

Risk Based Regulation

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Outline

- Scope and aims of research
- What is risk based regulation?
- Main elements of a risk based framework
- Key issues in design
- Challenges of implementation
- Main lessons to be drawn from current experiences

Scope and aim of research

- Examine examples of risk based regulation in a number of sectors and countries:
 - Food safety (England, Ireland)
 - Environmental protection (England & Wales, Ireland, Netherlands, Portugal)
 - Financial regulation (Australia, Netherlands, UK)
 - Occupational Health and Safety (UK)
- Draw out lessons for policy makers

What is risk based regulation?

- Range of meanings
 - (1) Regulation of risks to society
 - (2) Loose collection of approaches expressed terms of risk
 - (3) In banking and insurance regulation, the use of firm's own internal risk models to set capital requirements
 - (4) Systematised decision making frameworks and procedures to prioritise regulatory activities and deploy resources, principally relating to inspection and enforcement, based on an assessment of the risks that regulated firms pose to the regulator's objectives
- Definition (4) is that used here

Main elements

- Setting the risk tolerance
- Risk identification and risk assessment
- Assigning scores and ranking firms or sites
- Linking supervisory resources and responses to the risk scores.

Key issues in design

- Approaches taken to risk tolerance
- The choice between objective and subjective indicators
- The relative roles of impact and probability
- The role of weighting
- Integrating broader external risks with firm level risk assessments
- Dealing with 'bulge' – the low risk firms which are usually the majority of the regulated population

Challenges in implementation

- Combining simplicity with complexity
- Knowledge and data – getting the right data, and making better use of the knowledge the agency has
- Structure and operation of internal risk governance processes – how to balance the need for organisational structures to ensure the accuracy and consistency of assessments with speed and responsiveness.
- Changing the culture to embed the risk based approach across the whole organization
- Ensuring internal compliance with the risk based regime
- Ensuring that assessments of firms are forward looking
- Going beyond the individual firm in assessing risk
- Managing blame
- Making resources follow risks
- Managing political risk

Main lessons from current experiences

- Starting out
 - Start with risks not rules
 - Ensure the organisation has sufficient powers to implement the approach
 - Beware of other regulatory or governmental policies which may contradict or hinder the adoption of a risk based approach
 - Ensure you know what your goals are- it is worth doing, but don't do it for the wrong reasons
- Dealing with transition
 - Designing and implementing a risk based framework will take time
 - Organisational challenges are significant and should not be underestimated
 - Think beyond the risk assessment to how the organisation will respond
- Challenges of maintenance
 - Keep the framework simple to use and be prepared for the need to make continual adjustments
 - Think in terms of achievability
- Need for communication internally and externally
- Need to recognise that risk based processes require regulators, and politicians, to take risks.