a better performance monitoring.

Towards an integrated approach of risk-driven management

The internal and management control systems, as well designed as they can be, cannot provide an absolute guarantee of companies' goals achievement. The probability of reaching those goals is not solely the result of the will power of managers and business units but it is the outcome of a long-term vision of the organization processes and environment. The IC and MC limitations result from various factors, mainly the environment uncertainties, the exercise of judgment, and the dysfunctions related to human failure and mere errors that triggers the need to combine between control systems and risk management. In this context, performance monitoring assumes that risk management is not a device in which the risk only affects an action independently of the process. Rather, it is an interactive device whereby any risk has a direct influence on the overall business process. Risk management concepts providea major key of reflection to decision-makers in which unforeseen events and risky situations are continually tracked through a solid risk mapping. Risk management and performance monitoring are closely linked and are the essential foundations to ensure that established indicators are in line with objectives and desired results. Risk as a part of the performance monitoring system plays a key role in managing the internal and external environment and informing the decision makers of the costs related to crisis and their readjustment. It identifies improvements in terms of anticipation and risk control. Furthermore, risk-driven management approach consists on identifying and analyzing risks that may affect the progress of organizational activities and assessing the unpredictable events in order to implement a continuous monitoring system to reduce the risks consequences and grant positive results. This approach is based on the coexistence of control processes (internal control and management control) and risk management. Each process, taken independently, can be described as a series of steps that we do not fundamentally call into question but the combination of these three functions in a performance monitoring perspective allows the best results. Therefore, risk-driven management is the process by which risks are assessed using a systematic approach that identifies and prioritizes risks and then implements strategies to mitigate uncertainties in a global perspective of efficacy, efficiency, conformity and compliance.

Case study: Risk-driven management from Moroccan health insurance companies perspective

Methodological approach

The objective of this paper is to establish a framework allowing the integration of multiple processes based on an active corporation between internal control, management control and risk management in order to create a risk-driven performance monitoring to insure better results within the Moroccan health insurance companies. The methodological approach adopted for this paper is qualitative based on data analysis and a documentary research. Our responsibilities within the National Fund of Social Welfare Organizations, which manages compulsory health insurance in the public sector in Morocco, give us a privileged position of observation in order to access good quality research data related to the subject of this work. This work offers an in-depth analysis of health insurance in Morocco with the objective of pointing the limits of the Moroccan system, all from the perspective of improvement through concrete alternatives that link risks to results.

Health Insurance in Morocco

In Africa, especially in French speaking countries gathered in the Inter-African Social Security Conference (CIPRES), social protection is defined by all interventions aiming the support of local communities in their efforts to manage economic difficulties and reduce their vulnerability by ensuring high social equality.[4] The Moroccan social protection regime covers employees of the public and private sectors. It provides protection against the risks of sickness, disability, retirement, survival, death, and unemployment. Law No. 65-00, instituted in 2005, forms the basis of health insurance regime in Morocco. It represents a contributory scheme for the compulsory health insurance regime (AMO), based on the principles and techniques of social security for the benefit of employees and pensioners in the public and private sectors. The management of this regime (AMO) has been entrusted to the National Fund of Social Welfare Organizations (CNOPS) for employees and pensions holders from the Public sector and to the National Social Security Fund (CNSS) for those stemming from the Private sector. Besides, there is the RAMED, a national health insurance program intended to protect low income Moroccan from risks related to illness. These funds are subject to the control of two organisms: the Insurance and Social Security Supervisory Authority (ACAPS) and the National Health Insurance Agency (ANAM). The ACAPS, created by Act No. 64-12, has a legal personality under Moroccan public law and enjoys financial autonomy. ACAPS carries out and manages insurance or reinsurance activities conducted by the Moroccan Insurance Code, as well as retirement and compulsory health insurance and mutual funds.

Moroccan health insurance regime has set up a number of objectives that must be achieved by the end of 2018. Among these strategic objectives, we may find: [5]

- Generalization of medical coverage by the insertion of new populations.
- Optimization and harmonization of the regime for both private and public sectors.
- Strengthening the medical governance for the different actors by offering better services.

Today, Morocco has become a model for the social security system in the African continent. The Kingdom has a highly developed system with a solid foundation, whether in terms of medical coverage or other forms of social protection that enables the country to position itself in Africa as a successful leader but on an international scale, it still lags behind some risky factors that threaten its sustainability and are not included in Solvency margins.

[4]Conférence Interafricaine de Prévoyance Sociale (2007) ;« Les systèmes de protection sociale en Afrique : Zone CIPRES » ; Page 1.
[5]ANAM (2015) ; « Couverture médicale de base : Stratégie intégrée 2015-2018 ».

Performance monitoring through risks in Moroccan health insurance companies

Risks mapping

By 2015, the main health insurance indicators were as follows:

	Assurés (en millions)	Bénéficiaires (en millions)	Cotisations et contributions (en MM DH)	Prestations (en MM DH)
Secteur public	1,25	3,05	4,71	4,32
Secteur privé	2,27	5,20	4,85	2,27
Total	3,52	8, 25	9,56	6,59

Source: ACAPS[6]

As a result of these indicators, we can read from the ratio benefits to contributions that the public sector is in a disruptive position that threatens its financial balances and results.To better interpret the table above, two key points should be noted:

- Over the short term, the private sector covers nearly double the public sector's population, yet the latter is in a critical situation related to its contributions/benefits balance. This current observation is essentially due to major differences in both sectors contribution's basis of the monthly payroll amount and in the basket of health care products and services offered by the two organisms.
- Over the long term, both sectors may find themselves confronted to a mitigated environment where every change is more a threat than an opportunity. It is necessary to consider risks as an important variable to assess and control in order to provide necessary reactions downstream.

Health insurance of the public sector in Morocco still maintains its traditional and conventional structure where performance is always controlled by a system of internal control and management control. Costs and outcomes are calculated on a basis that inherently includes risk but does not consider it to be a full-fledged variable that requires preventive treatment and ad hoc monitoring.

From the above indicators and interpretations, five categories of can be drawn. We have:

- **Operational risks** that are related to the day-to-day processes managing insured people' srecords and cases. This includes misrepresentation and fraud cases linked to files reimbursement.
- **Technological risks:** including information systems and solutions that allow the centralization of information. These systems may be subject to obsolescence or hacking.
- **Regulatory risks** such as the covered population extending and regulatory changes related to laws and regulatory texts.
- **Financial risks,** namely the hedging rate and the investment yield.
- **Other external risks** assembling all the other unpredictable risk that management cannot predict or quantify. We talk mainly about epidemics.

To map the above risks and in compliance with the universal definition of risk assessment, it is mandatory to classify health insurance risks according to two criteria: *Occurrence and consequences*. This classification enables companies to identify risks with a high impact on performance and those with low probability of occurrence and low level of consequences which does not require imminent intervention.

Based on this and through analysis and observation, the risk matrix below is the proper mapping of the Moroccan health insurance risks:

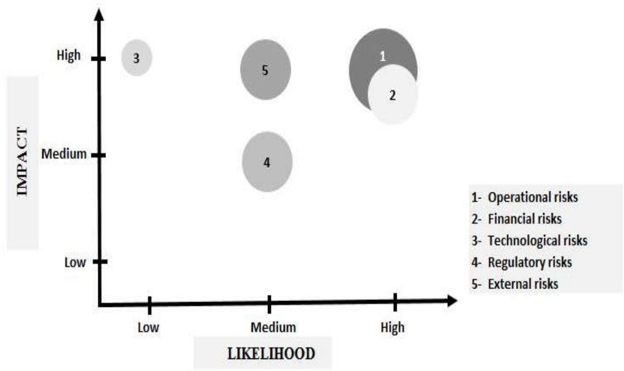

Fig. 2. Moroccan Health Insurance Risks matrix[7]

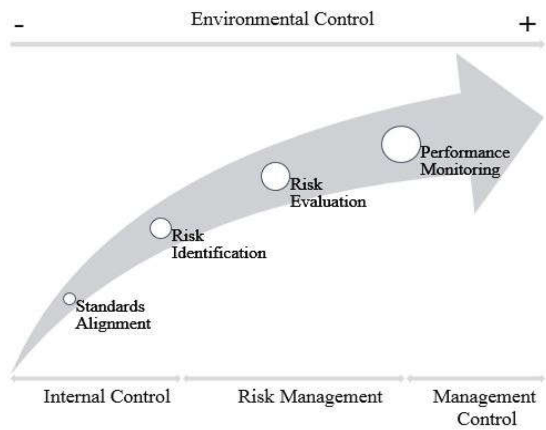

Fig. 3. Risk-driven management model adapted to Moroccan Health insurance companies.[8]

Risk-driven management modeling in Moroccan health insurance companies

After rigorous analysis and interpretation, we can conclude that risk is a variable that must be integrated throughout every organizational process. Organizations shall move from the traditional frame of performance monitoring by establishing three distinct functions, namely Internal control, Management control and Risk management to a new disposition where these functions meet to create value through risks. From the perspective of Moroccan health insurance companies, cost analysis and management control are carried out at all levels, simultaneously torisk mapping.

[6]http://www.acaps.ma/prevoyance-sociale/assurance-maladie-obligatoire/

[7] By S. Khalifat& F. Gmira – LSG, University Hassan 1, Morocco.
[8] By S. Khalifat& F. Gmira – LSG, University Hassan 1, Morocco.

The heaviness of procedures makes the mutations of one scenario to another very difficult. In term of flexibility, we talk about a day-to-day management where corrective measures and readjustments are only put in place when critical situations are triggered. Forecasts are always valuable and accomplished without, however, playing their role of anticipatory risk management tools. By common agreement, the sustainability of health insurance companies is the result of several preventive actions whose purpose is to anticipate the risk and reduce its probability of occurrence. Performance monitoring under the model above offers new perspectives for organizations to integrate risk as a variable of its own that create value or at least contribute to value creation. Insurers are more heavily focused on reviewing their external risk profile with more active risk management than assessing risks that may alter internal processes and activities. In contrast with opportunities, risks are negatively expensive scenarios but if assessed properly, they can turn into opportunities and improve the desired outcomes. To anticipate risks is to reduce a cost for the company which can be embedded subsequently in better processes. The stronger focus on risk-driven management is pushing health insurance companies to review the impact of risks on contributions, capital needs and earnings.

Throughout this model, we preserve the need to maintain the various control functions within the company to keep their positive contribution as a part of traditional convention and we offer to integrate risk in each step of the process in order to secure a high environmental control. We have defined the performance monitoring as a combination of 4 essential concepts that when under risky situations can alter all the strategic objectives previously established. Risk-driven management within the compulsory health insurance regime covers all the techniques that allow the insurer to reduce the cost / expense related to risks and convert them to performance and value creation effectively and efficiently. Among those techniques, the following are the most frequent:

- Strengthening controls through all processes.
- High preventive maintenance in order to anticipate risks.
- Medical expenses control and contributions rate revision.

To conclude, the alignment with all requirements of this model can be challenging. The most important is provide a clear view of all risk ranges not only a limited census of the most obvious and manage them through major performance monitoring.

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